

***LANCASTER COUNTY, NEBRASKA***

FINANCIAL STATEMENTS

WITH

SUPPLEMENTARY INFORMATION

AND

INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2013

LANCASTER COUNTY, NEBRASKA  
FINANCIAL STATEMENTS  
WITH  
SUPPLEMENTARY INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORT  
YEAR ENDED JUNE 30, 2013

LANCASTER COUNTY, NEBRASKA  
 FINANCIAL STATEMENTS  
 WITH SUPPLEMENTARY INFORMATION

Year Ended June 30, 2013

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Lancaster County, Nebraska

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lancaster County, Nebraska (County), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County'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 financial position of the governmental activities, each major fund, and aggregate remaining fund information of the County as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter – Change in Reporting Entity and Restatements***

As discussed in Note 11 to the basic financial statements, the financial statements for governmental activities and for the aggregate remaining fund information as of July 1, 2012, have been restated due to a change in how the County records activity for certain capital leases, the inclusion of a blended component unit, the adoption of new accounting guidance from the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, and other corrections as discussed in Note 11. Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining statements and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133. *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014 on our consideration of the County'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 County's internal control over financial reporting and compliance.

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

January 31, 2014  
Wichita, KS

**Lancaster County, Nebraska**

Statement of Net Position

June 30, 2013

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash, including investments	\$ 47,252,942
Taxes receivable	25,828,177
Due from other governmental agencies	2,510,271
Accounts receivable	855,480
Interest receivable	8,500
Patient and insurance receivable, net of allowance for doubtful accounts of \$548,458	247,784
Capital assets:	
Land and construction in progress	78,556,981
Other capital assets, net of depreciation	99,724,597
Total assets	<u>254,984,732</u>
<b>Liabilities:</b>	
Accounts payable	2,835,105
Accrued salaries	2,554,079
Advance payable	61,489
Accrued interest payable	191,534
Claims liability	2,146,712
Long-term liabilities:	
Due within one year	9,680,000
Due in more than one year	73,048,280
Total liabilities	<u>90,517,199</u>
<b>Net position:</b>	
Net investment in capital assets	102,986,856
Restricted for:	
Visitor improvement	3,253,812
Rural library services	260,278
Building, land and road maintenance	7,611,025
Drug education	505,844
Economic development	346,134
Debt service	6,258,555
Jail construction project	4,553,018
Mental health	1,525,499
Unrestricted	37,166,512
Total net position	<u>\$ 164,467,533</u>

The accompanying notes are an integral part of the basic financial statements.

# Lancaster County, Nebraska

## Statement of Activities

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
<b>Governmental activities:</b>					
General government	\$ 22,482,797	\$ 14,005,421	\$ 1,618,535	\$ 565,148	\$ (6,293,693)
Public safety	54,635,247	-	-	-	(54,635,247)
Community development	43,955	-	-	-	(43,955)
Public works	16,510,042	5,490,089	6,902,683	1,911,232	(2,206,038)
Public health and human services	17,918,882	3,886,193	7,398,689	-	(6,634,000)
Culture and recreation	3,235,859	-	-	-	(3,235,859)
Joint public agency services	1,458	-	-	-	(1,458)
Interest on long-term debt	3,095,423	54,400	-	-	(3,041,023)
Total primary government	\$ 117,923,663	\$ 23,436,103	\$ 15,919,907	\$ 2,476,380	(76,091,273)
<b>General revenues:</b>					
Taxes:					
Property tax					59,218,876
Inheritance tax					8,565,596
Motor vehicle tax					6,812,747
Lodging tax					2,484,328
In-lieu-of tax					1,779,837
Other:					
Miscellaneous					1,632,392
Gain on sale of capital assets					33,815
Intergovernmental					4,802,215
Investment income					186,678
Total general revenues					85,516,484
Change in net position					9,425,211
<b>Net position-beginning</b>					
Prior period adjustments					
<b>Net position-ending</b>					
\$ 164,467,533					

The accompanying notes are an integral part of the basic financial statements.

## Lancaster County, Nebraska

### Balance Sheet Governmental Funds June 30, 2013

	General	Correctional Facility Joint Public Agency	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Cash, including investments	\$ 15,776,870	\$ 5,850,545	\$ 20,197,833	\$ 41,825,248
Taxes receivable	22,529,414	2,052,950	1,245,813	25,828,177
Due from other government agencies	740,575	20,211	1,749,485	2,510,271
Accounts receivable	454,345	-	400,677	855,022
Interest receivable	3,526	-	4,520	8,046
Patient and insurance receivables, net of allowance for doubtful accounts of \$548,458	-	-	247,784	247,784
<b>Total assets</b>	<b>\$ 39,504,730</b>	<b>\$ 7,923,706</b>	<b>\$ 23,846,112</b>	<b>\$ 71,274,548</b>
<b>Liabilities:</b>				
Accounts payable	\$ 1,392,985	\$ 157,123	\$ 1,254,149	\$ 2,804,257
Accrued salaries	1,962,473	-	586,059	2,548,532
Advance payable	-	-	61,489	61,489
<b>Total liabilities</b>	<b>3,355,458</b>	<b>157,123</b>	<b>1,901,697</b>	<b>5,414,278</b>
<b>Deferred inflows of resources:</b>				
Unavailable revenue - property tax receivable	1,562,873	136,333	92,901	1,792,107
<b>Total deferred inflows of resources</b>	<b>1,562,873</b>	<b>136,333</b>	<b>92,901</b>	<b>1,792,107</b>
<b>Fund balances:</b>				
Restricted for:				
Visitor improvement	-	-	3,253,812	3,253,812
Rural library services	-	-	260,278	260,278
Building, land and road maintenance	-	-	7,611,025	7,611,025
Drug education	-	-	505,844	505,844
Economic development	-	-	346,134	346,134
Debt service	-	4,090,972	2,225,784	6,316,756
Minor equipment	-	-	1,013,740	1,013,740
Mental health	-	-	1,525,499	1,525,499
Jail construction	-	3,539,278	-	3,539,278
Committed for:				
Community betterment	-	-	1,790,233	1,790,233
Workers compensation	-	-	171,239	171,239
Building maintenance	-	-	929,567	929,567
Public safety	118,776	-	-	118,776
Public works	-	-	-	-
General government	117,699	-	-	117,699
Assigned for:				
Veterans aid	9,874	-	-	9,874
Public health and human services	-	-	2,218,359	2,218,359
Unassigned	34,340,050	-	-	34,340,050
<b>Total fund balances</b>	<b>34,586,399</b>	<b>7,630,250</b>	<b>21,851,514</b>	<b>64,068,163</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 39,504,730</b>	<b>\$ 7,923,706</b>	<b>\$ 23,846,112</b>	<b>\$ 71,274,548</b>

The accompanying notes are an integral part of the basic financial statements.

**Lancaster County, Nebraska**  
 Reconciliation of the Balance Sheet of Governmental Funds  
 to the Statement of Net Position  
 June 30, 2013

Amounts reported for governmental activities in the statement of net position are different because:

<b>Total fund balance -- governmental funds</b>		<b>\$ 64,068,163</b>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Cost	\$ 250,585,324	
Accumulated Depreciation	<u>(72,303,746)</u>	178,281,578
Internal service funds are used by the County to charge the cost of certain activities to individual funds. The assets and certain liabilities of the internal service funds are included in the governmental activities in the statement of net position.		
		3,205,870
Property tax revenues not collected within 60 days of the fiscal year end are not financial resources and, therefore, not reported as revenues in the governmental funds.		
		1,792,107
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
General obligation bonds payable - County	(725,000)	
Discount on bonds payable	1,213	
General obligation bonds payable - Joint Public Agency	(54,620,000)	
Premium on bonds	(863,932)	
Capital lease obligations	(19,090,000)	
Compensated absences	(7,390,932)	
Accrued interest payable	<u>(191,534)</u>	<u>(82,880,185)</u>
<b>Total net position -- governmental activities</b>		<b><u>\$ 164,467,533</u></b>

The accompanying notes are an integral part of the basic financial statements.

**Lancaster County, Nebraska**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2013

	General	Correctional Facility Joint Public Agency	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 68,615,317	\$ 4,582,171	\$ 5,478,500	\$ 78,675,988
Charges for services	14,546,413	-	4,727,081	19,273,494
Intergovernmental	7,615,352	300,569	12,806,261	20,722,182
Medicaid/Medicare/MRO Reimbursements	-	-	2,687,557	2,687,557
License, fees and rental income	44,938	-	1,430,114	1,475,052
Interest income	110,358	18,390	53,717	182,465
Other	465,452	-	1,154,433	1,619,885
<b>Total revenues</b>	<b>91,397,830</b>	<b>4,901,130</b>	<b>28,337,663</b>	<b>124,636,623</b>
<b>Expenditures:</b>				
Current:				
General government	14,345,198	-	4,863,024	19,208,222
Public safety	53,977,263	1,458	656,526	54,635,247
Community development	-	-	43,955	43,955
Public works	3,610,708	-	9,249,098	12,859,806
Public health and human services	7,267,697	-	10,483,363	17,751,060
Culture and recreation	-	-	3,235,859	3,235,859
Capital outlay	866,112	6,365,250	6,942,227	14,173,589
Debt service:				
Principal	1,085,398	2,510,000	589,602	4,185,000
Interest	585,634	2,365,443	195,878	3,146,955
<b>Total expenditures</b>	<b>81,738,010</b>	<b>11,242,151</b>	<b>36,259,532</b>	<b>129,239,693</b>
Excess (deficiency) of revenues over (under) expenditures	9,659,820	(6,341,021)	(7,921,869)	(4,603,070)
<b>Other financing sources (uses):</b>				
Sale of capital assets	9,672	-	49,681	59,353
Transfers in	474,570	-	6,511,621	6,986,191
Transfers out	(6,811,621)	-	(474,570)	(7,286,191)
Issuance of capital lease	-	-	785,000	785,000
<b>Total other financing sources (uses)</b>	<b>(6,327,379)</b>	<b>-</b>	<b>6,871,732</b>	<b>544,353</b>
Net change in fund balances	3,332,441	(6,341,021)	(1,050,137)	(4,058,717)
<b>Fund balances at beginning of year</b>	<b>31,253,958</b>	<b>13,971,271</b>	<b>22,776,651</b>	<b>68,001,880</b>
Prior period adjustment	-	-	125,000	125,000
<b>Fund balances at end of year</b>	<b>\$ 34,586,399</b>	<b>\$ 7,630,250</b>	<b>\$ 21,851,514</b>	<b>\$ 64,068,163</b>

The accompanying notes are an integral part of the basic financial statements.

## Lancaster County, Nebraska

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

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

<b>Net change in fund balances -- total governmental funds</b>	<b>\$</b>	<b>(4,058,717)</b>
<p>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 the amount of depreciation expense in the current period.</p>		
Depreciation expense		(4,717,853)
Capital assets capitalized	11,880,774	7,162,921
<p>Contributions of capital assets are reported as capital contributions in statement of activities.</p>		
		2,476,380
<p>In the statement of activities, the gain or loss from the sale of capital assets is reported, whereas in the governmental funds, only any proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the cost of capital assets sold.</p>		
		(25,538)
<p>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 County but not collected within 60 days of the fiscal year end.</p>		
		185,395
<p>Bond and capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.</p>		
		(785,000)
<p>The amortization of bond premiums and discounts decrease the long term liabilities in the statement of net position, but does not provide current financial resources to the governmental funds.</p>		
		55,434
<p>The amortization of issuance costs associated with debt decreases an asset in the statement of net position, but do not use current financial resources of the governmental funds.</p>		
		(14,512)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Bonds payable	2,855,000	
Capital lease	1,330,000	4,185,000
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.</p>		
		10,609
<p>In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, the following difference was noted:</p>		
Compensated absences paid were less than benefits earned		(289,149)
<p>Internal service funds are used by the County to charge costs of certain activities to individual funds. The activities of the internal service funds are included in government activities in the statement of activities.</p>		
		522,388
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>9,425,211</b>

The accompanying notes are an integral part of the basic financial statements.

**Lancaster County, Nebraska**

Statement of Net Position

Proprietary Funds

June 30, 2013

	<b>Internal Service Funds</b>
<b>Assets:</b>	
Current assets:	
Cash, including investments	\$ 5,427,694
Accounts receivable	458
Interest receivable	454
Total current assets	<u>5,428,606</u>
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable	30,848
Claims payable	2,146,712
Accrued salaries	5,547
Current portion - accrued compensated absences	10,000
Total current liabilities	<u>2,193,107</u>
Noncurrent liabilities:	
Long-term accrued compensated absences	<u>29,629</u>
Total liabilities	<u>2,222,736</u>
<b>Net position:</b>	
Unrestricted	<u>\$ 3,205,870</u>

The accompanying notes are an integral part of the basic financial statements.

**Lancaster County, Nebraska**  
Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Funds  
Year Ended June 30, 2013

	<b>Internal Service Funds</b>
<b>Operating revenues:</b>	
Charges for services	\$ 11,614,272
Other insurance reimbursements	9,338
Total operating revenues	11,623,610
<b>Operating expenses:</b>	
Insurance	9,944,879
Contractual	1,268,410
Wages and benefits	133,430
Other	53,112
Rental	5,114
Supplies	490
Total operating expenses	11,405,435
Operating income	218,175
<b>Nonoperating revenues:</b>	
Interest	4,213
Total nonoperating revenues	4,213
Income (loss) before contributions and transfers	222,388
Transfers in	300,000
Change in net position	522,388
<b>Total net position-beginning of year</b>	3,149,482
Prior period adjustment	(466,000)
<b>Total net position-end of year</b>	<b>\$ 3,205,870</b>

The accompanying notes are an integral part of the basic financial statements.

**Lancaster County, Nebraska**

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2013

	<b>Internal Service Funds</b>
<b>Cash flows from operating activities:</b>	
Cash received from services	\$ 11,614,272
Cash received from insurance companies	9,338
Cash payments for claims	<u>(11,212,991)</u>
Net cash flow from operating activities	<u>410,619</u>
<b>Cash flows from non-capital financing activities:</b>	
Transfers from other funds	<u>300,000</u>
Net cash flow from non-capital financing activities	<u>300,000</u>
<b>Cash flows from investing activities:</b>	
Interest on investments	<u>4,213</u>
Net cash flow from investing activities	<u>4,213</u>
Change in cash and cash equivalents	714,832
<b>Cash and cash equivalents-beginning of the year</b>	<u>4,712,862</u>
<b>Cash and cash equivalents-end of the year</b>	<u>\$ 5,427,694</u>
Reconciliation of operating income to net cash flow from operating activities:	
Operating income	\$ 218,175
Adjustments to reconcile operating income to net cash flow from operating activities:	
Change in accounts receivable	(458)
Change in interest receivable	(454)
Change in accrued liabilities	3,778
Change in claims payable	<u>189,578</u>
Net cash flow from operating activities	<u>\$ 410,619</u>

The accompanying notes are an integral part of the basic financial statements.

**Lancaster County, Nebraska**

Statement of Net Position

Fiduciary Funds

June 30, 2013

	<b>Employee Benefit Trust Funds</b>	<b>Agency Funds</b>
<b>Assets:</b>		
Cash and cash equivalents	\$ -	\$ 33,301,454
Investments:		
Cash management fund	71,028	-
Stable value fund	41,522,516	-
Mutual funds - domestic equities	44,216,839	-
Mutual funds - international equities	16,507,986	-
Mutual funds - balanced funds	4,867,075	-
Other fixed income	10,065,669	-
Employee contributions receivable	85,419	-
Employer contributions receivable	127,933	-
Total assets	<u>117,464,465</u>	<u>33,301,454</u>
<b>Liabilities:</b>		
Due to others	-	<u>33,301,454</u>
Total liabilities	<u>-</u>	<u>33,301,454</u>
<b>Net position:</b>		
Held in trust for pension and other postemployment benefits	<u>117,464,465</u>	-
Total net position	<u>\$ 117,464,465</u>	<u>\$ -</u>

The accompanying notes are an integral part of the basic financial statements.

**Lancaster County, Nebraska**  
Statement of Changes in Net Position  
Fiduciary Funds  
Year Ended June 30, 2013

	<u><b>Employee Benefit Trust Funds</b></u>
<b>Additions:</b>	
Contributions:	
Employee	\$ 2,338,758
Employer	8,740,798
Forfeitures	64,398
Rollovers	5,859
Military catch-up	6,891
Total contributions	<u>11,156,704</u>
Investment income:	
Net appreciation in fair value of investments	10,282,990
Dividends and interest	1,205,245
Miscellaneous	(64,148)
Total net investment income	<u>11,424,087</u>
Total additions	<u>22,580,791</u>
<b>Deductions:</b>	
Benefits paid	5,332,489
Forfeitures	81,734
Administrative fees	992
Total deductions	<u>5,415,215</u>
Change in net position	17,165,576
<b>Net position - beginning of year</b>	<u>100,298,889</u>
<b>Net position - end of year</b>	<u><u>\$ 117,464,465</u></u>

The accompanying notes are an integral part of the basic financial statements.

# LANCASTER COUNTY, NEBRASKA

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of the significant accounting policies of Lancaster County, Nebraska (the County), is presented to assist in understanding the County's financial statements. The financial statements and notes are representations of the County'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.

#### **Organization and Principal Activity**

The County is a governmental entity established by the laws of the State of Nebraska. The County is a political subdivision of the State of Nebraska and is governed by a five member Board of Commissioners elected by the citizens of Lancaster County, Nebraska. The County's responsibilities include general social welfare; operation of a County health center; corrections; youth center; maintenance of streets and highways not within any incorporated city, village, or sanitary and improvement district; legal court-related activities; licensing, recording, and assessment of real property; tax collection for all Nebraska public entities within the County; conducting elections; and law enforcement.

#### **Reporting Entity**

The accompanying financial statements present the County (the primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

The accompanying financial statements include the transactions of the County's primary government and a blended component unit, as discussed below.

Blended Component Unit - The Lancaster County Correctional Facility Joint Public Agency (JPA) was created pursuant to the Joint Public Agency Act and a Joint Public Agency Agreement dated September 9, 2008 between the 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 the County and leased to the JPA pursuant to a Site Lease dated February 5, 2009, between the JPA and the County. The JPA will own the correctional facilities until the bonds are no longer outstanding, at which time the JPA will transfer ownership to the County. The County will operate and maintain the correctional facilities pursuant to a Facilities Agreement dated February 5, 2009 between the 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.

Although legally separate from the County, the JPA is reported as a blended component of the 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 the bonds issued to finance construction.

# LANCASTER COUNTY, NEBRASKA

## NOTES TO FINANCIAL STATEMENTS

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

*Change in Reporting Entity.* Prior to fiscal 2013, the JPA was considered a joint venture, and therefore not included as a blended component unit of the County. In connection with its ongoing monitoring and evaluation of related entities, the County determined in fiscal 2013 that the JPA met the criteria of being a blended component unit, primarily due to the fact that the correctional facility being constructed is for the benefit of the County. This change in reporting entity resulted in fund balance and net position being adjusted retroactively as of July 1, 2012 to reflect this change. See also Note 11 for additional information on the effect of this change.

Separate audited financial statements of the JPA may be obtained from the Lancaster County Budget & Fiscal Office, 555 South 10<sup>th</sup> Street, Suite 110, Lincoln, NE 68508.

#### **Joint Ventures**

The County has entered into two multi-governmental arrangements creating two entities that are governed by representatives from each of the participating governments. These entities are considered to be joint ventures. The County does not have an ongoing financial interest (equity interest); therefore, these joint ventures are not included in the financial statements of the County.

Lincoln-Lancaster County Public Building Commission - In 1990, the City of Lincoln, Nebraska (the City) and the County, pursuant to State Statute, activated a separate governmental entity designated as the Lincoln-Lancaster County Public Building Commission (the Commission). The purpose of this joint venture is to design, acquire, construct, maintain, operate, improve, remodel, remove and reconstruct, so long as its corporate existence continues, public buildings, structures, or facilities for use jointly by the City and the County. The City and the County each appoint two members to the five-member Commission, with the fifth member being appointed by the other four members. All property held or acquired by the Commission is held or acquired in the name of the City and the County for use by the Commission in its corporate capacity. The Commission's costs of operation and debt service are funded through rental payments made by the City and the County based upon their proportionate occupancy of such buildings to the extent not covered by a maximum property tax levy of 1.7 cents for each \$100 or actual valuation of taxable property in the County. (See also Note 4).

Separate audited financial statements of the Commission may be obtained at the Lincoln-Lancaster County Public Building Commission, 920 "O" Street, Room 203, Lincoln, Nebraska 68508.

Lancaster County Fairgrounds Joint Public Agency - The Lancaster County Fairgrounds Joint Public Agency (the Agency) was established to acquire land and construct capital improvements thereon for the establishment and expansion of the Lancaster County Fairgrounds. The Agency is not accumulating significant financial resources and is not experiencing fiscal stress that could cause an additional financial benefit or burden to the County. The Board consists of five representatives, of whom the Lancaster County Agricultural Society (the Society) appoints three and the County appoints two.

Separate audited financial statements of the Agency may be obtained from the Lancaster County Agricultural Society, 4100 North 84<sup>th</sup> Street, Lincoln, Nebraska 68508.

# LANCASTER COUNTY, NEBRASKA

## NOTES TO FINANCIAL STATEMENTS

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

#### Basis of Presentation

Government-Wide Financial Statements - The government-wide financial statements (the statement of net position and statement of activities) report information on all the non-fiduciary activities of the primary government and its component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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*.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts. Funds are organized into three major categories: governmental, proprietary, and fiduciary.

Certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported as gross amounts as transfers in / out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

An emphasis is placed on major funds within the governmental and proprietary categories. Major individual governmental funds are reported as separate columns in the fund financial statements as applicable. All remaining governmental fund are aggregated and reported as nonmajor funds.

Major fund reporting requirements do not apply to internal service funds. The combined totals for all internal service funds are reported separately in a single column on the face of the proprietary fund financial statements.

The County reports the following major governmental funds:

*General Fund.* The general fund is the County's main operating fund. The general fund is used to account for all activities of the County not included in other specified funds. The general fund accounts for the normal recurring activities of the County (general government, public safety, health services, community services, etc.). These activities are funded primarily by tax revenues.

*Correctional Facility Joint Public Agency.* This is the blended component unit of the County, discussed previously. It accounts for the construction of new correctional facilities, and the accumulation of resources for the payment of principal and interest on long-term obligations of the JPA.

# LANCASTER COUNTY, NEBRASKA

## NOTES TO FINANCIAL STATEMENTS

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

Additionally, the government reports the following fund types:

*Special Revenue Funds* account for the proceeds of specific revenue sources (other than for major capital projects) that legally restrict expenditures for specified purposes.

*Capital Projects Funds* account for financial resources to be used for the acquisition or construction of major capital facilities or improvements.

The *Debt Service Fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

*Internal Service Funds* are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County or to other governmental units on a cost-reimbursement basis. For the County, this includes risk management services, for workers' compensation, general liability and health insurance.

*Employee Benefit Trust Funds* include the pension trust fund and other postemployment benefit trust fund, which are used to report resources that are required to be held in trust for the members and beneficiaries of the County's defined contribution retirement plan, and defined contribution postemployment health plan, respectively.

*Agency Funds* are used to report resources held by the County in a purely custodial capacity, for tax collections and related distributions to other governments, as well as other amounts held for remittance to individuals, private organizations, or other governments.

#### **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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The 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, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when the related payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

# LANCASTER COUNTY, NEBRASKA

## NOTES TO FINANCIAL STATEMENTS

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

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). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Charges for services to patients are recognized at the date the service is provided, net of estimated uncollectible amounts. All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary, pension and other postemployment benefit trust fund financial statements are accounted for using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows. The agency funds have no measurement focus, but utilize the *accrual basis of accounting* for reporting assets and liabilities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service funds are charges to governmental agencies for services provided. Operating expenses include the cost of services, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **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**

Investments for the government are recorded at fair value. The County's investment policy allows investments as authorized by Nebraska State Statute 77-2387, which includes U.S. government obligations and short-term interest bearing investments consisting of certificates of deposit and other income producing securities. It is also the County's policy to report interest earned but not received in a separate account from the principal.

#### **Patient and Insurance Receivables / Due from Other Government Agencies**

Due from other government agencies consists of a variety of amounts due from federal or state agencies, or other local municipalities and agencies. Patient and insurance receivables consist of amounts billed for services provided by the Community Mental Health Center. Such receivables are recorded net of contractual adjustments made upon payment. Additionally, patient and insurance receivables are shown net of an allowance for doubtful accounts, estimated based on historical collection trends, a patient's credit history and current economic conditions.

**LANCASTER COUNTY, NEBRASKA**

NOTES TO FINANCIAL STATEMENTS

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

**Taxes Receivable**

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

**Capital Assets and Depreciation**

Capital assets are those assets which have been acquired for general government purposes. Capital assets are recorded at historical cost or estimated replacement cost if actual historical cost is not known. Contributed assets, including those from the federal government, are recorded at estimated fair value on the date received. The County's capitalization threshold for equipment, buildings, and infrastructure is \$5,000. Infrastructure assets include roads, bridges, and culverts. Depreciation is calculated using the straight-line method with a mid-month convention.

The estimated useful lives for capital assets are as follows:

	<u>Years</u>
Land improvements	20 – 50
Buildings	25 – 50
Machinery and equipment	5 – 20
Vehicles	8
Infrastructure	20 – 50

The County determined historical infrastructure costs by reference to historical records or by appraisal. Current cost is adjusted for the price change from the date of construction or acquisition to the current date.

**Deferred Inflows of Resources / Deferred Outflows of Resources**

Effective July 1, 2012, the County 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 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.

# LANCASTER COUNTY, NEBRASKA

## NOTES TO FINANCIAL STATEMENTS

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

#### **Deferred Inflows of Resources / Deferred Outflows of Resources (Continued)**

Upon implementing the GASB Statements, the County 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". GASB 65 also requires bond issuance costs to be expensed when incurred rather than being reported as a deferred charge and amortized over the term of the related debt. See Note 11 for a summary of the adjustment recorded to implement this change.

#### **Compensated Absences**

It is the County's policy to permit employees to earn annual vacation and sick leave at various rates during their period of employment. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum carryover of 240 hours. Employees do not receive payment of unused sick leave upon termination of employment except for retirement, death, or if the employee has 15 years of service and has in excess of 1,000 hours of extended sick leave.

#### **Net Position**

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

*Net investment in capital assets* - Consists of capital assets net of accumulated depreciation and 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.

*Unrestricted net position* - Consists of amounts that do not meet the definition of either net investment in capital assets or restricted net position.

#### **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 County is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balances are classified as follows:

*Nonspendable fund balance* - 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 fund balance* - Amount that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

# LANCASTER COUNTY, NEBRASKA

## NOTES TO FINANCIAL STATEMENTS

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

#### **Fund Balance (Continued)**

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

*Assigned fund balance* - Amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

*Unassigned fund balance* - 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 County 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.

#### **Property Taxes**

Based on the valuation as of January 1, property taxes are levied by the County Board on or before October 15 of each year for all political subdivisions in the County. Real estate and personal property taxes are 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.

Counties are permitted by the State Constitution to levy a tax up to \$.50 per \$100 of assessed valuation for general governmental services other than the payment of principal and interest on bonded debt. They may levy taxes in addition to the \$.50 limitation upon a vote of the people. The tax levy remained below the \$.50 limitation for 2013.

Also, \$.05 of the \$0.50 limit may only be levied to provide services offered jointly with another government under an inter-local agreement. The County may share \$.15 of its levy authority with rural fire districts and other political subdivisions no longer having any levy authority.

Additionally, the legislature, as part of a property tax relief package, prohibited counties from adopting a budget containing "restricted funds" which are greater than 2.5% of the prior year budgeted restricted funds, plus the percentage change in valuation increase attributable to new construction and additions to buildings in excess of 2.5%. Restricted funds include property taxes, payments in-lieu-of taxes, and state aid less amounts budgeted for capital improvements and bonded indebtedness.

# LANCASTER COUNTY, NEBRASKA

## NOTES TO FINANCIAL STATEMENTS

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

#### **Budgets and Budgetary Accounting**

The County follows the procedures described below in establishing the budgetary data reflected in the County's financial statements in accordance with the statutory requirements of the Nebraska Budget Act.

On or before August 1, the County Board of Commissioners prepares and transmits a budget for the County showing the projected requirements, outstanding warrants, operating reserve, cash on hand at the close of the preceding fiscal year, projected revenue collected from sources other than property tax and amount to be raised by property taxation.

The budget is prepared on the modified cash basis of accounting, which includes cash receipts and disbursements, modified for encumbrances. Encumbrances, as described below, are also reflected as expenditures for budgetary purposes. At least one public hearing must be held by the County Board of Commissioners.

On or before September 20 each year, the County Board of Commissioners, after the action of the State Board of Equalization and Assessment has been certified to the County Clerk, the budget, as revised, is adopted and the amounts provided therein are appropriated.

Encumbrances, which are purchase orders, contracts, and other commitments for the expenditures of funds, are recorded for budgetary purposes as expenditures in order to reserve that portion of the applicable appropriation. At the end of each budget period, unencumbered, unexpended appropriations lapse. Appropriations in the governmental fund types are charges for encumbrances when commitments are made.

#### **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 INVESTMENTS

#### **Pooled Cash and Investments**

The County has pooled cash resources of the various funds for investment purposes. Each fund's portion of total cash and investments is summarized by fund type on the combining balance sheets. Interest earned on pooled funds, except for interest earned on the pension trust, is credited to the County General Fund in accordance with Nebraska State Statute Section 77-2315, R.R.S. 1943.

**LANCASTER COUNTY, NEBRASKA**

NOTES TO FINANCIAL STATEMENTS

**2. CASH AND INVESTMENTS (CONTINUED)**

*Custodial credit risk, deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The County's policy requires compliance with the provisions of state law. The Public Funds Deposit Security Act, State Statute Sections 77-2386 to 77-23,106, requires banks either to give bonds or to pledge government securities (types of which are specifically identified in the statutes) to the County Treasurer in the amount of the County's deposits. The statutes allow pledged securities to be reduced by the amount of the deposits insured by the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2013, the bank balance of the County's pooled cash deposits, including certificates of deposit, amounted to \$24,775,483. Of this, \$258,701 was not collateralized due to a deficiency of collateral pledged by one financial institution. Additionally, \$1,239,005 held at another financial institution was not collateralized due to an administrative error. The bank acknowledged the error, and in November 2013, provided \$2,300,000 in surety bonds to cover the balance. All remaining deposit balances were covered by FDIC insurance, or pledged collateral held by the County's agent in the County's name.

*Custodial credit risk, investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The fair value of securities underlying two of the repurchase agreements was \$11,874,361, compared to \$12,251,722 invested, leaving \$377,361 not collateralized.

At June 30, 2013, the County held the following investments:

Investment Type	Maturities	Fair Value
Repurchase agreements	7/1/2013	\$ 13,556,455
Money markets	N/A	42,065,896
Total		<u>\$ 55,622,351</u>

*Interest rate risk.* This is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with State law and its investment policy, the County manages its exposure to declines in fair values by changes in interest rates by limiting all investments to maturities of two years or less.

*Credit risk.* This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and internal policies limit the types of investments the County may make, as described previously. As of June 30, 2013, the securities underlying the repurchase agreements included Federal National Mortgage Association government agency securities that did not have credit ratings, and a Federal Home Loan Mortgage government agency security which did not have a credit rating.

*Concentration of credit risk.* This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The County's investment policy places no limits on the amount the County may invest in any one issuer.

**LANCASTER COUNTY, NEBRASKA**

NOTES TO FINANCIAL STATEMENTS

**2. CASH AND INVESTMENTS (CONTINUED)**

Pooled deposits and investments at June 30, 2013 appear in the financial statements as summarized below:

Carrying amount of deposits	\$	24,932,045
Carrying amount of investments		55,622,351
Total	\$	<u>80,554,396</u>
Cash, including investments – governmental funds balance sheet	\$	41,825,248
Cash, including investments – internal service funds, statement of net position		<u>5,427,694</u>
Cash, including investments – governmental activities, statement of net position		47,252,942
Cash, including investments – agency funds		<u>33,301,454</u>
Total	\$	<u>80,554,396</u>

**Pension Trust Fund Investments**

The pension program operates in compliance with all state and federal statutes, particularly Nebraska State Statute 30-3209. County pension funds are invested according to a plan developed and reviewed annually by the County. The plan defines the purposes of the assets, identifies the parties responsible for managing the investment process, establishes both broad and specific written guidelines for the investment of the fund's assets, and establishes criteria to monitor and evaluate the performance of the investment managers.

The plan authorizes investments in a variety of funds, which include investments in: stable value funds, domestic and foreign common and preferred stocks, corporate bonds, cash-equivalent securities, certificates of deposits of insured institutions, money market funds, and government bonds. They can be in mutual funds or privately managed accounts. Investments in the employees' retirement system are valued at fair value.

At June 30, 2013, the investments in the employees' retirement system were as follows:

Investment Type	Fair Value	Concentration
Stable value fund (fixed income)	\$ 41,522,516	37.01%
Mutual funds – domestic equities	44,094,971	39.31%
Mutual funds – international equities	16,497,388	14.71%
Other fixed income	10,065,669	8.97%
Total	<u>\$ 112,180,544</u>	<u>100.00%</u>

*Concentration of credit risk.* There are fixed income securities guidelines: Maximum of 2% of any single corporate issuer and 5% for other issuers; no limit on fixed income treasury or agency issues of the U.S. government.

# LANCASTER COUNTY, NEBRASKA

## NOTES TO FINANCIAL STATEMENTS

### 2. CASH AND INVESTMENTS (CONTINUED)

*Credit risk.* Credit risk is the risk that an issuer of an investment will not fulfill its obligations. While the plan does not have a policy specific to credit risk of fixed income funds, the investment policy requires that all funds be benchmarked against a relevant index, with performance of the fund measured at least annually in the context of rolling three-year periods for the trailing five-year period. As of June 30, 2013, the fixed income funds of the plan held investments with credit ratings ranging from AAA to B, with approximately 70% in AAA securities.

*Interest rate risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. While the plan does not have a policy specific to interest rate risk for fixed income funds, investment performance is measured at least annually, as described above. As of June 30, 2013, the fixed income funds of the plan had effective durations of 4.4 years and 5.17 years.

#### **Other Postemployment Benefit Trust Fund Investments**

The other postemployment benefit (OPEB) trust operates in compliance with all state and federal statutes, particularly Nebraska State Statute 23-1118. County funds are invested according to a plan developed and reviewed annually by the County.

As of June 30, 2013, 96% of the trust's investments were in a balanced fund, which in turn invests in a combination of stocks, bonds, and money markets, generally reflecting a moderate to conservative orientation. The overall credit quality of fixed income securities in the fund ranged from AAA to B, with approximately 57% in AAA securities, and 29% in AA or A securities.

**LANCASTER COUNTY, NEBRASKA**

**NOTES TO FINANCIAL STATEMENTS**

**3. CAPITAL ASSETS**

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

	Balance June 30, 2012	Prior period adjustments	Additions	Deletions	Balance June 30, 2013
<b>Non-depreciable assets:</b>					
Land	\$ 10,628,985	\$ --	\$ 23,055	\$ --	\$ 10,652,040
Construction in progress	--	58,282,849	9,622,092	--	67,904,941
	<u>10,628,985</u>	<u>58,282,849</u>	<u>9,645,147</u>	<u>--</u>	<u>78,556,981</u>
<b>Depreciable capital assets:</b>					
Land improvements	2,492,543	--	--	--	2,492,543
Buildings	71,092,658	--	286,567	--	71,379,225
Machinery and Equipment	10,046,159	--	1,311,736	22,488	11,335,407
Vehicles	9,274,243	--	1,223,820	228,345	10,269,718
Infrastructure	74,685,539	--	1,889,884	23,973	76,551,450
	<u>167,591,142</u>	<u>--</u>	<u>4,712,007</u>	<u>274,806</u>	<u>172,028,343</u>
<b>Accumulated depreciation:</b>					
Land improvements	1,416,290	--	113,916	--	1,530,206
Buildings	22,198,828	--	1,421,853	--	23,620,681
Machinery and Equipment	5,933,491	--	755,358	25,588	6,663,261
Vehicles	6,998,176	--	532,194	207,619	7,322,751
Infrastructure	27,264,725	4,023,651	1,894,532	16,061	33,166,847
	<u>63,811,510</u>	<u>4,023,651</u>	<u>4,717,853</u>	<u>249,268</u>	<u>72,303,746</u>
Depreciable capital assets, net	<u>103,779,632</u>	<u>(4,023,651)</u>	<u>(5,846)</u>	<u>25,538</u>	<u>99,724,597</u>
<b>Total capital assets</b>	<b>\$ 114,408,617</b>	<b>\$ 54,259,198</b>	<b>\$ 9,639,301</b>	<b>\$ 25,538</b>	<b>\$ 178,281,578</b>

Depreciation expense was charged to functions of the governmental activities as follows:

**Governmental Activities:**

General Government	\$ 2,115,408
Public Works	2,477,451
Public Health and Human Services	124,994
<b>Total Depreciation Expense</b>	<b>\$ 4,717,853</b>

**4. LONG-TERM LIABILITIES**

Changes in long-term obligations for the year ended June 30, 2013 were as follows:

	Balance June 30, 2012	Prior period adjustment	Additions	Deletions	Balance June 30, 2013	Due within one year
Bonds payable – County	\$ 1,070,000	\$ --	\$ --	\$ (345,000)	\$ 725,000	\$ 355,000
Discounts	(2,123)	--	--	910	(1,213)	--
Bonds payable – JPA	57,130,000	--	--	(2,510,000)	54,620,000	2,570,000
Premiums	920,276	--	--	(56,344)	863,932	--
	<u>59,118,153</u>	<u>--</u>	<u>--</u>	<u>(2,910,434)</u>	<u>56,207,719</u>	<u>2,925,000</u>
<b>Capital leases payable:</b>						
Public Building Commission	--	19,635,000	--	(1,330,000)	18,305,000	1,365,000
City of Lincoln VOIP	--	--	785,000	--	785,000	340,000
	<u>--</u>	<u>--</u>	<u>785,000</u>	<u>(1,330,000)</u>	<u>19,090,000</u>	<u>1,705,000</u>
Compensated absences	7,139,422	--	4,504,533	(4,213,394)	7,430,561	5,050,000
<b>Total long-term liabilities</b>	<b>\$ 66,257,575</b>	<b>\$ 19,635,000</b>	<b>\$ 5,289,533</b>	<b>\$ (8,453,828)</b>	<b>\$ 82,728,280</b>	<b>\$ 9,680,000</b>

Generally, compensated absences are liquidated by the fund where each employee's regular salary is charged (primarily the General Fund and various special revenue funds).

# LANCASTER COUNTY, NEBRASKA

## NOTES TO FINANCIAL STATEMENTS

### 4. LONG-TERM LIABILITIES (CONTINUED)

#### **Bonds Payable**

*County.* \$4,640,000 Limited Tax Building Bonds, Series 2004, were issued on June 30, 2004, payable in scheduled semiannual installments including principal amounts ranging from \$320,000 to \$610,000 plus interest, due on May 1 and November 1, commencing November 1, 2005, with interest ranging from 3.20% to 4.00%, final payment due November 1, 2014.

*JPA.* \$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.

#### **Capital Leases Payable**

*Public Building Commission.* The Public Building Commission (PBC) has assisted in the financing of buildings and facilities for Lancaster County and the City of Lincoln through the issuance of revenue bonds and by entering into lease agreements with the Board of County Commissioners and the City Council. This includes leases for the City / County Building, the 233 Building, the K Street Power Plant, the Justice and Law Enforcement Building, the 9<sup>th</sup> and J Building, Downtown Senior Center, Health Department Building, Courthouse Plaza, Northeast Senior Center, Benesch Building, and the 27<sup>th</sup> Street Police Building.

The PBC uses the premises for the purpose of providing space to the County and City departments, agencies and functions. The PBC is responsible for furnishing services, including heat, water, electricity, air conditioning, elevator service, cleaning services and maintenance and repair to the City and County departments inhabiting the space. The costs to the PBC are funded through charges to the inhabitants based upon the number of square feet of space allocated annually, as outlined in the respective lease agreements with the City and County. The amount charged to the inhabitants is based on total expenditures incurred in the previous year. These charges are then allocated based on square footage held by the inhabitant. This is done each year.

As of June 30, 2013, the PBC has bonds outstanding of \$36,610,000 attributable to several revenue bond issues, proceeds of which were used to acquire, construct and/or renovate certain buildings occupied by the City and County. The County's proportionate share of such buildings is recorded as capital assets, and the corresponding debt is recorded as a capital lease in the County's financial statements. The leases for the buildings continue until the related bonds have been fully paid and are no longer outstanding. The bonds have final maturity dates ranging from fiscal 2025 to 2030.

*Prior Period Adjustment.* Prior to 2013, the County recorded the capital leases discussed above as operating leases. During 2013, management of the County evaluated the recording of these leases, and determined that a change in methodology was necessary to improve the financial reporting for these leases. Due to the terms in the lease agreements it was determined that these leases should be recorded as capital leases. The change in methodology resulted in an increase to the capital lease payable recorded on the statement of net position for governmental activities of \$19,635,000. See also Note 11.

**LANCASTER COUNTY, NEBRASKA**

NOTES TO FINANCIAL STATEMENTS

**4. LONG-TERM LIABILITIES (CONTINUED)**

*City of Lincoln VOIP.* The County entered into a sublease agreement with the City of Lincoln for the acquisition, installation and implementation of certain voice over internet protocol (VOIP) communication equipment. Such lease qualifies as a capital lease, and includes a final maturity of May 1, 2016.

Principal and interest requirements to maturity on capital lease obligations and bonds outstanding at June 30, 2013 are as follows:

Year Ending June 30	Bonds payable		Capital leases	
	Principal	Interest	Principal	Interest
2014	\$ 2,925,000	\$ 2,327,955	\$ 1,705,000	\$ 716,444
2015	3,015,000	2,235,230	1,710,000	661,876
2016	2,725,000	2,139,880	1,505,000	603,550
2017	2,805,000	2,056,930	1,692,500	544,716
2018	2,890,000	1,971,505	1,200,000	490,233
2019 – 2023	16,085,000	8,100,663	6,275,000	1,746,255
2024 – 2028	20,230,000	3,795,000	4,727,500	510,413
2029 - 2033	4,670,000	116,750	275,000	20,200
Total	<u>\$ 55,345,000</u>	<u>\$ 22,743,913</u>	<u>\$ 19,090,000</u>	<u>\$ 5,293,687</u>

**5. INTERFUND TRANSFERS**

A summary of interfund transfers is as follows:

	Transfers in			Total
	General fund	Other governmental funds	Self Insurance Fund	
<u>Transfers out</u>				
General fund	\$ --	\$ 6,511,621	\$ 300,000	\$ 6,811,621
Other governmental funds	474,570	--	--	474,570
	<u>\$ 474,570</u>	<u>\$ 6,511,621</u>	<u>\$ 300,000</u>	<u>\$ 7,286,191</u>

Interfund transfers reflect the flow of resources from one fund to another fund, generally from the fund in which the resources are received or reside, to the fund in which the resources will be expended. During the year ended June 30, 2013, the most significant transfer was \$6,293,550 from the General Fund to the Bridge and Special Road Fund for budgeted capital projects.

**6. DEFICIT FUND EQUITY**

At June 30, 2013, the Workers' Compensation and Other Self Insurance Loss funds had deficits of \$734,446 and \$272,248, respectively. Such deficits will be recovered from future internal charges to the County's other funds.

## LANCASTER COUNTY, NEBRASKA

### NOTES TO FINANCIAL STATEMENTS

#### 7. POST-EMPLOYMENT BENEFITS

##### **Post-Employment Health Plans**

*Plan Description.* The Board of Commissioners has adopted the provisions of Section 23-1118, R.R.S. 1943, a Nebraska State Statute, which provides any county having a population of more than 100,000 inhabitants the authority to provide retirement benefits to its employees and establish a defined contribution retirement plan. All eligible employees of Lancaster County have historically been covered under the County's retirement plans: Lancaster County Nebraska CB PEHP and Lancaster County Nebraska Non-CB PEHP, as administered by Nationwide Retirement Solutions. Separate actuarial valuations of the plans' assets are not performed for the individual participating entities.

During fiscal 2013, the County adopted a resolution to transition from Nationwide Retirement Solutions to another provider, International City Management Association Retirement Corporation (ICMA-RC) for certain eligible employees as described below. In connection therewith, a new trust was created for the Lancaster County Post-Employment Health Plan, which provides for the County to act as trustee and administrator for the plan, resulting in the County having ongoing managerial responsibility for the plan. This new trust covers benefits for eligible employees not within a bargaining unit, and eligible employees within certain bargaining units that elected to join the new plan. Eligible employees under certain other bargaining units are still covered by the plans administered by Nationwide Retirement Solutions discussed in the first paragraph above.

Due to the structure of the new ICMA-RC trust, the trust qualifies as an employee benefit trust fund, and is reported as a fiduciary fund of the County. The plan and trust administered by Nationwide Retirement Solutions does not qualify as an employee benefit trust fund, and therefore is not reported within the County's financial statements.

At June 30, 2013, membership in the plans totaled 840 (includes active members, plus retirees receiving benefits).

*Funding Policy.* The County sets aside \$25 per pay period for each eligible employee. Employees are not required to contribute to the plans. Contributions to these retirement plans by the County on behalf of the participating employees amounted to \$696,279 for the year ended June 30, 2013.

##### **Defined Contribution Retirement Pension Plan**

The Lancaster County, Nebraska Employees Retirement Plan is a single-employer defined contribution plan administered by the County. The Plan does not issue a stand-alone audited financial report.

##### Summary of Significant Accounting Policies and Plan Asset Matters

*Basis of Accounting.* The Plan's financial statements (as reported in the Pension Trust Fund) are prepared using the accrual basis of accounting. Employer contributions are recognized in the period in which the contributions are due and payable in accordance with the terms of the Plan. Benefits are recognized when due and payable in accordance with the terms of the plan.

## LANCASTER COUNTY, NEBRASKA

### NOTES TO FINANCIAL STATEMENTS

#### 7. POST-EMPLOYMENT BENEFITS (CONTINUED)

*Method Used to Value Investments.* Investments are reported at fair value based on quoted market prices. Investments that do not have an established market are reported at their estimated fair value.

##### Plan Description and Contribution Information

*Plan Description.* The Plan is intended to qualify as a money purchase pension plan under Code Section 401(a). The pension program operates in compliance with all state and federal statutes, particularly Nebraska State Statute 30-3209. The County's pension funds are invested according to a plan developed and reviewed annually by the County. The plan defines the purposes of the assets, identifies the parties responsible for managing the investment process, establishes both broad and specific written guidelines for the investment of fund's assets, and establishes criteria to monitor and evaluate the performance of the investment managers. For additional information on the plan's investments, see Note 2.

The plan automatically covers substantially all permanent employees who have attained age 25 and completed one year of continuous service. Upon attaining age 21 and after completing six months of continuous service, employees may voluntarily enter the plan. The employee has the choice of whether or not to participate in the plan if the employee has attained age 55 prior to the date of employment. As of June 30, 2013, membership totaled 867.

*Funding Policy.* The County is required to contribute 150% of each participant's mandatory contribution. The participant's mandatory contribution is 5.2% of the participant's salary. The combined contributions cannot exceed 13% of earned income.

The employees' and employer's contributions are maintained in separate accounts. The employee account is always fully vested. The employer account vests at 20% per year for year three through seven in the plans. Several different payment options, based upon the full accumulated value of participant contributions and the vested portion of employer contributions, are available to the participant upon death, disability, early retirement at age 50, or normal retirement at age 55, with ten consecutive years of participation in the plans.

Employer and plan member contributions are recognized in the period that the contributions are due. Total employer contributions were \$3,520,929 and total employee contributions were \$2,338,758 for the year ended June 30, 2013. Additionally, military catch-up contributions were \$6,891.

**LANCASTER COUNTY, NEBRASKA**

NOTES TO FINANCIAL STATEMENTS

**7. POST-EMPLOYMENT BENEFITS (CONTINUED)**

Listed below are condensed financial statements for both the postemployment health and pension trusts:

	Pension Trust	Postemployment Health Trust	Total
Total assets	\$ 112,393,896	\$ 5,070,569	\$ 117,464,465
Total liabilities	--	--	--
Net position	<u>\$ 112,393,896</u>	<u>\$ 5,070,569</u>	<u>\$ 117,464,465</u>
Additions	\$ 17,487,388	\$ 5,093,403	\$ 22,580,791
Deductions	<u>5,392,381</u>	<u>22,834</u>	<u>5,415,215</u>
Change in net position	12,095,007	5,070,569	17,165,576
Beginning net position	<u>100,298,889</u>	--	<u>100,298,889</u>
Ending net position	<u>\$ 112,393,896</u>	<u>\$ 5,070,569</u>	<u>\$ 117,464,465</u>

**8. RISK MANAGEMENT**

The County is exposed to various risks of loss related to torts: theft of, damage to, or destruction of assets; errors or omissions; injuries to employees, and natural disasters. These risks of loss are covered by various commercial insurance policies (with various deductibles) with the exception of workers' compensation, general liability, and group health insurance.

*Workers' Compensation and General Liability.* The County has established the Workers' Compensation Loss Fund and Other Self-Insurance Loss Fund (internal service funds) to account for and finance a portion of its uninsured risks of loss. The County is self-insured up to \$900,000 per occurrence for workers' compensation risks and up to \$250,000 per occurrence for general liability risks. The self-insurance programs are administered by the Workers' Compensation and Risk Management Manager. Settled claims have not exceeded commercial coverage in any of the last three years. Commercial insurance covers the excess of the self-insured amount to a maximum of \$2,000,000 for employers' liability and \$4,750,000 for general liability.

The County utilizes the services of an actuary to prepare an analysis of the self-insured workers' compensation and general liability risks. The analysis is used to assist the County with its financial planning, budgeting, and management of the self-insurance programs.

The programs are funded on a cash basis with annual premiums charged to all governmental fund types, except Lancaster Manor Fund, based on past experience of incurred losses and remitted to the Workers' Compensation Loss and Self-Insurance Funds. Settled claims have not exceeded commercial coverage for the last three years.

*Health.* The County has established the Group Insurance Fund (internal service fund) to account for and finance a portion of its uninsured risk of loss. Health, prescription and dental benefits are provided through a self-funded program to County employees and all eligible dependents. The County is self-insured up to \$200,000 per individual claim.

**LANCASTER COUNTY, NEBRASKA**

NOTES TO FINANCIAL STATEMENTS

**8. RISK MANAGEMENT (CONTINUED)**

Changes in the claims liabilities during the past two years are as follows:

	<u>Workers'</u> <u>Compensation</u>	<u>Other Self</u> <u>Insurance</u> <u>Loss</u>	<u>Group</u> <u>Insurance</u>
Liability – June 30, 2011	\$ 871,395	\$ 453,994	\$ --
Claims incurred	644,607	319,160	9,395,626
Claims payments & adjustments	<u>447,237</u>	<u>350,785</u>	<u>9,395,626</u>
Liability – June 30, 2012	1,068,765	422,369	--
Prior period adjustment	--	--	466,000
Liability – June 30, 2012, restated	<u>1,068,765</u>	<u>422,369</u>	<u>466,000</u>
Claims incurred	57,190	644,634	9,233,694
Claims payments & adjustments	<u>319,349</u>	<u>276,897</u>	<u>9,149,694</u>
Liability – June 30, 2013	<u>\$ 806,606</u>	<u>\$ 790,106</u>	<u>\$ 550,000</u>

**9. COMMITMENTS AND CONTINGENT LIABILITIES**

*Litigation.* Several claims were filed against the County relating to several wrongful death lawsuits, injuries, and medical expenses. In management's opinion, it is premature at this time to determine the likelihood of an unfavorable outcome or the range of potential loss on these claims.

*Lancaster Manor.* The Lancaster Manor (a special revenue fund of the County) is not part of the Workers' Compensation Loss Fund and pays its claims on a cash basis. The County was liable for all claims incurred through December 31, 2009. When Lancaster Manor Rehabilitation Center, LLC assumed operation of the Lancaster Manor on January 1, 2010, they became responsible for any claims filed from that date forward. As of December 31, 2009, the Lancaster Manor had no liability related to contingent liabilities. The County has not set aside funds to cover this estimated liability and will pay any claims as they come due. For claims deemed probable or certain, no liability could be estimated.

*West Haymarket Joint Public Agency.* During fiscal 2012, the County Board approved a grant contract with the West Haymarket Joint Public Agency to provide funding for various projects in the West Haymarket area. The terms of grant contract provided for an initial \$1,000,000 to be paid upon the execution of a contract with an arena manager and up to \$500,000 annually for a period of five years thereafter. The contract with the arena manager was executed in June 2012, at which time the County was liable for the initial \$1,000,000 payment. This was paid in fiscal 2013. The County Board will evaluate and determine the amount of future payments, up to \$500,000 annually, to the West Haymarket Joint Public Agency on an annual basis. As of June 30, 2013, \$125,000 was recorded with accounts payable for amounts owed as of that date.

*Construction Commitments and Encumbrances.* As of June 30, 2013, the Lancaster County Correctional Facility Joint Public Agency has commitments of \$3,536,802 relating to the

**LANCASTER COUNTY, NEBRASKA**

NOTES TO FINANCIAL STATEMENTS

**9. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)**

remaining costs for the design, construction, and operation of the new correctional facility. Additionally, the County has outstanding encumbrances as follows:

General Fund	\$	236,475
Nonmajor Governmental Funds		<u>3,742,590</u>
 Total	 \$	 <u>3,979,065</u>

**10. CONDUIT DEBT**

From time to time, the County has issued industrial development revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The County is not obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. At June 30, 2013, 26 series of bonds were outstanding, with an aggregate principal amount payable in the amount of \$232,232,044.

**11. PRIOR PERIOD ADJUSTMENTS**

During fiscal 2013, the County identified certain account balances and transactions that had not been properly recorded within the financial statements in previous years. Additionally, the County evaluated the accounting and financial reporting treatment for certain activities, resulting in changes to the financial statements (see also Note references below for further details). A summary of the prior period adjustments posted to the financial statements is as follows:

		<u>Increase (Decrease) in Net Position</u>
<b>Change in Reporting Entity:</b>		
To record beginning balance of equity for the Lancaster County Correctional Facility Joint Public Agency, not previously reported as a component unit (see also Note 1)	\$	14,665,674
<b>Other Corrections:</b>		
To record beginning balance of the liability for claims incurred but not reported for employee health self-insurance, not previously recorded		(466,000)
To write off an old outstanding payable to the Public Building Commission that had been paid in a prior year, and was properly recorded as a reduction to the payable		125,000

**LANCASTER COUNTY, NEBRASKA**

NOTES TO FINANCIAL STATEMENTS

**11. PRIOR PERIOD ADJUSTMENTS (CONTINUED)**

To record beginning balance for capital lease payable to the Public Building Commission (see also Note 4)	\$ (19,635,000)
To record beginning balance of accumulated depreciation for a certain class of infrastructure assets that were not previously being depreciated	(4,023,651)
To write off costs of issuance previously reported by the Lancaster County Correctional Facility Joint Public Agency related to the adoption of the provisions of GASB 65 (see also Note 1)	(520,496)
	<u>\$ (9,854,473)</u>

**12. PENDING GOVERNMENTAL ACCOUNTING STANDARDS**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued in June 2012. This statement establishes accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equipment arrangements that meet certain criteria. Also, this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The provisions of this statement are effective for financial statements for the County's fiscal year ending June 30, 2015.

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 County'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.

## LANCASTER COUNTY, NEBRASKA

### NOTES TO FINANCIAL STATEMENTS

#### 12. PENDING GOVERNMENTAL ACCOUNTING STANDARDS (CONTINUED)

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 County's fiscal year ending June 30, 2014 with earlier application encouraged.

#### 13. SUBSEQUENT EVENTS

##### **Community Mental Health Center Transition**

In June 2011, the Lancaster County Board of Commissioners made a decision to transition the administration, management, and delivery of behavioral health services (except for the Crisis Center) currently provided by the Lancaster County Community Mental Health Center to the private and / or public service sector. The Community Mental Health Center Planning Committee was formed and submitted its final report to the Board in February of 2012 recommending the creation of a new recovery-based service model which integrates primary care and behavioral health services. The Planning Committee further recommended the County Board work with Region V Systems to prepare specifications for the new service model to be used in soliciting cooperative and creative proposals through an Invitation to Negotiate (ITN) process. Day rehabilitation services and the 24-hour Crisis Line have a transition date of October 1, 2013 while psychiatric residential rehabilitation services and core services will transition on December 31, 2013. The fiscal year 2013-14 budget for the CMHC remains consistent with the fiscal year 2012-13 budget due to transition costs and employee payouts due to retirements and vacation.

In December 2013, the County entered into an agreement with Lutheran Family Services (LFS) to transition operations of the Community Mental Health Center to LFS. During the transition period, LFS will provide staffing and management services to the Center, while beginning the process of implementing its service model at the Center.

##### **Public Building Commission**

In October 2013, the County entered into a site lease agreement with the Lincoln / Lancaster County Public Building Commission (PBC). The PBC will lease certain property from the County, consisting of the presently existing County jail facility. In consideration, the PBC has the option to remodel, refurbish, refurnish, and re-equip the site through the issuance and sale of up to \$10 million of tax supported lease rental revenue bonds. Specific plans as it regards the jail facility have not yet been determined.

REQUIRED SUPPLEMENTARY INFORMATION

**Lancaster County, Nebraska**  
Schedule of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual - Budget Basis  
General Fund  
Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Over/ (Under)
<b>Revenues:</b>				
Taxes	\$ 66,976,028	\$ 66,976,028	\$ 66,031,044	\$ (944,984)
Charges for services	14,024,280	14,024,280	14,861,864	837,584
Federal receipts	2,133,772	2,133,772	2,758,409	624,637
State revenues	1,129,687	1,129,687	4,227,287	3,097,600
License, fees and rental income	45,560	45,560	44,938	(622)
Interest on investments	150,190	150,190	110,388	(39,802)
Intergovernmental	448,039	448,039	498,632	50,593
Other receipts	454,188	454,188	466,009	11,821
Total revenues	85,361,744	85,361,744	88,998,571	3,636,827
<b>Expenditures:</b>				
General Government:				
Board of Commissioners	270,797	270,797	268,476	(2,321)
County Clerk	895,442	924,799	917,163	(7,636)
County Treasurer	3,410,200	3,441,199	3,405,170	(36,029)
Assessor / Register of Deeds	3,878,012	3,878,012	3,846,508	(31,504)
ROD Technology	125,000	125,000	45,230	(79,770)
Election Commissioner	1,368,526	1,368,526	1,355,467	(13,059)
Information Services	1,230,829	1,230,829	1,021,380	(209,449)
Budget & Fiscal	199,605	257,105	255,432	(1,673)
General Government Miscellaneous	3,513,167	2,338,613	1,491,915	(846,698)
Administrative Services	374,414	377,414	376,198	(1,216)
Board of Equalization	500,000	500,000	357,006	(142,994)
Extension Service	1,011,584	1,011,584	1,001,413	(10,171)
Records & Information Management	562,164	581,083	578,948	(2,135)
Total general government	17,339,740	16,304,961	14,920,306	(1,384,655)
Public Safety:				
Clerk of District Court	1,579,711	1,625,711	1,609,658	(16,053)
County Court	869,424	869,424	786,191	(83,233)
Juvenile Court	1,764,125	1,930,125	1,929,223	(902)
District Court	2,484,369	2,589,369	2,577,088	(12,281)
Public Defender	3,397,177	3,397,177	3,383,866	(13,311)
Jury Commissioner	147,694	151,194	149,837	(1,357)
Justice System Miscellaneous	2,432,352	2,432,352	1,851,561	(580,791)
County Sheriff	9,963,364	10,208,424	10,102,502	(105,922)
County Attorney	6,508,653	6,535,653	6,530,599	(5,054)
Corrections	18,519,457	18,519,457	17,848,070	(671,387)
Juvenile Probation	284,016	284,016	256,429	(27,587)
Adult Probation	401,119	401,119	395,353	(5,766)
Community Corrections	1,857,525	1,857,525	1,820,463	(37,062)
Youth Services Center	5,675,395	6,001,236	5,889,731	(111,505)
Emergency Management	487,582	487,582	482,602	(4,980)
Mental Health Board	149,170	149,170	110,132	(39,038)
Total public safety	56,521,133	57,439,534	55,723,305	(1,716,229)

**Lancaster County, Nebraska**  
Schedule of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual - Budget Basis  
General Fund  
Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Over/ (Under)
	Original	Final		
<b>Public Works:</b>				
Geographic Info System	527,340	545,611	538,811	(6,800)
County Engineer	3,311,062	3,374,169	3,202,029	(172,140)
Total public works	<u>3,838,402</u>	<u>3,919,780</u>	<u>3,740,840</u>	<u>(178,940)</u>
<b>Public Health and Social Services:</b>				
General Assistance	2,647,315	2,647,315	2,628,096	(19,219)
Veterans & General Assistance Admin	727,971	762,971	758,169	(4,802)
Health & Human Services	3,680,631	3,680,631	3,680,145	(486)
Human Services	253,918	253,918	249,879	(4,039)
Total public health and social services	<u>7,309,835</u>	<u>7,344,835</u>	<u>7,316,289</u>	<u>(28,546)</u>
Total expenditures	<u>85,009,110</u>	<u>85,009,110</u>	<u>81,700,740</u>	<u>(3,308,370)</u>
Revenue over expenditures	<u>352,634</u>	<u>352,634</u>	<u>7,297,831</u>	<u>6,945,197</u>
<b>Other financing sources (uses):</b>				
Proceeds from sale of capital assets	-	-	9,672	9,672
Transfer in	584,054	584,054	474,570	(109,484)
Transfer out	(6,712,042)	(6,712,042)	(6,820,298)	108,256
Total other financing sources (uses)	<u>(6,127,988)</u>	<u>(6,127,988)</u>	<u>(6,336,056)</u>	<u>(208,068)</u>
Net change in fund balance	<u>\$ (5,775,354)</u>	<u>\$ (5,775,354)</u>	961,775	<u>\$ 6,737,129</u>
<b>Fund balance at beginning of year</b>			11,965,354	
Encumbrance credit			1,724	
<b>Fund balance at end of year</b>			<u>\$ 12,928,853</u>	
<b>Explanation of difference between budgetary and GAAP:</b>				
Net change in fund balance, budgetary basis			\$ 961,775	
Separately budgeted general fund subfunds:				
Veterans Aid fund			(1,099)	
Revenue accruals			2,401,136	
Expenditure accruals			(265,846)	
Current year encumbrances			<u>236,475</u>	
Net change in fund balance, GAAP basis			3,332,441	
Fund balance, beginning of year, GAAP basis			<u>31,253,958</u>	
Fund balance, end of year, GAAP basis			<u>\$ 34,586,399</u>	

## LANCASTER COUNTY, NEBRASKA

### NOTES TO BUDGETARY COMPARISON SCHEDULES

Year Ended June 30, 2013

#### **NOTE A - BUDGETS AND BUDGETARY ACCOUNTING**

The County follows these procedures in establishing and budgetary data reflected in the required supplemental information in accordance with the statutory requirements of the Nebraska Budget Act:

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

On or before September 20, the County Board of Commissioners, after the action of the State Board of Equalization and Assessment has been certified to the County Clerk, the budget, as revised, is adopted and the amounts provided therein are appropriated.

The County Board is authorized to transfer budgeted amounts between departments within any fund through resolution; however, revisions that alter the total expenditures of any fund require that an additional public hearing be held.

#### **NOTE B - BASIS OF ACCOUNTING**

Revenues and expenditures are not presented on a basis consistent with generally accepted accounting principles (GAAP) and are instead presented on a budget basis of accounting. The revenues and expenditures differ from revenues and expenditures presented in accordance with GAAP because of the different treatment of encumbrances and accruals (revenue recognition). All unexpended appropriations will lapse at the end of the budget year. However, some appropriations may be encumbered at year end and disbursed in the following year due to the nature of the project.

#### **NOTE C - BUDGET LAW**

The County is required by state law to hold public hearings and adopt annual budgets for all funds on the cash 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.

## SUPPLEMENTARY INFORMATION

**Lancaster County, Nebraska**

Combining Balance Sheet

General Fund

June 30, 2013

	<b>General Fund</b>	<b>Veterans Aid Fund</b>	<b>Total General</b>
<b>Assets:</b>			
Cash, including investments	\$ 15,766,996	\$ 9,874	\$ 15,776,870
Taxes receivable	22,529,414	-	22,529,414
Due from other government agencies	740,575	-	740,575
Accounts receivable	454,345	-	454,345
Interest receivable	3,526	-	3,526
Total assets	\$ 39,494,856	\$ 9,874	\$ 39,504,730
<b>Liabilities:</b>			
Accounts payable	\$ 1,392,985	\$ -	\$ 1,392,985
Accrued salaries	1,962,473	-	1,962,473
Total liabilities	3,355,458	-	3,355,458
<b>Deferred inflows of resources:</b>			
Unavailable revenue - property tax receivable	1,562,873	-	1,562,873
Total deferred inflows of resources	1,562,873	-	1,562,873
<b>Fund balances:</b>			
Committed for:			
Public safety	118,776	-	118,776
Public works	-	-	-
General government	117,699	-	117,699
Assigned for:			
Veterans aid	-	9,874	9,874
Unassigned	34,340,050	-	34,340,050
Total fund balances	34,576,525	9,874	34,586,399
Total liabilities, deferred inflows of resources and fund balances	\$ 39,494,856	\$ 9,874	\$ 39,504,730

**Lancaster County, Nebraska**  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
General Fund  
Year Ended June 30, 2013

	<b>General Fund</b>	<b>Veterans Aid Fund</b>	<b>Total General</b>
<b>Revenues:</b>			
Taxes	\$ 68,615,317	\$ -	\$ 68,615,317
Charges for services	14,546,413	-	14,546,413
Intergovernmental	7,615,352	-	7,615,352
License, fees and rental income	44,938	-	44,938
Interest income	110,358	-	110,358
Other	465,452	-	465,452
Total revenues	<u>91,397,830</u>	<u>-</u>	<u>91,397,830</u>
<b>Expenditures:</b>			
Current:			
General government	14,345,198	-	14,345,198
Public safety	53,977,263	-	53,977,263
Public works	3,610,708	-	3,610,708
Public health and human services	7,261,748	5,949	7,267,697
Capital outlay	866,112	-	866,112
Debt service:			
Principal	1,085,398	-	1,085,398
Interest	585,634	-	585,634
Total expenditures	<u>81,732,061</u>	<u>5,949</u>	<u>81,738,010</u>
Excess (deficiency) of revenues over (under) expenditures	<u>9,665,769</u>	<u>(5,949)</u>	<u>9,659,820</u>
<b>Other financing sources (uses):</b>			
Sale of capital assets	9,672	-	9,672
Transfers in	474,570	4,850	479,420
Transfers out	(6,816,471)	-	(6,816,471)
Total other financing sources (uses)	<u>(6,332,229)</u>	<u>4,850</u>	<u>(6,327,379)</u>
Net change in fund balances	3,333,540	(1,099)	3,332,441
<b>Fund balances at beginning of year</b>	<u>31,242,985</u>	<u>10,973</u>	<u>31,253,958</u>
<b>Fund balances at end of year</b>	<u>\$ 34,576,525</u>	<u>\$ 9,874</u>	<u>\$ 34,586,399</u>

**Lancaster County, Nebraska**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2013**

<b>Special Revenue Funds</b>									
	Visitors Improvement	Visitors Promotion	County Rural Library	Federal Grants	Keno	Economic Development	Lancaster Manor	Mental Health	Weed Control
<b>Assets:</b>									
Cash, including investments	\$ 2,319,802	\$ 592,434	\$ 13,803	\$ 664,671	\$ 1,739,806	\$ 342,412	\$ 2,076,127	\$ 895,916	\$ 113,888
Taxes receivable	-	-	269,632	-	-	-	-	675,743	-
Due from other government agencies	243,288	243,288	2,078	-	75,282	-	-	394,570	-
Accounts receivable	-	-	-	14,519	-	3,464	6,891	57,976	-
Interest receivable	-	-	-	-	-	258	1,552	-	-
Patient and insurance receivables, net of allowance for doubtful accounts of \$548,458	-	-	-	-	-	-	-	247,784	-
<b>Total assets</b>	<b>\$ 2,563,090</b>	<b>\$ 835,722</b>	<b>\$ 285,513</b>	<b>\$ 679,190</b>	<b>\$ 1,815,088</b>	<b>\$ 346,134</b>	<b>\$ 2,084,570</b>	<b>\$ 2,271,989</b>	<b>\$ 113,888</b>
<b>Liabilities:</b>									
Accounts payable	\$ 145,000	\$ -	\$ -	\$ 173,346	\$ 24,855	\$ -	\$ 10,023	\$ 127,177	\$ 15,673
Accrued salaries	-	-	-	-	-	-	-	250,094	15,150
Advance payable	-	-	-	-	-	-	-	7,308	-
<b>Total liabilities</b>	<b>145,000</b>	<b>-</b>	<b>-</b>	<b>173,346</b>	<b>24,855</b>	<b>-</b>	<b>10,023</b>	<b>384,579</b>	<b>30,823</b>
<b>Deferred inflows of resources:</b>									
Unavailable revenue - property tax receivable	-	-	25,235	-	-	-	-	46,860	-
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>25,235</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>46,860</b>	<b>-</b>
<b>Fund balances:</b>									
Restricted for:									
Visitor improvement	2,418,090	835,722	-	-	-	-	-	-	-
Rural library services	-	-	260,278	-	-	-	-	-	-
Building, land and road maintenance	-	-	-	-	-	-	-	-	83,065
Drug education	-	-	-	505,844	-	-	-	-	-
Economic development	-	-	-	-	-	346,134	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Minor equipment	-	-	-	-	-	-	-	-	-
Mental health	-	-	-	-	-	-	-	1,525,499	-
Committed for:									
Community betterment	-	-	-	-	1,790,233	-	-	-	-
Workers compensation	-	-	-	-	-	-	171,239	-	-
Building maintenance	-	-	-	-	-	-	-	-	-
Assigned for:									
Public health and human services	-	-	-	-	-	-	1,903,308	315,051	-
<b>Total fund balances</b>	<b>2,418,090</b>	<b>835,722</b>	<b>260,278</b>	<b>505,844</b>	<b>1,790,233</b>	<b>346,134</b>	<b>2,074,547</b>	<b>1,840,550</b>	<b>83,065</b>
<b>Total liabilities, deferred outflows of resources and fund balances</b>	<b>\$ 2,563,090</b>	<b>\$ 835,722</b>	<b>\$ 285,513</b>	<b>\$ 679,190</b>	<b>\$ 1,815,088</b>	<b>\$ 346,134</b>	<b>\$ 2,084,570</b>	<b>\$ 2,271,989</b>	<b>\$ 113,888</b>

**Lancaster County, Nebraska**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2013**

	Special Revenue Funds		Debt Service Fund		Capital Project Funds			Total Nonmajor Governmental Funds
	Building	County Property Management	City Building Maintenance	Debt Service	Bridge and Special Road	Highway	Jail Savings	
	<b>Assets:</b>							
Cash, including investments	\$ 438,957	\$ 433,481	\$ 423,176	\$ 2,022,657	\$ 5,650,932	\$ 1,442,324	\$ 1,027,447	\$ 20,197,833
Taxes receivable	84,500	-	-	215,938	-	-	-	1,245,813
Due from other government agencies	816	102,467	-	2,151	-	685,545	-	1,749,485
Accounts receivable	-	242,649	-	-	74,287	891	-	400,677
Interest receivable	-	-	-	-	1,657	1,053	-	4,520
Patient and insurance receivables, net of allowance for doubtful accounts of \$548,458	-	-	-	-	-	-	-	247,784
<b>Total assets</b>	<b>\$ 524,273</b>	<b>\$ 778,597</b>	<b>\$ 423,176</b>	<b>\$ 2,240,746</b>	<b>\$ 5,726,876</b>	<b>\$ 2,129,813</b>	<b>\$ 1,027,447</b>	<b>\$ 23,846,112</b>
<b>Liabilities:</b>								
Accounts payable	\$ -	\$ 63,978	\$ 14,588	\$ -	\$ 515,985	\$ 149,817	\$ 13,707	\$ 1,254,149
Accrued salaries	-	139,459	-	-	88,367	92,989	-	586,059
Advance payable	-	-	54,181	-	-	-	-	61,489
<b>Total liabilities</b>	<b>-</b>	<b>203,437</b>	<b>68,769</b>	<b>-</b>	<b>604,352</b>	<b>242,806</b>	<b>13,707</b>	<b>1,901,697</b>
<b>Deferred inflows of resources:</b>								
Unavailable revenue - property tax receivable	5,844	-	-	14,962	-	-	-	92,901
<b>Total deferred inflows of resources</b>	<b>5,844</b>	<b>-</b>	<b>-</b>	<b>14,962</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>92,901</b>
<b>Fund balances:</b>								
<b>Restricted for:</b>								
Visitor improvement	-	-	-	-	-	-	-	3,253,812
Rural library services	-	-	-	-	-	-	-	260,278
Building, land and road maintenance	518,429	-	-	-	5,122,524	1,887,007	-	7,611,025
Drug education	-	-	-	-	-	-	-	505,844
Economic development	-	-	-	-	-	-	-	346,134
Debt service	-	-	-	2,225,784	-	-	-	2,225,784
Minor equipment	-	-	-	-	-	-	1,013,740	1,013,740
Mental health	-	-	-	-	-	-	-	1,525,499
<b>Committed for:</b>								
Community betterment	-	-	-	-	-	-	-	1,790,233
Workers compensation	-	-	-	-	-	-	-	171,239
Building maintenance	-	575,160	354,407	-	-	-	-	929,567
<b>Assigned for:</b>								
Public health and human services	-	-	-	-	-	-	-	2,218,359
<b>Total fund balances</b>	<b>518,429</b>	<b>575,160</b>	<b>354,407</b>	<b>2,225,784</b>	<b>5,122,524</b>	<b>1,887,007</b>	<b>1,013,740</b>	<b>21,851,514</b>
<b>Total liabilities, deferred outflows of resources and fund balances</b>	<b>\$ 524,273</b>	<b>\$ 778,597</b>	<b>\$ 423,176</b>	<b>\$ 2,240,746</b>	<b>\$ 5,726,876</b>	<b>\$ 2,129,813</b>	<b>\$ 1,027,447</b>	<b>\$ 23,846,112</b>

**Lancaster County, Nebraska**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2013**

<b>Special Revenue Funds</b>									
	Visitors Improvement	Visitors Promotion	County Rural Library	Federal Grants	Keno	Economic Development	Lancaster Manor	Mental Health	Weed Control
<b>Revenues:</b>									
Taxes	\$ 1,242,164	\$ 1,242,164	\$ 657,098	\$ -	\$ -	\$ -	\$ -	\$ 1,624,088	\$ -
Charges for services	-	-	-	-	-	-	-	616,706	23,686
Intergovernmental	-	-	39,972	2,148,304	-	-	-	4,178,951	143,071
Medicaid/Medicare/MRO reimbursements	-	-	-	-	-	-	-	2,687,557	-
License, fees and rental income	-	-	-	-	-	-	-	-	-
Interest income	-	-	-	-	-	2,165	14,737	-	186
Other income	-	-	-	37,458	932,474	33,012	6,891	98,240	30,778
<b>Total revenues</b>	<b>1,242,164</b>	<b>1,242,164</b>	<b>697,070</b>	<b>2,185,762</b>	<b>932,474</b>	<b>35,177</b>	<b>21,628</b>	<b>9,205,542</b>	<b>197,721</b>
<b>Expenditures:</b>									
General government	-	-	-	-	42,859	-	-	-	-
Public safety	-	-	-	633,433	-	-	-	-	-
Community development	-	-	-	-	-	43,955	-	-	-
Public works	-	-	-	-	-	-	-	-	336,197
Public health and human services	-	-	-	1,269,881	-	-	101,275	9,112,207	-
Culture and recreation	1,440,371	1,111,340	684,148	-	-	-	-	-	-
Capital outlays	-	-	-	290,186	5,893	-	-	-	346
Debt service:	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>1,440,371</b>	<b>1,111,340</b>	<b>684,148</b>	<b>2,193,500</b>	<b>48,752</b>	<b>43,955</b>	<b>101,275</b>	<b>9,112,207</b>	<b>336,543</b>
Excess of revenues over (under) expenditures	(198,207)	130,824	12,922	(7,738)	883,722	(8,778)	(79,647)	93,335	(138,822)
<b>Other financing sources (uses):</b>									
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	5,000	-	-	-	-	143,071
Transfers out	-	-	-	(266,469)	-	-	-	-	-
Issuance of capital lease	-	-	-	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(261,469)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>143,071</b>
Net change in fund balances	(198,207)	130,824	12,922	(269,207)	883,722	(8,778)	(79,647)	93,335	4,249
<b>Fund balances at beginning of year</b>	<b>2,616,297</b>	<b>704,898</b>	<b>247,356</b>	<b>775,051</b>	<b>906,511</b>	<b>354,912</b>	<b>2,154,194</b>	<b>1,747,215</b>	<b>78,816</b>
Prior period adjustments	-	-	-	-	-	-	-	-	-
<b>Fund balances at end of year</b>	<b>\$ 2,418,090</b>	<b>\$ 835,722</b>	<b>\$ 260,278</b>	<b>\$ 505,844</b>	<b>\$ 1,790,233</b>	<b>\$ 346,134</b>	<b>\$ 2,074,547</b>	<b>\$ 1,840,550</b>	<b>\$ 83,065</b>

**Lancaster County, Nebraska**  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances - Nonmajor Governmental Funds  
Year Ended June 30, 2013

	Special Revenue Funds			Debt Service	Capital Project Funds			Total Nonmajor Governmental Funds
	Building	County Property Management	City Building Maintenance	Fund Debt Service	Bridge and Special Road	Highway	Jail Savings	
<b>Revenues:</b>								
Taxes	\$ 199,855	\$ -	\$ -	\$ 512,805	\$ -	\$ -	\$ 326	\$ 5,478,500
Charges for services	-	3,221,292	284,854	-	557,378	23,165	-	4,727,081
Intergovernmental	12,585	-	-	32,569	20,875	6,229,934	-	12,806,261
Medicaid/Medicare/MRO reimbursements	-	-	-	-	-	-	-	2,687,557
License, fees and rental income	-	1,377,043	-	50,400	-	2,671	-	1,430,114
Interest income	-	-	-	-	17,145	9,665	9,819	53,717
Other income	-	560	-	-	-	15,020	-	1,154,433
Total revenues	212,440	4,598,895	284,854	595,774	595,398	6,280,455	10,145	28,337,663
<b>Expenditures:</b>								
General government	48,123	4,493,398	278,644	-	-	-	-	4,863,024
Public safety	-	-	-	-	-	-	23,093	656,526
Community development	-	-	-	-	-	-	-	43,955
Public works	-	-	-	-	3,609,536	5,303,365	-	9,249,098
Public health and human services	-	-	-	-	-	-	-	10,483,363
Culture and recreation	-	-	-	-	-	-	-	3,235,859
Capital outlays	61,784	29,445	6,210	785,000	3,546,175	1,352,678	864,510	6,942,227
Debt service:								
Principal	-	-	-	589,602	-	-	-	589,602
Interest	-	-	-	195,878	-	-	-	195,878
Total expenditures	109,907	4,522,843	284,854	1,570,480	7,155,711	6,656,043	887,603	36,259,532
Excess of revenues over (under) expenditures	102,533	76,052	-	(974,706)	(6,560,313)	(375,588)	(877,458)	(7,921,869)
<b>Other financing sources (uses):</b>								
Sale of capital assets	-	-	-	-	49,681	-	-	49,681
Transfers in	-	-	-	70,000	6,293,550	-	-	6,511,621
Transfers out	-	-	-	(208,101)	-	-	-	(474,570)
Issuance of capital lease	-	-	-	785,000	-	-	-	785,000
Total other financing sources (uses)	-	-	-	646,899	6,343,231	-	-	6,871,732
Net change in fund balances	102,533	76,052	-	(327,807)	(217,082)	(375,588)	(877,458)	(1,050,137)
<b>Fund balances at beginning of year</b>	415,896	374,108	354,407	2,553,591	5,339,606	2,262,595	1,891,198	22,776,651
Prior period adjustments	-	125,000	-	-	-	-	-	125,000
<b>Fund balances at end of year</b>	<b>\$ 518,429</b>	<b>\$ 575,160</b>	<b>\$ 354,407</b>	<b>\$ 2,225,784</b>	<b>\$ 5,122,524</b>	<b>\$ 1,887,007</b>	<b>\$ 1,013,740</b>	<b>\$ 21,851,514</b>

**Lancaster County, Nebraska**  
Combining Statement of Net Position  
Internal Service Funds  
June 30, 2013

	<b>Workers'</b>	<b>Other Self</b>	<b>Group</b>	<b>Total</b>
	<b>Compensation</b>	<b>Insurance Loss</b>	<b>Insurance</b>	
<b>Assets:</b>				
Current assets:				
Cash, including investments	\$ 147,659	\$ 517,471	\$ 4,762,564	\$ 5,427,694
Accounts receivable	458	-	-	458
Interest receivable	67	387	-	454
Total current assets	<u>148,184</u>	<u>517,858</u>	<u>4,762,564</u>	<u>5,428,606</u>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable	30,848	-	-	30,848
Claims payable	806,606	790,106	550,000	2,146,712
Accrued salaries	5,547	-	-	5,547
Current portion - accrued compensated absences	10,000	-	-	10,000
Total current liabilities	<u>853,001</u>	<u>790,106</u>	<u>550,000</u>	<u>2,193,107</u>
Noncurrent liabilities:				
Accrued compensated absences	29,629	-	-	29,629
Total liabilities	<u>882,630</u>	<u>790,106</u>	<u>550,000</u>	<u>2,222,736</u>
<b>Net position:</b>				
Unrestricted	<u>\$ (734,446)</u>	<u>\$ (272,248)</u>	<u>\$ 4,212,564</u>	<u>\$ 3,205,870</u>

## Lancaster County, Nebraska

### Combining Statement of Revenues, Expenses, and Changes in Net Position Internal Service Funds Year Ended June 30, 2013

	<b>Workers' Compensation</b>	<b>Other Self Insurance Loss</b>	<b>Group Insurance</b>	<b>Total</b>
<b>Operating revenues:</b>				
Charges for services	\$ 509,425	\$ 348,781	\$ 10,756,066	\$ 11,614,272
Other insurance reimbursements	7,464	1,765	109	9,338
<b>Total operating revenues</b>	<b>516,889</b>	<b>350,546</b>	<b>10,756,175</b>	<b>11,623,610</b>
<b>Operating expenses:</b>				
Insurance	66,551	644,634	9,233,694	9,944,879
Contractual	372,055	35,302	861,053	1,268,410
Wages and benefits	133,430	-	-	133,430
Other	53,112	-	-	53,112
Rental	5,114	-	-	5,114
Supplies	490	-	-	490
<b>Total operating expenses</b>	<b>630,752</b>	<b>679,936</b>	<b>10,094,747</b>	<b>11,405,435</b>
<b>Operating income (loss)</b>	<b>(113,863)</b>	<b>(329,390)</b>	<b>661,428</b>	<b>218,175</b>
<b>Nonoperating revenues:</b>				
Interest	1,904	2,309	-	4,213
<b>Total nonoperating revenue</b>	<b>1,904</b>	<b>2,309</b>	<b>-</b>	<b>4,213</b>
<b>Income (loss) before contributions and transfers</b>	<b>(111,959)</b>	<b>(327,081)</b>	<b>661,428</b>	<b>222,388</b>
Transfers in	-	300,000	-	300,000
<b>Change in net position</b>	<b>(111,959)</b>	<b>(27,081)</b>	<b>661,428</b>	<b>522,388</b>
<b>Total net position-beginning of year</b>	<b>(622,487)</b>	<b>(245,167)</b>	<b>4,017,136</b>	<b>3,149,482</b>
Prior period adjustments	-	-	(466,000)	(466,000)
<b>Total net position-end of year</b>	<b>\$ (734,446)</b>	<b>\$ (272,248)</b>	<b>\$ 4,212,564</b>	<b>\$ 3,205,870</b>

**Lancaster County, Nebraska**  
Combining Statement of Cash Flows  
Internal Service Funds  
Year Ended June 30, 2013

	<b>Workers'</b>	<b>Other Self</b>	<b>Group</b>	<b>Total</b>
	<b>Compensation</b>	<b>Insurance Loss</b>	<b>Insurance</b>	
<b>Cash flows from operating activities:</b>				
Cash received for services	\$ 509,425	\$ 348,781	\$ 10,756,066	\$ 11,614,272
Cash received from insurance companies	7,464	1,765	109	9,338
Cash payments for claims	(886,171)	(312,586)	(10,014,234)	(11,212,991)
Net cash flow from operating activities	(369,282)	37,960	741,941	410,619
<b>Cash flows from non-capital financing activities:</b>				
Transfers from other funds	-	300,000	-	300,000
Net cash flow from non-capital financing activities	-	300,000	-	300,000
<b>Cash flows from investing activities:</b>				
Interest on investments	1,904	2,309	-	4,213
Net cash flow from investing activities	1,904	2,309	-	4,213
Change in cash and cash equivalents	(367,378)	340,269	741,941	714,832
<b>Cash and cash equivalents-beginning of the year</b>	<b>515,037</b>	<b>177,202</b>	<b>4,020,623</b>	<b>4,712,862</b>
<b>Cash and cash equivalents-end of the year</b>	<b>\$ 147,659</b>	<b>\$ 517,471</b>	<b>\$ 4,762,564</b>	<b>\$ 5,427,694</b>
<b>Reconciliation of operating income (loss) to net cash flow from operating activities:</b>				
Operating income (loss)	\$ (113,863)	\$ (329,390)	\$ 661,428	\$ 218,175
Adjustments to reconcile operating income (loss) to net cash flow from operating activities:				
Change in accounts receivable	(458)	-	-	(458)
Change in interest receivable	(67)	(387)	-	(454)
Change in accrued liabilities	7,265	-	(3,487)	3,778
Change in claims payable	(262,159)	367,737	84,000	189,578
Net cash flow from operating activities	\$ (369,282)	\$ 37,960	\$ 741,941	\$ 410,619

**Lancaster County, Nebraska**  
Combining Statement of Fiduciary Net Position  
Employee Benefit Trust Funds  
June 30, 2013

	<b>Pension Trust Fund</b>	<b>OPEB Trust Fund</b>	<b>Total</b>
<b>Assets:</b>			
Investments:			
Cash management fund	\$ -	\$ 71,028	\$ 71,028
Stable value fund	41,522,516	-	41,522,516
Mutual funds - domestic equities	44,094,971	121,868	44,216,839
Mutual funds - international equities	16,497,388	10,598	16,507,986
Mutual funds - balanced funds	-	4,867,075	4,867,075
Other fixed income	10,065,669	-	10,065,669
Employee contributions receivable	85,419	-	85,419
Employer contributions receivable	127,933	-	127,933
Total assets	112,393,896	5,070,569	117,464,465
<b>Liabilities:</b>			
Due to others	-	-	-
Total liabilities	-	-	-
<b>Net position:</b>			
Held in trust for employee benefits	112,393,896	5,070,569	117,464,465
Total net position	\$ 112,393,896	\$ 5,070,569	\$ 117,464,465

**Lancaster County, Nebraska**  
Combining Statement of Changes in Fiduciary Net Position  
Employee Benefit Trust Funds  
Year Ended June 30, 2013

	<u>Pension Trust Fund</u>	<u>OPEB Trust Fund</u>	<u>Total</u>
<b>Additions:</b>			
Contributions:			
Employee	\$ 2,338,758	\$ -	\$ 2,338,758
Employer	3,520,929	5,219,869	8,740,798
Forfeitures	64,398	-	64,398
Rollovers	5,859	-	5,859
Military catch-up	6,891	-	6,891
Total contributions	<u>5,936,835</u>	<u>5,219,869</u>	<u>11,156,704</u>
Investment income:			
Net appreciation in fair value of investments	10,403,913	(120,923)	10,282,990
Dividends and interest	1,205,245	-	1,205,245
Miscellaneous	(58,605)	(5,543)	(64,148)
Total net investment income	<u>11,550,553</u>	<u>(126,466)</u>	<u>11,424,087</u>
Total additions	<u>17,487,388</u>	<u>5,093,403</u>	<u>22,580,791</u>
<b>Deductions:</b>			
Benefits paid	5,309,655	22,834	5,332,489
Forfeitures	81,734	-	81,734
Administrative fees	992	-	992
Total deductions	<u>5,392,381</u>	<u>22,834</u>	<u>5,415,215</u>
Change in net position	12,095,007	5,070,569	17,165,576
<b>Net position - beginning of year</b>	<u>100,298,889</u>	<u>-</u>	<u>100,298,889</u>
<b>Net position - end of year</b>	<u>\$ 112,393,896</u>	<u>\$ 5,070,569</u>	<u>\$ 117,464,465</u>

**Lancaster County, Nebraska**  
Combining Statement of Changes in Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2013

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Assessor/ Register of Deeds</u>				
<b>Assets</b>				
Cash, including investments	\$ 271,261	\$ 4,578,943	\$ 4,622,957	\$ 227,247
Total assets	<u>\$ 271,261</u>	<u>\$ 4,578,943</u>	<u>\$ 4,622,957</u>	<u>\$ 227,247</u>
<b>Liabilities</b>				
Due to others	\$ 271,261	\$ 4,578,943	\$ 4,622,957	\$ 227,247
Total liabilities	<u>\$ 271,261</u>	<u>\$ 4,578,943</u>	<u>\$ 4,622,957</u>	<u>\$ 227,247</u>
<u>County Attorney</u>				
<b>Assets</b>				
Cash, including investments	\$ 7,146	\$ 265,226	\$ 272,372	\$ -
Total assets	<u>\$ 7,146</u>	<u>\$ 265,226</u>	<u>\$ 272,372</u>	<u>\$ -</u>
<b>Liabilities</b>				
Due to others	\$ 7,146	\$ 265,226	\$ 272,372	\$ -
Total liabilities	<u>\$ 7,146</u>	<u>\$ 265,226</u>	<u>\$ 272,372</u>	<u>\$ -</u>
<u>Extension Board</u>				
<b>Assets</b>				
Cash, including investments	\$ 175,300	\$ 52,503	\$ 52,485	\$ 175,318
Total assets	<u>\$ 175,300</u>	<u>\$ 52,503</u>	<u>\$ 52,485</u>	<u>\$ 175,318</u>
<b>Liabilities</b>				
Due to others	\$ 175,300	\$ 52,503	\$ 52,485	\$ 175,318
Total liabilities	<u>\$ 175,300</u>	<u>\$ 52,503</u>	<u>\$ 52,485</u>	<u>\$ 175,318</u>
<u>Public Building Commission</u>				
<b>Assets</b>				
Cash, including investments	\$ 2,854,914	\$ 15,224,734	\$ 14,762,218	\$ 3,317,430
Total assets	<u>\$ 2,854,914</u>	<u>\$ 15,224,734</u>	<u>\$ 14,762,218</u>	<u>\$ 3,317,430</u>
<b>Liabilities</b>				
Due to others	\$ 2,854,914	\$ 15,224,734	\$ 14,762,218	\$ 3,317,430
Total liabilities	<u>\$ 2,854,914</u>	<u>\$ 15,224,734</u>	<u>\$ 14,762,218</u>	<u>\$ 3,317,430</u>

**Lancaster County, Nebraska**  
Combining Statement of Changes in Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2013

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>Railroad Transportation Safety District</u>				
<b>Assets</b>				
Cash, including investments	\$ 17,049,490	\$ 3,475,564	\$ 9,937,811	\$ 10,587,243
Total assets	<u>\$ 17,049,490</u>	<u>\$ 3,475,564</u>	<u>\$ 9,937,811</u>	<u>\$ 10,587,243</u>
<b>Liabilities</b>				
Due to others	\$ 17,049,490	\$ 3,475,564	\$ 9,937,811	\$ 10,587,243
Total liabilities	<u>\$ 17,049,490</u>	<u>\$ 3,475,564</u>	<u>\$ 9,937,811</u>	<u>\$ 10,587,243</u>
<u>Flexible Employee Benefits Account (FEBA)</u>				
<b>Assets</b>				
Cash, including investments	\$ 26,814	\$ 510,360	\$ 501,412	\$ 35,762
Total assets	<u>\$ 26,814</u>	<u>\$ 510,360</u>	<u>\$ 501,412</u>	<u>\$ 35,762</u>
<b>Liabilities</b>				
Due to others	\$ 26,814	\$ 510,360	\$ 501,412	\$ 35,762
Total liabilities	<u>\$ 26,814</u>	<u>\$ 510,360</u>	<u>\$ 501,412</u>	<u>\$ 35,762</u>
<u>Tax collection and distribution accounts</u>				
<b>Assets</b>				
Cash, including investments	\$ 15,292,247	\$1,058,497,496	\$1,054,831,289	\$ 18,958,454
Total assets	<u>\$ 15,292,247</u>	<u>\$1,058,497,496</u>	<u>\$1,054,831,289</u>	<u>\$ 18,958,454</u>
<b>Liabilities</b>				
Due to others	\$ 15,292,247	\$1,058,497,496	\$1,054,831,289	\$ 18,958,454
Total liabilities	<u>\$ 15,292,247</u>	<u>\$1,058,497,496</u>	<u>\$1,054,831,289</u>	<u>\$ 18,958,454</u>
<u>Total - all agency funds</u>				
<b>Assets</b>				
Cash, including investments	\$ 35,677,172	\$1,082,605,899	\$1,084,981,617	\$ 33,301,454
Total assets	<u>\$ 35,677,172</u>	<u>\$1,082,605,899</u>	<u>\$1,084,981,617</u>	<u>\$ 33,301,454</u>
<b>Liabilities</b>				
Due to others	\$ 35,677,172	\$1,082,605,899	\$1,084,981,617	\$ 33,301,454
Total liabilities	<u>\$ 35,677,172</u>	<u>\$1,082,605,899</u>	<u>\$1,084,981,617</u>	<u>\$ 33,301,454</u>

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 AUDITOR'S REPORT

Board of County Commissioners  
**Lancaster County, Nebraska**

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, each major fund, and the aggregate remaining fund information of Lancaster County, Nebraska (the County), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 31, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the County'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 Lancaster County, Nebraska's internal control. Accordingly, we do not express an opinion on the effectiveness of the County'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompany schedule of findings and questioned costs as items 2013-001 and 2013-002, that we consider to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County'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 Audit Standards*.

## **Lancaster County, Nebraska's Response to Findings**

The County's responses to the findings identified in our audit are described in the schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied to the audit of the financial statements and, accordingly, we express no opinion on them.

## **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.L.C.*  
CERTIFIED PUBLIC ACCOUNTANTS

January 31, 2014  
Wichita, Kansas

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT  
ON INTERNAL CONTROL OVER COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
**Lancaster County, Nebraska**

**Report on Compliance for Each Major Federal Program**

We have audited Lancaster County, Nebraska's (the County) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2013. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 County'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-004. Our opinion on each major federal program is not modified with respect to this matter.

The County's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-003 and 2013-004 that we consider to be significant deficiencies.

The County's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

January 31, 2014  
Wichita, Kansas

**LANCASTER COUNTY, NEBRASKA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

SECTION I – SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified?        Yes   X   No
- Significant deficiencies identified?   X   Yes        None reported
- Noncompliance material to financial statements noted?        Yes   X   No

FEDERAL AWARDS

Internal control over major programs:

- Material weaknesses identified?        Yes   X   No
- Significant deficiencies identified?   X   Yes        None reported

Identification of major programs, and type of auditor's report issued on compliance for major programs:

<u>CFDA Number</u>	<u>NAME OF FEDERAL PROGRAM</u>	<u>OPINION</u>
93.563	<i>Child Support Enforcement</i>	Unmodified
93.243	<i>Enhancing Adult Drug Court Services / SAMHSA Strategic Prevention Framework State Incentive Grant</i>	Unmodified
16.803	<i>Edward Byrne Memorial Justice Assistance Grants</i>	Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?   X   Yes        No

**LANCASTER COUNTY, NEBRASKA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED JUNE 30, 2013

(CONTINUED)

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**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

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Dollar threshold used to distinguish  
between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

       Yes   X   No

LANCASTER COUNTY, NEBRASKA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

(CONTINUED)

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SECTION II – FINANCIAL STATEMENT FINDINGS

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**Finding 2013-001 (Significant Deficiency): Segregation of Duties, Community Mental Health Center**

**Criteria/Condition:** There is a lack of adequate segregation of duties at the Community Mental Health Center (CMHC) related to the collection and recording of patient receipts. Client account representatives and the billing supervisor can accept receipts over the counter and post the payments and other adjustments to the customer's account in the billing system. The billing supervisor also opens the mail, posts payments received to the customer's accounts, and reconciles posted payments to the deposits.

Internal controls should ensure proper segregation of duties – i.e., assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. In small environments where there are a limited number of personnel, compensating controls can be incorporated to mitigate the risk of misappropriation of assets.

**Cause:** Due to its size, the CMHC has a limited number of personnel.

**Effect:** A lack of segregation of duties could lead to the potential for misappropriation of assets.

**Recommendations:** We recommend the following:

- 1) Consider having 2 individuals open the mail, and create a log of amounts received, which could later be reconciled to the amount posted to the system and the deposit by someone other than the billing supervisor.
- 2) A daily report is generated that shows payments, adjustments and other activity on customer accounts. This report is used in the daily balancing process, by the employee who prepares the daily reconciliation and deposit. Consider having someone in a supervisory position (who does not also have access to post payments or adjustments to the system) review this report to ensure the adjustments are proper.

**Management's Response (Unaudited):**

Lancaster County understands the segregation of duties concern and will review procedures and possible changes throughout the transition of the Mental Health Center.

LANCASTER COUNTY, NEBRASKA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

(CONTINUED)

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SECTION II – FINANCIAL STATEMENT FINDINGS

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**Finding 2013-002 (Significant Deficiency): Accounting and Financial Reporting**

**Criteria/Condition:** The County's management is responsible for the accuracy, completeness, and fairness of data presented in the financial statements, including all disclosures. During fiscal 2013, the County supplemented its resources by adding a position within the Budget and Fiscal Office to assist with the year-end closing process and preparation of the financial statements. This resulted in the County being able to prepare most of the year-end adjusting entries needed to prepare the financial statements, and for the County to have a greater ability to review the financial statements in more detail, and provide feedback on the statements and related disclosures. We noted the following areas for continued focus in future years:

- 1) *Financial statement preparation:* For the year ended June 30, 2013, the auditors continued to assist in preparing the financial statements, including note disclosures, supplemented by assistance provided by County management as described above. While the majority of the year-end adjusting entries were prepared by management, a few were prepared by us during the course of the audit.
  
- 2) *Capital Assets:* During the procedures we performed over capital assets, we noted that amounts added to infrastructure during the current year were capitalized at the time that a contract was signed, rather than the time the project was completed. Additionally, the amount recorded was the contract amount, rather than the actual completed cost. The engineering department is responsible for informing the County Clerk's office of capital assets pending capitalization. However, there appears to be a breakdown of communication between the engineering department and the County's finance personnel in regards to the amount and timing of capitalization. This was corrected in the current year, with the finance department performing a detailed review of the costs for all construction projects to determine the appropriate amounts to be capitalized.

Additionally, we noted during our testing of depreciation expense that one class of infrastructure assets was not being depreciated. A prior period adjustment was posted to correct the beginning balance in accumulated depreciation and the useful lives were updated in the capital assets accounting software to correct the issue going forward.

**Cause:** Additional resources added to the Budget and Fiscal Office in 2013 are new to their positions, and are still in the process of obtaining training and experience with the year-end closing process and procedures for preparation of the financial statements.

**Effect:** When the auditor assists in preparing the financial statements and required note disclosures, there is a risk that disclosures or entries may be missed since management has a more comprehensive understanding of the County's operations.

**LANCASTER COUNTY, NEBRASKA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2013**

**(CONTINUED)**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

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**Recommendations:** We recommend management:

- 1) Continue to evaluate and strengthen controls and procedures to capture the information needed to identify, authorize, record and process recurring and nonrecurring journal entries, year-end adjustments, and as needed for the preparation of the financial statements.
- 2) Further evaluate communication and the flow of information between the engineering department, County Clerk's office, and finance personnel pertaining to the identification and recording of capital assets, to ensure capital costs are properly being captured for financial reporting purposes.
- 3) Consider additional training for staff in the preparation of financial statements, and ensure that key personnel in the accounting area are trained in the requirements of governmental accounting and financial reporting.

**Management's Response (Unaudited):** Lancaster County will continue to move in the direction of preparing financial statements, note disclosures, and year end adjusting entries.

LANCASTER COUNTY, NEBRASKA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

(CONTINUED)

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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**Finding 2013-003 (Significant Deficiency):**

**CFDA #93.243: Substance Abuse and Mental Health Services Projects of Regional and National Significance (Enhancing Adult Drug Court Services), Award #5H79TI012429-03, U.S. Department of Health and Human Services**

**Condition:** Requests for reimbursement of expenses and required quarterly and annual reports are prepared, signed, and submitted by the same person. There is not supervisory review of reports performed to ensure accuracy and completeness of data and information included in the reports.

**Criteria:** Internal controls should be designed to provide adequate control over the preparation of reliable reports and reimbursement requests.

**Questioned Costs:** None were noted

**Context:** The reports are completed by the County's Grants Coordinator, who is familiar with the programs, and sources of information needed to prepare the reports.

**Cause:** For other programs, the program personnel prepare the reports, which are then reviewed by the Grants Coordinator, respective department head or the director of the Budget and Fiscal Office. For this program, the Grants Coordinator prepares the reports, with no secondary review.

**Effect:** Failure to conduct a review by a second employee could result in inaccurate reports and reimbursement requests being submitted to grantor agency.

**Recommendation:** We recommend the County implement a control in which a second employee reviews reports and reimbursement requests for accuracy and completeness of information.

**Views of Responsible Officials / Planned Corrective Actions (Unaudited):** The Budget and Fiscal Officer will review reports and reimbursement requests for accuracy and completeness.

LANCASTER COUNTY, NEBRASKA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

(CONTINUED)

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

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**Finding 2013-004 (Significant Deficiency):**

**CFDA #93.563: Child Support Enforcement, Award #0G1404NE4005, U.S. Department of Health and Human Services, passed through the Nebraska Department of Social Services**

**CFDA #93.243: Substance Abuse and Mental Health Services Projects of Regional and National Significance (Enhancing Adult Drug Court Services), U.S. Department of Health and Human Services, Award #5H79TI012429-03, and passed through the Nebraska Department of Health and Human Services, Award #SPF-SIG-03**

**CFDA #16.803: Edward Byrne Memorial Justice Assistance Grants, U.S. Department of Justice, applies to all open grant awards passed through the Nebraska Commission on Law Enforcement and Criminal Justice**

**Condition:** For employees who work solely on a single federal award, there was no periodic certification the employees worked solely on that program for the period covered by the certification. This certification serves as support for charging the employee's entire wages to the federal award.

**Criteria:** OMB Circular A-87, Appendix B., Section 8(h)(3) states that where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by certifications that the employees worked solely on that program for the period covered by the certification. Such certifications must be prepared at least semi-annually, and be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employees.

**Questioned Costs:** None were noted.

**Context:** Salaries and benefits expenditures comprise approximately 79% of expenditures for CFDA #93.563, 18% of expenditures for CFDA #93.243, and 11% of expenditures for CFDA #16.803. Of these amounts charged for salaries and benefits, it is unknown how much would be for employees working solely on a single federal award.

Additionally, each employee's job description includes notation that the employee is to work solely on a program supported by the single federal award. During our testing, we did not become aware of any instances where employees tested as part of one of the three federal programs above were working on other cost objectives or federal award programs.

**Cause:** Management was unaware of this requirement.

**Effect:** Salary expenditures incurred under the programs may not be allowed as a cost of the grant without proper documentation.

**Recommendation:** We recommend the County implement a process to obtain semi-annual certifications of wages for employees who work solely on a single program, in accordance with the requirements of OMB Circular A-133.

**LANCASTER COUNTY, NEBRASKA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2013**

**(CONTINUED)**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

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**Views of Responsible Officials / Planned Corrective Actions (Unaudited):** Lancaster County will implement a process to obtain semi-annual certifications of wages for employees who work solely on a single program.

**LANCASTER COUNTY, NEBRASKA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED JUNE 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>Department of Agriculture Pass-Through Programs From:</b>			
Nebraska Health and Human Services			
Food Distribution Program - Detention Center	10.550	47600648201	\$ 248
Nebraska Department of Education			
School Breakfast Program - Detention Center	10.553	55-0905	38,746
National School Lunch Program - Detention Center	10.555	55-0905	61,790
Child and Adult Care Program - CMHC	10.558	55-5001	31,551
<i>Total Department of Agriculture</i>			<u>132,335</u>
<b>Department of Justice Direct Programs:</b>			
BJA - Drug Court Discretionary Grant	16.585		110,670
BJA - Grants to Encourage Arrest Policies	16.590		177,490
BJA - Bulletproof Vest Partnership Program	16.607		7,751
BJA - Second Chance Act Prisoner Reentry Initiative	16.812		113,162
<i>Subtotal Department of Justice Direct Programs</i>			<u>409,073</u>
<b>Department of Justice Pass-Through Programs From:</b>			
Nebraska Commission on Law Enforcement and Criminal Justice			
Juvenile Accountability Incentive Block Grants	16.523	11-JA-0604	51,039
Juvenile Justice and Delinquency Prevention - Title II	16.540	11-JJ-12, -08, -14	90,578
Juvenile Justice and Delinquency Prevention - Title V	16.548	11-JP-31	28,273
Violence Against Women Formula Grants	16.588	11-VW-713	187,584
State Criminal Alien Assistance Program (SCAAP)	16.606	2012APBX0328	55,271
<i>American Recovery and Reinvestment Act</i>			
Edward Byrne Memorial Justice Assistance Grants:			
Juvenile Court Enhancement Program	16.803	09DX9026	160,931
Pretrial Release Program Enhancements	16.803	09DX9029	126,992
Public Defender Office Planning, Trng, Upgrade	16.803	09DX9031	7,859
Training & TA Regarding Immigration Consequences	16.803	09DX9032	3,441
<i>Subtotal Department of Justice Pass-Through Programs</i>			<u>711,968</u>
<i>Total Department of Justice</i>			<u>1,121,041</u>
<b>Department of Transportation Pass-Through Programs:</b>			
Nebraska Department of Roads			
Federal Aid Highway Program	20.205	BR-3280, BRO-7055	28,629
Nebraska Office of Highway Safety			
FHA - Highway Planning & Construction	20.205	HSIP0006, -08, -09	21,300
<i>Highway Safety Cluster:</i>			
Nebraska Office of Highway Safety			
NHTSA -State and Community Highway Safety	20.600	402-12-30, 402-12-10	6,546
NHTSA -Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	410-12-2	9,889
<i>Subtotal Highway Safety Cluster</i>			<u>16,435</u>
<i>Total Department of Transportation</i>			<u>66,364</u>
<b>Department of Homeland Security Pass-Through Programs:</b>			
Nebraska Emergency Management Agency			
Disaster Grants - Public Assistance	97.036	FEMA 1878 Disaster	61,318
Emergency Management Performance Grant	97.042	2011 EMG, 2012 EMG	93,302
State Homeland Security Program	97.067	2009, 2010 SHSP SE	421,610
<i>Total Department of Homeland Security</i>			<u>576,230</u>

The accompanying note is an  
Integral part of this schedule

**LANCASTER COUNTY, NEBRASKA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED JUNE 30, 2013

(CONTINUED)

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>Department of Health and Human Services Direct Programs:</b>			
Substance Abuse and Mental Health Services Administration			
Drug-Free Community Support Program Grants	93.276		\$ 62,411
Enhancing Adult Drug Court Services	93.243		317,508
<i>Subtotal Department of Health and Human Services Direct Programs</i>			<u>379,919</u>
<b>Department of Health and Human Services Pass-Through Programs:</b>			
Nebraska Department of Health and Human Services			
SAMHSA- Strategic Prevention Framework State Incentive Grant			
	93.243	SPF-SIG-03	62,960
SAMHSA- Projects for Assistance in Transition from Homelessness			
	93.150	C-12-0704	32,500
SAMHSA- Block Grant - Community Mental Health Administration for Children and Families - Promoting Safe and Stable Families			
	93.958	C-12-0468	21,222
	93.556	C-12-0510	104,500
<i>Subtotal Nebraska Department of Health and Human Services</i>			<u>221,182</u>
Nebraska Department of Social Services			
ACF- Child Support Enforcement, County Attorney			
	93.563	OG1404NE4005	1,020,157
ACF- Child Support Enforcement, Clerk of District Court			
	93.563	OG1404NE4005	274,370
ACF- Child Support Enforcement, Bailiff District Court			
	93.563	OG1404NE4005	188,288
<i>Subtotal Nebraska Department of Social Services</i>			<u>1,482,815</u>
<i>American Recovery and Reinvestment Act</i>			
Feinstein Institute for Medical Research			
National Institutes of Health - RAISE Grant			
	93.701	HHSN-271-2009-0019C	14,967
<i>Subtotal for Department of Health and Human Services Pass-Through Programs</i>			<u>1,718,964</u>
<i>Total Department of Health and Human Services</i>			<u>2,098,883</u>
<b>Department of Commerce Pass-Through Program:</b>			
Nebraska Emergency Management Agency			
Public Safety Interoperable Communications Grant	11.555	2007 PSCI SE	136,000
<i>Total Department of Commerce</i>			<u>136,000</u>
<b>Department of the Interior:</b>			
U.S. Entitlement Lands	15.226		17,915
<i>Total Department of the Interior</i>			<u>17,915</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 4,148,768</u></u>

The accompanying note is an  
Integral part of this schedule

**LANCASTER COUNTY, NEBRASKA**

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2013**

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**NOTE A - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lancaster County, Nebraska (the County), and is presented on the cash 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 financial statements.