

***LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION***

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

AND

INDEPENDENT AUDITOR'S REPORT

*LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION*

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

AND

INDEPENDENT AUDITOR'S REPORTS

LINCOLN/LANCASTER COUNTY PUBLIC BUILDING COMMISSION

FINANCIAL STATEMENTS

Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of the Public Building Commission
Lincoln/Lancaster County Public Building Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of The Lincoln/Lancaster County Public Building Commission (PBC), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise PBC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter – Restatement

As discussed in Note 6 to the basic financial statements, the financial statements for governmental activities as of July 1, 2012 have been restated due to a change in how the PBC records activity related to its leases. Our opinion is not modified with respect to this matter.

Other Matters - Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 on our consideration of the PBC'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 PBC's internal control over financial reporting and compliance.

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

December 19, 2013
Wichita, KS

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Lincoln / Lancaster County Public Building Commission's (PBC) financial report presents a narrative overview and analysis of the financial activities of the PBC for the fiscal year ended June 30, 2013. Please read it in conjunction with the PBC's financial statements which follow this section.

Financial Highlights

As of June 30, 2013, the PBC's total assets exceeded its total liabilities by \$6,030,486. Bonds payable have been decreasing each year as scheduled payments are made, reducing debt.

In the statement of activities, the PBC's total revenues exceeded its total expenses by \$674,150 due to a decrease in the number of construction projects in the current year.

In the statement of revenues, expenditures, and changes in fund balance, the PBC's total revenues exceeded total expenditures by \$320,786 as construction projects declined in the current year.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

MANAGEMENT'S DISCUSSION AND ANALYSIS

wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Financial Statements

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

Required Supplementary Information

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

Government-wide Financial Analysis

Changes in Net Position

Net position may serve over time as a useful indicator of a government's financial position. The PBC's assets exceeded liabilities and deferred inflows of resources by \$6,030,486 as of June 30, 2013. By far, the largest portion of the PBC's net position reflects its restricted cash to fund future construction projects.

**Lincoln/Lancaster County Public Building Commission
Statement of Net Position
June 30, 2013**

	2013	2012
Assets		
Current and other assets	\$ 8,181,128	\$ 7,838,157
Net investment in direct financing lease	47,117,869	-
Capital assets	32,183	38,030
Total assets	55,331,180	7,876,187
 Liabilities		
Long-term liabilities	37,914,991	40,832,035
Other liabilities	877,834	669,562
Total liabilities	38,792,825	41,501,597
 Deferred inflows of resources		
Deferred revenue - lease receivable	10,507,869	-
 Net position		
Investment in capital assets	32,183	38,030
Restricted	5,998,303	(33,663,440)
Total net position	\$ 6,030,486	\$ (33,625,410)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Total revenues decreased \$2.2 million from the prior year. Charges for services decreased \$2.3 million due to recording certain rent payments received as a reduction in the balance recorded as net investment in direct financing receivable rather than as rent revenue. See Note 6 for additional discussion of the change in how the PBC is recording leases between the PBC and the City of Lincoln and Lancaster County.

Total expenses decreased \$1 million from the prior year, primarily due to a decline in construction projects in the current year.

**Lincoln/Lancaster County Public Building Commission
Changes in Net Position
Year Ended June 30, 2013**

	<u>2013</u>	<u>2012</u>
Revenues		
Program revenues:		
Charges for services	\$ 5,126,040	\$ 7,636,553
General revenues:		
Taxes	3,103,373	2,966,102
State revenues	207,840	-
Investment income	98,994	113,581
Other income	82,395	103,950
Total revenues	<u>8,618,642</u>	<u>10,820,186</u>
 Expenses		
Public building commission services	6,528,726	7,379,046
Interest on long-term debt	1,415,766	1,525,728
Total expenses	<u>7,944,492</u>	<u>8,904,774</u>
 Changes in net position	674,150	1,915,412
Net position - beginning of year	(33,625,410)	(35,540,822)
Prior period adjustment	38,981,746	-
Net position - end of year	<u>\$ 6,030,486</u>	<u>\$ (33,625,410)</u>

Governmental Fund Financial Analysis

The focus of the PBC's general fund is to provide information on near-term inflows, outflows, and balances of spendable resources.

As of the end of the current fiscal year, the PBC's fund reported ending fund balance of \$7,486,947, an increase of \$320,786 in comparison with the prior year. The fund balance is subject to restriction on how the dollars may be utilized as dictated by the PBC's fund balance policies.

**LINCOLN / LANCASTER COUNTY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

In the table below, budgeted revenues and expenditures are compared with actual figures for the current fiscal year. As noted below, there were no significant variances from the budget.

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
Total Revenues	\$ 11,093,185	\$ 11,117,152	\$ 23,967
Total Expenditures	10,760,823	10,757,273	3,550

Capital Asset and Debt Administration

At the end of 2013, the PBC reported \$32,183 invested in capital assets.

At the end of 2013, the PBC had \$36,610,000 of bonds outstanding and a note payable outstanding of \$1,367,616. During the year, the PBC made principal payments totaling \$2,923,835. The PBC's future debt requirements are detailed in Note 5 following the financial statements. The bonds are scheduled to be paid off in fiscal 2033.

Contacting the PBC's Financial Management

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

Lincoln/Lancaster County Public Building Commission

Statement of Net Position

June 30, 2013

	Governmental Activities
Assets	
Cash held in trust	\$ 1,289,492
Cash held by County Treasurer	389,276
Investments held in trust	1,910,000
Investments held by County Treasurer	3,121,435
Accounts receivable	59,516
Due from other governmental agencies	13,405
Taxes receivable	1,377,938
Prepaid insurance	20,066
Net investment in direct financing lease	47,117,869
Capital assets, net of depreciation	32,183
Total assets	<u>\$ 55,331,180</u>
Liabilities	
Accounts payable	\$ 598,611
Accrued interest payable	279,223
Non-current liabilities:	
Due within one year	2,978,773
Due in more than one year	34,936,218
Total liabilities	<u>38,792,825</u>
Deferred inflows of resources	
Deferred revenue - lease receivable	10,507,869
Net position	
Investment in capital assets	32,183
Restricted	5,998,303
Total net position	<u>6,030,486</u>
	<u>\$ 55,331,180</u>

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

Lincoln/Lancaster County Public Building Commission

Statement of Activities

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expenses) Revenue and Change in Net Position
Governmental Activities			
Public building commission services	\$ 6,528,726	\$ 5,126,040	\$ (1,402,686)
Interest on long-term debt	1,415,766	--	(1,415,766)
	<u>\$ 7,944,492</u>	<u>\$ 5,126,040</u>	<u>(2,818,452)</u>
 General revenues			
Taxes:			
Property tax			3,102,489
In-lieu-of tax			884
State revenues			207,840
Investment income			98,994
Other income			82,395
Total general revenues			<u>3,492,602</u>
Change in net position			674,150
Net position - beginning of year			<u>(33,625,410)</u>
Prior period adjustment			38,981,746
Net position - end of year			<u>\$ 6,030,486</u>

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

Lincoln/Lancaster County Public Building Commission

Balance Sheet - Governmental Fund

June 30, 2013

Assets

Cash held in trust	\$	1,289,492
Cash held by County Treasurer		389,276
Investments held in trust		1,910,000
Investments held by County Treasurer		3,121,435
Accounts receivable		59,516
Due from other governmental agencies		13,405
Taxes receivable		1,377,938
Prepaid insurance		20,066
Net investment in direct financing lease		47,117,869
		<hr/>
	\$	55,298,997
		<hr/> <hr/>

Liabilities

Accounts payable	\$	598,611
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Deferred inflows of resources

Deferred revenue - property tax receivable		95,570
Deferred revenue - lease receivable		47,117,869
		<hr/>
		47,213,439
		<hr/> <hr/>

Fund balance

Nonspendable - prepaid items		20,066
Restricted		7,466,881
		<hr/>
		7,486,947
		<hr/> <hr/>
	\$	55,298,997
		<hr/> <hr/>

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

Lincoln/Lancaster County Public Building Commission
 Reconciliation of the Balance Sheet for
 Governmental Funds to the
 Statement of Net Position
 June 30, 2013

Fund balance - governmental fund	\$ 7,486,947
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the governmental fund	32,183
Property tax revenues, not collected within 60 days of the fiscal year end, are not financial resources and, therefore, not reported in the governmental fund	95,570
Direct financing lease principal receivable, not collected within 60 days of the fiscal year end, is not a current financial resource and, therefore, is not reported in the governmental fund; though it is recorded as earned revenue in the government-wide statements	36,610,000
Liabilities that are not due and payable in the current period and, therefore, are not reported in the governmental fund:	
Bonds payable	(36,610,000)
Note payable	(1,367,616)
Premium on bonds	(45,310)
Discount on bonds	107,935
Accrued interest payable	(279,223)
Net position - governmental activities	<u><u>\$ 6,030,486</u></u>

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

Lincoln/Lancaster County Public Building Commission

Statement of Revenues, Expenditures
and Change in Fund Balance - Governmental Fund
Year Ended June 30, 2013

Revenues

Property tax	\$	3,098,706
In-lieu-of tax		884
Charges for services		1,270,719
Rentals		5,052,055
State revenues		207,840
Interest income		1,562,262
Other income		82,395
Total revenues		<u>11,274,861</u>

Expenditures

Current:

Contractual services		3,553,102
Utilities		1,511,405
Repairs and maintenance		571,881
Supplies		112,204
Building rent		49,275
Other		124,111
Capital outlays		600,901
Debt service:		
Principal		2,923,835
Interest		1,507,361
Total expenditures		<u>10,954,075</u>

Excess of revenues over expenditures 320,786

Fund balance - beginning of year		7,291,161
Prior period adjustment		(125,000)
Fund balance - end of year	\$	<u><u>7,486,947</u></u>

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

Lincoln/Lancaster County Public Building Commission
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balance of Governmental
 Funds to the Statement of Activities
 Year Ended June 30, 2013

Net change in fund balance - governmental funds \$ 320,786

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

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

Depreciation expense	(5,847)	
Capital assets capitalized	<u>-</u>	(5,847)

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 PBC but not collected within 60 days of the fiscal year.

3,783

Payments received on the direct financing lease is recognized as revenue when received in the funds. However, in the statement of net position the direct financing lease was recognized as revenue when issued.

(2,660,000)

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

2,923,835

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

(6,791)

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

Accrued interest expense	<u>98,384</u>	
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Changes in net position - governmental activities **\$ 674,150**

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

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity - The PBC was created pursuant to Section 13-1303 of the Nebraska State Statutes. The PBC was established to design, construct, maintain, operate, improve, remodel, remove, and reconstruct projects for use by both the City of Lincoln (the City) and Lancaster County, Nebraska (the County) as approved by the City and County, and all facilities necessary or convenient in connection with such projects. As provided by Nebraska State Statutes, the PBC and its corporate existence shall continue until all its liabilities and bonds have been paid in full or such liabilities and bonds have otherwise been discharged and the governing bodies of the City and County have jointly determined that the PBC is no longer needed. When the PBC ceases to exist, all rights and/or properties of the PBC shall pass to and be vested in the City and County.

The PBC is governed by a five-member Board of Commissioners consisting of two representatives each from the Lincoln City Council and the Lancaster County Board of Commissioners and a fifth member appointed by the other four members. Powers and duties of the PBC, as provided by state law, include among others, the rights to sue and be sued, acquire, hold, and dispose of personal property for its corporate purposes; levy, assess, and certify to the County annually the amount of tax to be levied for the purposes of the PBC (not to exceed 1.7 cents for each one hundred dollars of actual valuation of all tangible taxable property in the County); and incur debt and issue bonds and notes for any corporate purpose. The bonds, notes, obligations, or liabilities of the PBC are not the debt of either the State of Nebraska (the State), the City, or the County, nor shall such bonds, notes, obligations, or liabilities be payable out of any money other than the money of the PBC. The PBC is authorized to request additional funding from the County and the City for principal and interest payments when the tax, rental receipts, and parking receipts are not adequate.

To perform the function for which it was established, the PBC utilizes County employees, and thus incurs no direct personnel costs. However, the PBC reimburses the County for these incurred personnel costs.

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

Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

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

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

Cash, Cash Equivalents, and Investments - The County Treasurer has pooled the cash resources of various County funds for investment purposes. Investments consist primarily of deposits, time deposits and U.S. government obligations. These investments are stated at cost, which approximates fair value. Investment income is allocated by specifically identifying amounts attributable to the PBC.

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

The tax levy applicable to the PBC for the tax year 2012-2013 was \$0.017 per \$100 of assessed property value utilized for debt service for the County/City Building and the Justice and Law Enforcement Center. The assessed value upon which the 2012 levy was based, was \$20,119,951,547.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

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 uncollectible amounts 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.

Capital Assets and Depreciation - The PBC issues bonds to finance various construction and renovation projects for buildings to which the PBC holds the lease. However, since the PBC does not have title to the buildings, the buildings are not included as capital assets on the statement of net position. All costs for construction projects are recorded on the statement of activities as expenses.

Other capital assets purchased or acquired by PBC (equipment and vehicles), with a value over \$5,000, are recorded at historical cost. Contributed assets are recorded at estimated fair value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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

	<u>Years</u>
Equipment	8 - 15
Vehicles	8

Deferred Inflows of Resources / Deferred Outflows of Resources - Effective July 1, 2012, the PBC 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.

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

Prior Period Adjustment. In addition to the reclassifications described above, GASB 65 requires bond issuance costs to be expensed when incurred rather than being reported as deferred charges and amortized over the term of the related debt. This adjustment resulted in a \$163,254 decrease to net position as of July 1, 2012.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Investment in capital assets - Consists of capital assets less 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.

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

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

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

Assigned - Comprises 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. The PBC's policy authorizes the PBC Building Administrator to assign funds for specific purposes.

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

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 PBC considers restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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

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

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

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

At June 30, 2013, the PBC had \$3,510,711 of cash and investments held by the County Treasurer. The PBC also had \$3,199,492 of cash and investments being held in trust by the City Treasurer.

Nebraska State Statute Section 77-2315 authorizes the County Treasurer, with the consent of the County Board, to invest in U.S. government bonds, bonds and debentures issued either singularly or collectively by any of the twelve federal land banks, the twelve intermediate credit banks, the thirteen banks for cooperatives under the

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

supervision of the Farm Credit Administration, United States Treasury notes, bills or certificates of indebtedness maturing within two years from the date of purchase, or in certificates of deposit.

The City may legally invest in U.S. government securities and agencies, U.S. government sponsored agencies, and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds, bankers' acceptances, and investment agreements. The City holds the 2004 Reserve Fund, 2005 Reserve Fund and 2010 Reserve Fund as agency funds for the PBC. The City has agreed to be the Trustee for these Reserve Funds until such times as the bonds are fully retired.

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

Cash and Investments held by the PBC:	
Cash and investments with County Treasurer	\$ 3,363,574
Series 2004 - Construction Fund	99,768
Series 2005 - Construction Fund	45,728
Series 2010 - Construction Fund	<u>1,641</u>
Total held by the County	3,510,711
Cash and Investments held by the City:	
Series 2004 - Reserve Fund	953,573
Series 2005 - Reserve Fund	1,910,000
Series 2010 - Reserve Fund	<u>335,919</u>
Total held by the City	<u>3,199,492</u>
Total Cash and Investments	<u><u>\$ 6,710,203</u></u>

At June 30, 2013, the PBC or its agent the City, held the following investments, which are included in the trust account balances above:

Investment	Fair Value	Maturity
Repurchase agreement, City Treasurer	\$ 1,910,000	Less than 1 year
Repurchase agreement, County Treasurer	2,974,298	7/1/2013
Money market, County Treasurer	<u>147,137</u>	N/A
	<u><u>\$ 5,031,435</u></u>	

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 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 (as identified in the statutes) to the County Treasurer in the amount of the PBC's deposits. As of June 30, 2013, the PBC's pooled deposits held with the County Treasurer had a bank balance of \$0, and therefore, no pledged collateral was required.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

Custodial credit risk, investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the government will not be able to recover the value of its investments or securities that are in the possession of an outside party. The fair value of the securities underlying the repurchase agreement held with the County was \$2,882,060, leaving \$92,238 not collateralized.

The fair value of securities underlying the City's repurchase agreements amounted to \$2,221,961, resulting in it being fully collateralized at June 30, 2013.

Credit risk. State law and internal policies limit the types of investments that the County and City may make, as described previously. As of June 30, 2013, the securities underlying the repurchase agreements include a Federal Home Loan Mortgage government agency security that did not have a credit rating, and Federal National Mortgage Association government agency security rated AAA / AA+ by Moody's and S&P, respectively.

3. DUE FROM OTHER GOVERNMENTAL AGENCIES

Due from other governmental agencies consisted of amounts due from the State of Nebraska of \$13,405 as of June 30, 2013.

Prior period adjustment. During fiscal 2013, the PBC noted that a \$125,000 receivable recorded in a prior year had been collected in a prior year, and was not properly recorded as a reduction to the receivable balance. Therefore, an adjustment was recorded to remove the receivable, resulting in a decrease in net position and fund balance in the amount of \$125,000 as of July 1, 2012.

4. CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
Equipment	\$ 32,396	\$ --	\$ --	\$ 32,396
Vehicles	38,500	--	--	38,500
	<u>70,896</u>	<u>--</u>	<u>--</u>	<u>70,896</u>
Less accumulated depreciation	<u>(32,866)</u>	<u>(5,847)</u>	<u>--</u>	<u>(38,713)</u>
Capital assets, net	<u>\$ 38,030</u>	<u>\$ (5,847)</u>	<u>\$ --</u>	<u>\$ 32,183</u>

The amount of capital assets that were constructed or acquired on behalf of the County and City was \$300,448 and \$300,448, respectively.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM OBLIGATIONS

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

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Revenue bonds	\$ 39,270,000	\$ --	\$ 2,660,000	\$ 36,610,000	\$ 2,730,000
Premiums	48,688	--	3,378	45,310	--
Discounts	(118,104)	--	(10,169)	(107,935)	--
Note payable	1,631,451	--	263,835	1,367,616	248,773
Revenue bonds	<u>\$ 40,832,035</u>	<u>\$ --</u>	<u>\$ 2,917,044</u>	<u>\$ 37,914,991</u>	<u>\$ 2,978,773</u>

Revenue Bonds. The PBC has the authority to issue revenue bonds to finance the cost of acquiring and/or constructing land and facilities operated for the public purpose by the City or County. The PBC finances the debt service of the revenue bonds by leasing the land and facilities to the City and County, and from the proceeds of a limited tax as described in Note 1. The obligations of the City and County are general obligations of each respective political subdivision and are not subject to annual appropriation. The City and County are required annually to include in their respective budget an amount sufficient to enable them to meet their respective obligations. Four issues are outstanding with repayment schedules ranging from 16-23 years.

The current bonds outstanding are as follows:

Series	Amount of Original Issue	Range of Maturity Dates	Range of Interest Rates	Amount Outstanding June 30, 2013
2004	\$ 11,295,000	2007-2026	2.35-5.00%	\$ 7,255,000
2005	26,375,000	2005-2026	2.25-5.00%	19,560,000
2010	4,270,000	2010-2030	0.40-4.00%	3,465,000
2010B	<u>7,385,000</u>	2010-2025	0.50-3.75%	<u>6,330,000</u>
Total	<u>\$ 49,325,000</u>			<u>\$ 36,610,000</u>

Principal and interest requirements to maturity on the bonds outstanding are as follows:

Year Ended June 30,	Principal	Interest
2014	\$ 2,730,000	\$ 1,385,887
2015	2,720,000	1,297,152
2016	2,820,000	1,199,399
2017	3,385,000	1,087,431
2018	2,400,000	980,465
2019 – 2023	12,550,000	3,492,120
2024 – 2028	9,455,000	1,020,825
2029 – 2033	<u>550,000</u>	<u>40,400</u>
Total	<u>\$ 36,610,000</u>	<u>\$ 10,503,679</u>

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM OBLIGATIONS (CONTINUED)

The Tax Reform Act of 1988 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to the bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years. As of June 30, 2013, the PBC does not expect to incur a liability, though ongoing calculations of excess investment earnings on various bonds and financings will continue as required.

Note Payable. Note payable to a financing institution, payable in monthly installments of \$25,701 with interest at 2.950% through April 2018. The note is secured through assignment of the lease on the building purchased with the proceeds.

Principal and interest requirements to maturity on the note payable are as follows:

Year Ended June 30,	Principal	Interest
2014	\$ 248,773	\$ 33,940
2015	279,163	29,251
2016	287,510	20,904
2017	296,108	12,307
2018	256,062	3,573
Total	\$ 1,367,616	\$ 99,975

6. DIRECT FINANCING LEASES

The 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 9th and J Building, Downtown Senior Center, Health Department Building, Courthouse Plaza, Northeast Senior Center, Benesch Building, and the 27th 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. 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. The leases for the buildings continue until the related bonds have been fully paid and are no longer outstanding.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

6. DIRECT FINANCING LEASES (CONTINUED)

The lease agreements entered into with the City and County in connection with the issuance of revenue bonds (see Note 5) qualify as direct financing leases for accounting purposes, and accordingly, the net investments of such leases are recorded on the statement of net position and balance sheet as assets.

At June 30, 2013, the components of the net investment in direct financing leases consisted of the following:

Net investment in direct financing leases	\$ 47,117,869
Less: unearned income	<u>10,507,869</u>
Net effect on the statement of net position	<u>\$ 36,610,000</u>

At June 30, 2013, future minimum lease rentals to be received by the PBC under direct financing leases consisted of the following:

Year Ended June 30,	Payments
2014	\$ 4,115,787
2015	4,017,052
2016	4,021,399
2017	4,474,431
2018	3,380,465
2019 – 2023	16,042,510
2024 – 2028	10,475,825
2029 – 2033	<u>590,400</u>
Total	<u>\$ 47,117,869</u>

Prior Period Adjustment. Prior to 2013, the PBC recorded the direct financing leases as operating leases. During 2013, management of the PBC 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 direct financing lease assets for the PBC. The change in methodology resulted in increases to the net investment in direct financing lease and deferred inflows of resources on the balance sheet for the governmental fund, with a net effect of \$0 on fund balance. For governmental activities, this change resulted in an increase to net investment in direct financing lease of \$51,240,650 and an increase in deferred inflows of resources of \$11,970,650 as of July 1, 2012, resulting in a net increase in net position of \$39,270,000.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

7. RISK MANAGEMENT

The PBC 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. All suits against the PBC arising out of tort claims shall be defended by the City's law department, but the County Attorney's Office will be notified in writing of the filing of such suit and be entitled to participate in the defense thereof. The City and the County shall share equally any uninsured or underinsured claim expenses and/or damages that may occur.

The PBC is included in the insurance coverage of the County for various commercial insurance policies (with various deductibles), with the exception of workers' compensation and general liability. The PBC is insured by the County for 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 County's Workers' Compensation and Risk Manager. Commercial insurance covers the excess of the self-insured amount to the maximum of \$2,000,000 for employers' liability and statutory limits for workers' compensation. Commercial insurance covers the excess of general liability for \$1,000,000 per individual and \$5,000,000 per occurrence.

The PBC is included in the insurance coverage of the City for property insurance, equipment breakdown coverage (boiler and machinery) and business interruption and extra expenses coverage. The City has a self-insured retention for building and contents property exposures up to \$50,000 per occurrence. The Nebraska Political Tort Claims Act limits the City's liability for tort claims to \$1 million per individual and \$5 million per occurrence.

8. PENDING GOVERNMENTAL ACCOUNTING STANDARDS

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

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, was issued in April 2013. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement requires a government that has issued an obligation guaranteed in a nonexchange

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

8. PENDING GOVERNMENTAL ACCOUNTING STANDARDS (CONTINUED)

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

9. SUBSEQUENT EVENTS

In October 2013, the PBC entered into a site lease agreement with Lancaster County. The PBC will lease certain property from the County, consisting of the presently existing County jail facility. In consideration, the PBC will 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.

REQUIRED SUPPLEMENTARY INFORMATION

Lincoln/Lancaster County Public Building Commission
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget to Actual (Budgetary Basis)
Year Ended June 30, 2013

Revenues	Original Budget	Final Budget	Actual	Variance
Property tax	\$ 3,351,984	\$ 3,351,984	\$ 3,055,288	\$ (296,696)
In-lieu-of tax	-	-	884	884
Charges for services	7,641,201	7,641,201	7,778,680	137,479
State revenue	-	-	194,490	194,490
Interest income	100,000	100,000	53,132	(46,868)
Other	-	-	34,678	34,678
Total revenues	<u>11,093,185</u>	<u>11,093,185</u>	<u>11,117,152</u>	<u>23,967</u>
 Expenditures				
Contractual services	2,818,518	2,818,518	3,545,982	(727,464)
Utilities	-	-	1,469,223	(1,469,223)
Repairs and maintenance	-	-	275,394	(275,394)
Supplies	173,796	173,796	108,504	65,292
Building rent	2,648,047	2,648,047	49,275	2,598,772
Other	-	-	144,773	(144,773)
Capital outlay	907,855	907,855	732,926	174,929
Debt service:				
Principal	2,660,000	2,660,000	2,923,835	(263,835)
Interest	1,552,607	1,552,607	1,507,361	45,246
Total expenditures	<u>10,760,823</u>	<u>10,760,823</u>	<u>10,757,273</u>	<u>3,550</u>
 Excess of revenues over expenditures (budgetary basis)	 <u>\$ 332,362</u>	 <u>\$ 332,362</u>	 359,879	 <u>\$ 27,517</u>
 Adjustments required under accounting principles generally accepted in the United States of America				
To adjust receipts for accruals (net)			157,709	
To adjust expenditures for accruals (net)			<u>(196,802)</u>	
 Excess of revenues (modified accrual basis) over expenditures			 <u>\$ 320,786</u>	

LINCOLN/LANCASTER COUNTY PUBLIC BUILDING COMMISSION

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

Year Ended June 30, 2013

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

Basis of Accounting

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

Budget Law

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

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

Board of the Public Building Commission
Lincoln/Lancaster County Public Building Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of the Lincoln / Lancaster County Public Building Commission (PBC), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the PBC's basic financial statements, and have issued our report thereon dated December 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the PBC'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 PBC's internal control. Accordingly, we do not express an opinion on the effectiveness of the PBC's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

December 19, 2013
Wichita, KS