

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

AND

INDEPENDENT AUDITOR'S REPORT

*LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION*

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

AND

INDEPENDENT AUDITOR'S REPORTS

LINCOLN/LANCASTER COUNTY PUBLIC BUILDING COMMISSION

FINANCIAL STATEMENTS

Year Ended June 30, 2014

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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, 2014, 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, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014 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 16, 2014
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, 2014. Please read it in conjunction with the PBC's financial statements which follow this section.

Financial Highlights

As of June 30, 2014, the PBC's total assets exceeded its total liabilities by \$7,042,562. 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 \$1,012,076 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 \$732,149 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 \$7,042,562 as of June 30, 2014. 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, 2014	June 30, 2013
Assets		
Current and other assets	\$ 8,557,210	\$ 8,181,128
Net investment in direct financing lease	42,997,800	47,117,869
Capital assets	26,336	32,183
Total assets	51,581,346	55,331,180
Liabilities		
Long-term liabilities	34,915,250	37,914,991
Other liabilities	505,734	877,834
Total liabilities	35,420,984	38,792,825
Deferred inflows of resources		
Deferred revenue – lease receivable	9,117,800	10,507,869
Net position		
Net investment in capital assets	26,336	32,183
Restricted	7,016,226	5,998,303
Total net position	\$ 7,042,562	\$ 6,030,486

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table represents the Statement of Activities and how it compares to the prior year. Revenues and expenses were consistent with the previous year. Taxes increased due to an increase in the valuation base and expenses decreased due to a decline in construction projects in the current year.

**Lincoln/ Lancaster County Public Building Commission
Changes in Net Position
Year Ended**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Revenues		
Program revenues:		
Charges for services	\$ 5,234,196	\$ 5,126,040
General revenues:		
Taxes	3,286,461	3,103,373
State revenues	206,972	207,840
Investment income	101,987	98,994
Other intergovernmental	108,275	82,395
Total revenues	<u>8,937,891</u>	<u>8,618,642</u>
Expenses		
Public building commission services	6,511,871	6,528,726
Interest on long-term debt	1,413,944	1,415,766
Total expenses	<u>7,925,815</u>	<u>7,944,492</u>
Change in net position	1,012,076	674,150
Net position – beginning of year	6,030,486	(33,625,410)
Prior period adjustment	--	38,981,746
Net position – end of year	<u>\$ 7,042,562</u>	<u>\$ 6,030,486</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 \$8,219,096, an increase of \$732,149 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
PUBLIC BUILDING COMMISSION**

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	\$ 11,267,067	\$ 11,579,508	\$ 312,441
Total Expenditures	11,927,399	11,296,920	630,479

Capital Asset and Debt Administration

At the end of 2014, the PBC reported \$26,336 invested in capital assets.

At the end of 2014, the PBC had \$33,880,000 of bonds outstanding and a note payable outstanding of \$1,093,121. During the year, the PBC made principal payments totaling \$3,004,495. 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, 2014

	Governmental Activities
Assets	
Cash held in trust	\$ 1,289,231
Cash held by County Treasurer	2,145,878
Investments held in trust	1,910,000
Investments held by County Treasurer	1,653,276
Accounts receivable	3,433
Due from other governmental agencies	89,848
Taxes receivable	1,446,276
Prepaid insurance	19,268
Net investment in direct financing lease	42,997,800
Capital assets, net of depreciation	26,336
Total assets	\$ 51,581,346
Liabilities	
Accounts payable	\$ 240,627
Accrued interest payable	265,107
Non-current liabilities:	
Due within one year	2,975,870
Due in more than one year	31,939,380
Total liabilities	35,420,984
Deferred inflows of resources	
Deferred revenue - lease receivable	9,117,800
Net position	
Investment in capital assets	26,336
Restricted	7,016,226
Total net position	\$ 7,042,562
	\$ 51,581,346

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, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expenses) Revenue and Change in Net Position</u>
Governmental Activities			
Public building commission services	\$ 6,511,871	\$ 5,234,196	\$ (1,277,675)
Interest on long-term debt	1,413,944	--	(1,413,944)
	<u>\$ 7,925,815</u>	<u>\$ 5,234,196</u>	<u>(2,691,619)</u>
General revenues			
Taxes:			
Property tax			\$ 3,285,514
In-lieu-of tax			947
State revenues			206,972
Investment income			101,987
Other income			108,275
Total general revenues			<u>3,703,695</u>
Change in net position			1,012,076
Net position - beginning of year			6,030,486
Net position - end of year			<u>\$ 7,042,562</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, 2014

Assets

Cash held in trust	\$	1,289,231
Cash held by County Treasurer		2,145,878
Investments held in trust		1,910,000
Investments held by County Treasurer		1,653,276
Accounts receivable		3,433
Due from other governmental agencies		89,848
Taxes receivable		1,446,276
Prepaid insurance		19,268
Net investment in direct financing lease		42,997,800
	\$	<u>51,555,010</u>

Liabilities

Accounts payable	\$	240,627
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Deferred inflows of resources

Deferred revenue - property tax receivable		97,487
Deferred revenue - lease receivable		42,997,800
		<u>43,095,287</u>

Fund balance

Nonspendable - prepaid items		19,268
Restricted		8,199,828
		<u>8,219,096</u>
	\$	<u>51,555,010</u>

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, 2014

Fund balance - governmental fund \$ 8,219,096

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 26,336

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 97,487

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 33,880,000

Liabilities that are not due and payable in the current period and, therefore, are not reported in the governmental fund:

Bonds payable	(33,880,000)
Note payable	(1,093,121)
Premium on bonds	(41,932)
Discount on bonds	99,803
Accrued interest payable	(265,107)
	(33,880,000)

Net position - governmental activities **\$ 7,042,562**

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, 2014

Revenues

Property tax	\$ 3,283,597
In-lieu-of tax	947
Charges for services	1,339,051
Rentals	5,239,257
State revenues	206,972
Interest income	1,487,875
Other income	108,275
Total revenues	<u>11,665,974</u>

Expenditures

Current:	
Contractual services	3,697,750
Utilities	1,650,574
Repairs and maintenance	527,922
Supplies	130,366
Building rent	124,739
Other	156,662
Capital outlays	218,010
Debt service:	
Principal	3,004,495
Interest	1,423,307
Total expenditures	<u>10,933,825</u>

Excess of revenues over expenditures 732,149

Fund balance - beginning of year 7,486,947
Fund balance - end of year \$ 8,219,096

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, 2014

Net change in fund balance - governmental funds \$ 732,149

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.

1,916

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.

(2,730,000)

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

3,004,495

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.

(4,754)

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>14,117</u>
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Changes in net position - governmental activities **\$ 1,012,076**

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 2013-2014 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 2013 levy was based was \$20,848,760,247.

**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 Outflows/ Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The PBC does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has one item under the modified accrual basis of accounting and one item under the accrual basis of accounting that qualify for reporting in this category. The governmental funds report unavailable revenues from property taxes and direct financing lease revenue. The interest portion of the direct financing lease receivable remains a deferred item in the Statement of Net Position because it is not yet earned. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available or earned.

Long-term Obligations - In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014, the PBC had \$3,799,154 of cash and investments held by the County Treasurer. The PBC also had \$3,199,231 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 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.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

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, 2014:

Cash and Investments held by the PBC:

Cash and investments with County Treasurer:	\$	3,651,608
Series 2004 - Construction Funds		99,778
Series 2005 - Bond Fund		46,128
Series 2010 - Construction Fund		1,640
Total held by the County		3,799,154
Cash and investments held by the City:		
Series 2004 - Reserve City Funds		953,380
Series 2005 - Reserve City Funds		1,910,000
Series 2010 - Reserve City Funds		335,851
Total held by the City		3,199,231
Total Cash and Investments	\$	6,998,385

At June 30, 2014, 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
Money markets, County Treasurer	1,653,276	N/A
	\$ 3,563,276	

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, 2014, PBC's pooled deposits held with the County Treasurer were not exposed to custodial credit risk since all were either covered by federal depository insurance or the collateral was held by the PBC's agent in PBC's name.

**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 securities underlying the City's repurchase agreements resulted in it being fully collateralized at June 30, 2014.

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, 2014, the securities underlying the repurchase agreements include a US Treasury Note rated AAA by Moody's.

3. DUE FROM OTHER GOVERNMENTAL AGENCIES

Due from other governmental agencies consisted of amounts due from the State of Nebraska of \$13,547 and \$76,301 due from the City of Lincoln as of June 30, 2014.

4. CAPITAL ASSETS

The changes in capital assets designated for the operation of the PBC for the year ended June 30, 2014 are as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
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>(38,713)</u>	<u>(5,847)</u>	<u>--</u>	<u>(44,560)</u>
Total capital assets	<u>\$ 32,183</u>	<u>\$ (5,847)</u>	<u>\$ --</u>	<u>\$ 26,336</u>

The amount of capital assets that were constructed or acquired on behalf of the County and City was \$109,005 and \$109,005, respectively.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM OBLIGATIONS

PBC's long-term liabilities as of June 30, 2014, consisted of the following:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Revenue bonds	\$ 36,610,000	\$ --	\$ 2,730,000	\$ 33,880,000	\$ 2,720,000
Premiums	45,310	--	3,378	41,932	--
Discounts	(107,935)	--	(8,132)	(99,803)	--
Note payable	1,367,616	--	274,495	1,093,121	255,870
Total long-term liabilities	<u>\$ 37,914,991</u>	<u>\$ --</u>	<u>\$ 2,999,741</u>	<u>\$ 34,915,250</u>	<u>\$ 2,975,870</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, 2014
2004	\$ 11,295,000	2007-2026	2.35-5.00%	\$ 6,505,000
2005	26,375,000	2005-2026	2.25-5.00%	18,505,000
2010	4,270,000	2010-2030	0.40-4.00%	3,180,000
2010B	7,385,000	2010-2025	0.50-3.75%	5,690,000
Total	<u>\$ 49,325,000</u>			<u>\$ 33,880,000</u>

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

Year Ended June 30,	Principal	Interest
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	2,665,000	888,455
2020 – 2024	12,015,000	3,004,480
2025 – 2029	7,445,000	639,618
2030 – 2031	430,000	20,800
Total	<u>\$ 33,880,000</u>	<u>\$ 9,117,800</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, 2014, 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:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 255,870	\$ 26,844
2016	287,228	21,185
2017	295,992	12,423
2018	<u>254,031</u>	<u>3,510</u>
Total	<u>\$ 1,093,121</u>	<u>\$ 63,962</u>

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, 2014, the components of the net investment in direct financing leases consisted of the following:

Net investment in direct financing leases	\$ 42,997,800
Less: unearned income	<u>9,117,800</u>
Net effect on the statement of net position	<u>\$ 33,880,000</u>

At June 30, 2014, future minimum lease rentals to be received by the PBC under direct financing leases consisted of the following:

Year Ended June 30,	Payments
2015	\$ 4,017,153
2016	4,019,400
2017	4,472,431
2018	3,380,465
2019	3,553,455
2020 – 2021	15,019,480
2025 – 2029	8,084,616
2030 – 2031	<u>450,800</u>
Total	<u>\$ 42,997,800</u>

**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 property insurance. 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. 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 government 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 related 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 expenses / expenditures. The provisions of this statement are effective for financial statements for the PBC's fiscal year ending June 30, 2015.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

8. PENDING GOVERNMENTAL ACCOUNTING STANDARDS (CONTINUED)

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, was issued in November 2013. The objective of this statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Under Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances of deferred outflows and inflows of resources not be reported. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this statement should be applied simultaneously with the provisions of Statement 68.

REQUIRED SUPPLEMENTARY INFORMATION

LINCOLN/LANCASTER COUNTY PUBLIC BUILDING COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN
FUND BALANCE - BUDGET TO ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2014

Revenues	Original Budget	Final Budget	Actual	Variance
Property tax	\$ 3,542,870	\$ 3,542,870	\$ 3,218,507	\$ (324,363)
In-lieu-of tax	--	--	947	947
Charges for services	7,610,197	7,610,197	7,897,274	287,077
State revenue	--	--	207,178	207,178
Interest income	100,000	100,000	101,401	1,401
Other	14,000	14,000	154,201	140,201
Total revenues	<u>11,267,067</u>	<u>11,267,067</u>	<u>11,579,508</u>	<u>312,441</u>
 Expenditures				
Contractual services	3,461,306	3,461,306	3,934,019	(472,713)
Utilities	1,513,960	1,513,960	1,643,824	(129,864)
Repairs and maintenance	227,246	227,246	537,699	(310,453)
Supplies	99,750	99,750	134,066	(34,316)
Building rent	--	--	103,707	(103,707)
Other	203,168	203,168	176,053	27,115
Capital outlay	1,383,197	1,383,197	343,250	1,039,947
Debt service:				
Principal	2,902,884	3,652,884	3,009,040	643,844
Interest	1,385,888	1,385,888	1,415,262	(29,374)
Total expenditures	<u>11,177,399</u>	<u>11,927,399</u>	<u>11,296,920</u>	<u>630,479</u>
 Excess of revenues over expenditures (budgetary basis)				
	<u>\$ 89,668</u>	<u>\$ (660,332)</u>	282,588	<u>\$ 942,920</u>
 Adjustments required under accounting principles generally accepted in the United States of America				
To adjust receipts for accruals (net)			86,466	
To adjust expenditures for accruals (net)			<u>363,095</u>	
 Excess of revenues over expenditures (modified accrual basis)			 <u>\$ 732,149</u>	

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

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, 2014, 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 16, 2014.

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 16, 2014
Wichita, KS