

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

AND

INDEPENDENT AUDITOR'S REPORT



*LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION*

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**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

FINANCIAL STATEMENTS

Year Ended June 30, 2018

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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 governmental fund of the Lincoln/Lancaster County Public Building Commission (PBC), as of and for the year ended June 30, 2018, 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 governmental fund of the PBC, as of June 30, 2018, 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 11, 2018 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 the effectiveness of the PBC's 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 11, 2018
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, 2018. Please read it in conjunction with the PBC's financial statements which follow this section.

Financial Highlights

As of June 30, 2018, the PBC's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$5,982,790. Financing lease assets decreased in the current year due to refunding of existing debt with a related decrease in lease liabilities.

In the statement of activities, the PBC's total revenues exceeded total expenditures by \$649,051. Lancaster County refunded the Series 2010 bonds reducing lease revenue and related debt.

In the statement of revenues, expenditures, and changes in fund balance, the PBC's total revenues exceeded total expenditures by \$625,250 due to the receipt of the refunding bond proceeds.

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-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

MANAGEMENT'S DISCUSSION AND ANALYSIS

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's 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5,982,790 as of June 30, 2018. 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**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Assets		
Current and other assets	\$ 4,959,704	\$ 4,748,201
Net investment in direct financing lease	42,775,420	46,839,417
Capital assets	50,181	27,255
Total assets	<u>47,785,305</u>	<u>51,614,873</u>
 Deferred outflows of resources		
Deferred refunding	<u>3,408,912</u>	<u>3,631,419</u>
 Liabilities		
Long-term liabilities	35,240,494	38,056,786
Other liabilities	255,513	671,351
Total liabilities	<u>35,496,007</u>	<u>38,728,137</u>
 Deferred inflows of resources		
Deferred revenue - lease receivable	<u>9,715,420</u>	<u>11,184,416</u>
 Net position		
Net investment in capital assets	50,181	27,255
Restricted	5,932,609	5,306,484
Total net position	<u>\$ 5,982,790</u>	<u>\$ 5,333,739</u>

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

The following table represents the Statement of Activities and how it compares to the prior year. Charges for services, other governmental revenue and related expenditures decreased significantly due to prior year revenue and expense activities involved in a major building renovation and proceeds from the sale of a building applied against building costs.

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

	June 30, 2018	June 30, 2017
Revenues		
Program revenues:		
Charges for services	\$ 5,327,098	\$ 14,226,627
General revenues:		
Taxes	3,937,880	3,640,360
State revenues	323,108	289,313
Investment income	16,852	6,497
Other intergovernmental	772,707	3,214,873
Total revenues	10,377,645	21,377,670
 Expenses		
Public building commission services	8,541,076	16,761,452
Interest on long-term debt	1,187,518	1,466,156
Total expenses	9,728,594	18,227,608
 Change in net position	649,051	3,150,062
Net position - beginning of year	5,333,739	2,183,677
Net position - end of year	\$ 5,982,790	\$ 5,333,739

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 \$4,754,279, an increase of \$625,250 in comparison with the prior year. This increase is due to the changes in deferred bond principal and interest as a result of the refunding of the Series 2010 bonds. 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. Budgeted revenues significantly exceeded actual receipts as revenues related to construction projects were received earlier than anticipated in the prior year.

	Final Budget	Actual Amounts	Variance
Total Revenues and other financing sources	\$ 12,415,768	\$ 15,304,946	\$ 2,889,178
Total Expenditures and other financing uses	14,963,414	14,667,028	296,386

Capital Asset and Debt Administration

At the end of 2018, the PBC reported \$50,181 invested in capital assets.

During 2018, the PBC completed numerous building remodel projects for various facilities. During the year, the PBC made principal payments totaling \$2,305,000. At the end of 2018, the PBC had \$33,060,000 of bonds outstanding. Outstanding bonds of \$1,965,000 were redeemed, using proceeds from the issuance of refunding debt for \$1,675,000. The PBC’s future debt requirements are detailed in Note 5 following the financial statements. All bonds are scheduled to be paid off by fiscal 2042.

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, 2018

	Governmental Activities
Assets	
Cash held by County Treasurer	\$ 70,415
Investments held by County Treasurer	3,216,486
Accounts receivable	102,466
Due from other governmental agencies	23,253
Taxes receivable	1,544,506
Interest receivable	2,578
Net investment in direct financing lease	42,775,420
Capital assets, net of depreciation	50,181
Total assets	<u>47,785,305</u>
Deferred outflows of resources	
Deferred refunding	3,408,912
Total deferred outflows of resources	<u>3,408,912</u>
Liabilities	
Accounts payable	129,501
Accrued interest payable	126,012
Non-current liabilities:	
Due within one year	2,840,000
Due in more than one year	32,400,494
Total liabilities	<u>35,496,007</u>
Deferred inflows of resources	
Deferred revenue - lease receivable	9,715,420
Total deferred inflows of resources	<u>9,715,420</u>
Net position	
Investment in capital assets	50,181
Restricted	5,932,609
Total net position	<u>\$ 5,982,790</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, 2018

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expenses) Revenue and Change in Net Position
Governmental Activities			
Public building commission services	\$ 8,541,076	\$ 5,327,098	\$ (3,213,978)
Interest on long-term debt	1,187,518	--	(1,187,518)
	\$ 9,728,594	\$ 5,327,098	(4,401,496)
 General revenues			
Taxes:			
Property tax			3,936,603
In-lieu-of tax			1,277
State revenues			323,108
Investment income			16,852
Other income			772,707
Total general revenues			5,050,547
Change in net position			649,051
Net position - beginning of year			5,333,739
Net position - end of year			\$ 5,982,790

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

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2018

Assets

Cash held by County Treasurer	\$ 70,415
Investments held in trust	-
Investments held by County Treasurer	3,216,486
Accounts receivable	102,466
Due from other governmental agencies	23,253
Taxes receivable	1,544,506
Investment interest receivable	2,578
Net investment in direct financing lease	<u>42,775,420</u>
	<u><u>\$ 47,735,124</u></u>

Liabilities

Accounts payable	\$ 129,501
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Deferred inflows of resources

Deferred revenue - property tax receivable	75,924
Deferred revenue - lease receivable	<u>42,775,420</u>
	<u>42,851,344</u>

Fund balance

Restricted	<u>4,754,279</u>
	<u>4,754,279</u>
	<u><u>\$ 47,735,124</u></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
THE GOVERNMENTAL FUND TO THE
STATEMENT OF NET POSITION

June 30, 2018

Fund balance - governmental fund	\$	4,754,279
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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		50,181
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Property tax revenues, not collected within 60 days of the fiscal year end, not financial resources and, therefore, reported as a deferred inflow		75,924
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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		33,060,000
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Deferred refunding resulting from issuance of refunding bonds are recognized as deferred outflows of resources in the government-wide statements		3,408,912
--	--	-----------

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

Bonds payable		(33,060,000)
Premium on bonds		(2,185,357)
Discount on bonds		4,863
Accrued interest payable		(126,012)
		(126,012)

Net position - governmental activities	\$	5,982,790
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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, 2018

Revenues	
Property tax	\$ 3,951,645
In-lieu-of tax	1,277
Charges for services	1,813,617
Rentals	5,292,684
State revenues	323,108
Interest income	1,220,288
Other income	384,571
Total revenues	12,987,190
Expenditures	
Current:	
Contractual services	4,255,487
Utilities	1,877,621
Repairs and maintenance	1,115,511
Supplies	146,087
Building rent	31,708
Other	200,406
Capital outlays	898,181
Debt service:	
Principal	4,270,000
Interest	1,203,436
Other	39,000
Total expenditures	14,037,437
Other financing sources (uses)	
Surplus sales	497
Issuance of bonds	1,675,000
Total other financing sources (uses)	1,675,497
Net change in fund balance	625,250
Fund balance - beginning of year	4,129,029
Fund balance - end of year	\$ 4,754,279

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 THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2018

Net change in fund balance - governmental fund		\$ 625,250
Amounts reported for governmental activities in the statements of activities are different because:		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeds the amount of assets capitalized in the current period.</p>		
Depreciation expense	(3,574)	
Capital assets capitalized	<u>26,500</u>	
		22,926
<p>Governmental funds recognize property tax revenues as revenues when received within 60 days of the end of the fiscal year. However, in the statement of activities, property tax revenues are recognized based on the total taxes levied. This is the amount of property tax revenues due to the PBC but not collected within 60 days of the fiscal year.</p>		
		(15,044)
<p>Payments received on the direct financing lease is recognized as revenue when received in the funds. However, in the statement of activities the direct financing lease was recognized as revenue when issued.</p>		
		(2,595,000)
<p>Bond proceeds and premiums provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.</p>		
Bond proceeds		(1,675,000)
<p>Repayment of principal on bonds and notes payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position</p>		
		4,270,000
<p>The amortization of bond premiums, discounts and deferred refundings affects long-term liabilities and deferred outflows of resources on the statement of net position, but does not provide or use current financial resources to governmental funds.</p>		
		(1,215)
<p>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:</p>		
Accrued interest expense		<u>17,134</u>
Changes in net position - governmental activities		<u>\$ 649,051</u>

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 (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 (City) and Lancaster County, Nebraska (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 (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 (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.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The tax levy applicable to the PBC for the tax year 2017-2018 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 2017 levy was based was \$25,434,292,250.

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 has one item that qualifies reporting in this category in the government-wide statement of net position, deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter life of the refunded or refunding debt.

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 two items 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

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of net position, because it is not yet earned. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available as earned.

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.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 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, 2018, the PBC had \$3,286,901 of cash held by the County Treasurer and/or its agents.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

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.

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.

Cash and investments held in trust consisted of the following as of June 30, 2018:

Cash held by the PBC:	
Cash with County Treasurer	\$ 3,286,901
Total Cash and Investments	<u>\$ 3,286,901</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, 2018, 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.

3. DUE FROM OTHER GOVERNMENTAL AGENCIES

Due from other governmental agencies consisted of amounts due from the State of Nebraska of \$23,253, as of June 30, 2018.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

4. CAPITAL ASSETS

The changes in capital assets designated for the operation of the PBC for the year ended June 30, 2018 are as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Equipment	\$ 46,962	\$ 26,500	\$ --	\$ 73,462
Vehicles	38,500	--	--	38,500
	<u>85,462</u>	<u>26,500</u>	<u>--</u>	<u>111,962</u>
Less accumulated depreciation	<u>(58,207)</u>	<u>(3,574)</u>	<u>--</u>	<u>(61,781)</u>
Total capital assets	<u>\$ 27,255</u>	<u>\$ 22,926</u>	<u>\$ --</u>	<u>\$ 50,181</u>

The amount of capital assets that were constructed or acquired on behalf of the County was \$374,232.

5. LONG-TERM OBLIGATIONS

PBC's long-term liabilities as of June 30, 2018, consisted of the following:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Revenue bonds	\$ 35,655,000	\$ 1,675,000	\$ 4,270,000	\$ 33,060,000	\$ 2,840,000
Premiums	2,407,327	--	221,970	2,185,357	--
Discounts	<u>(5,541)</u>	<u>--</u>	<u>(678)</u>	<u>(4,863)</u>	<u>--</u>
Total long-term liabilities	<u>\$ 38,056,786</u>	<u>\$ 1,675,000</u>	<u>\$ 4,491,292</u>	<u>\$ 35,240,494</u>	<u>\$ 2,840,000</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 10-25 years.

On November 10, 2017, the PBC issued \$1,675,000 of Series 2017 bonds to refund \$1,965,000 of Series 2010 bonds. The average interest rate of the new bonds is 2.27 percent. The PBC refunded these bonds to reduce total debt service payments over a period of thirteen years and will realize a net savings of \$179,273 with a present value savings of \$155,591.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM OBLIGATIONS (CONTINUED)

The current bonds outstanding are as follows:

Series	Amount of Original Issue	Range of Maturity Dates	Range of Interest Rates	Amount Outstanding June 30, 2018
2010B	\$ 7,385,000	2010-2025	0.50-3.75%	\$ 3,425,000
2015	18,610,000	2015-2026	0.30-5.00%	13,180,000
2016	14,780,000	2017-2042	2.00-5.00%	14,780,000
2017	<u>1,675,000</u>	2017-2030	1.10-2.80%	<u>1,675,000</u>
Total	<u>\$ 42,450,000</u>			<u>\$ 33,060,000</u>

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

Year Ended June 30,	Principal	Interest
2019	\$ 2,840,000	\$ 1,120,493
2020	2,620,000	1,049,870
2021	2,690,000	969,224
2022	2,790,000	876,861
2023	2,870,000	771,875
2024 - 2028	8,870,000	2,471,893
2029 - 2033	3,405,000	1,403,230
2034 - 2038	3,635,000	830,487
2039 - 2042	<u>3,340,000</u>	<u>221,487</u>
Total	<u>\$ 33,060,000</u>	<u>\$ 9,715,420</u>

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, 2018, 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.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

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, the 825 Building, the 605 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.

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, 2018, the components of the net investment in direct financing leases consisted of the following:

Net Investment in direct financing leases	\$ 42,775,420
Less: unearned income	9,715,420
Net effect on the statement of net position	<u>\$ 33,060,000</u>

At June 30, 2018, future minimum lease rentals to be received by the PBC under direct financing leases consisted of the following:

Year Ended June 30, 2018	Payments
2019	\$ 3,960,493
2020	3,669,870
2021	3,659,224
2022	3,666,861
2023	3,641,875
2024 - 2028	11,341,893
2029 - 2033	4,808,230
2034 - 2038	4,465,487
2039 - 2042	<u>3,561,487</u>
Total	<u>\$ 42,775,420</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 suits 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 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. Lancaster County maintains a premises liability policy with a \$2,000,000 aggregate and a \$1,000,000 per occurrence limit, with a \$5,000 medical payment deductible. Lancaster County also provides an umbrella policy with a limit of \$4,000,000. The Nebraska Political Tort Claims Act limits the City's liability for tort claims to \$1,000,000 per individual and \$5,000,000 per occurrence.

8. GASB 77 TAX ABATEMENTS

The PBC follows GASB Statement No. 77, *Tax Abatement Disclosures*, which enhances comparability of financial statements among governments by establishing disclosures about the nature and magnitude of tax abatements enabling users to understand 1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and 2) the impact those abatements have on a government's financial position and economic condition.

GASB 77 defines a tax abatement as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or citizens of those governments.

In fiscal year 2018, the PBC property tax revenues were reduced by \$80,808 due to agreements entered into by the City of Lincoln relating to tax incremental financing of areas considered blighted.

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

NOTES TO FINANCIAL STATEMENTS

8. GASB 77 TAX ABATEMENTS (CONTINUED)

In fiscal year 2018, the PBC property tax revenues were reduced by \$2,242 due to agreements entered into by the Cities of Waverly and Hickman relating to tax incremental financing areas considered blighted.

The PBC disclosed all known tax abatements.

9. PENDING GOVERNMENTAL ACCOUNTING STANDARDS

GASB Statement No. 83, *Certain Asset Retirement Obligations*, establish criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This standard applies to a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets. For governments impacted by other governments' tax abatements, the following must be disclosed: (1) the nature of a government's asset retirement obligations, (2) the methods and assumptions used for the estimates for the liabilities, and (3) the estimated remaining useful life of the associated tangible capital assets. The provisions of this statement are effective for financial statements for the PBC's fiscal year ending June 30, 2019.

GASB Statement No. 87, *Leases*, improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resource based on the payment provisions of the contract. It establishes a single model for lease accounting based on foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Provisions of this statement are effective for financial statements for the PBC's fiscal year ending June 30, 2021.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. The provisions of this statement are effective for financial statements for the PBC's fiscal year ending June 30, 2019.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, improves information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Provisions of this statement are effective for financial statements for the PBC's fiscal year ending June 30, 2019.

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, 2018

Revenues	Original Budget	Final Budget	Actual	Variance
Property tax	\$ 4,003,829	\$ 4,003,829	\$ 3,931,797	\$ (72,032)
In-lieu-of tax	--	--	1,277	1,277
Charges for services	6,562,632	6,562,632	8,250,954	1,688,322
State revenue	320,000	320,000	320,587	587
Other intergovernmental revenues	147,000	147,000	--	(147,000)
Interest income	29,680	29,680	14,274	(15,406)
Other	1,352,627	1,352,627	1,110,560	(242,067)
Total revenues	<u>12,415,768</u>	<u>12,415,768</u>	<u>13,629,449</u>	<u>1,213,681</u>
Expenditures				
Contractual services	4,193,934	4,361,934	4,254,614	107,320
Utilities	1,881,483	1,881,483	1,846,212	35,271
Repairs and maintenance	290,945	290,945	323,988	(33,043)
Supplies	130,125	130,125	143,237	(13,112)
Building rent	12,075	12,075	31,708	(19,633)
Other	254,981	656,981	535,713	121,268
Capital outlay	1,924,027	2,004,027	2,019,120	(15,093)
Debt service:				
Principal	2,305,000	4,346,800	4,270,000	76,800
Interest	1,220,844	1,239,044	1,203,436	35,608
Other	--	40,000	39,000	1,000
Total expenditures	<u>12,213,414</u>	<u>14,963,414</u>	<u>14,667,028</u>	<u>296,386</u>
Other financing sources (uses)				
Surplus sales	--	--	497	497
Issuance of bonds	--	--	1,675,000	1,675,000
Total other financing sources (uses)			<u>1,675,497</u>	<u>1,675,497</u>
Net change in fund balance (budgetary basis)	<u>\$ 202,354</u>	<u>\$ (2,547,646)</u>	637,918	<u>\$ 3,185,564</u>
Adjustments required under accounting principles generally accepted in the United States of America				
Current year encumbrances				
To adjust receipts for accruals (net)			(306,951)	
To adjust expenditures for accruals (net)			<u>294,283</u>	
Net change in fund balance (modified accrual basis)			<u>\$ 625,250</u>	

**LINCOLN / LANCASTER COUNTY
PUBLIC BUILDING COMMISSION**

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 governmental fund of the Lincoln / Lancaster County Public Building Commission (PBC), as of and for the year ended June 30, 2018, 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 11, 2018.

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 11, 2018
Wichita, KS