

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

AND

INDEPENDENT AUDITOR'S REPORT



*LANCASTER COUNTY CORRECTIONAL FACILITY
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(A COMPONENT UNIT OF LANCASTER COUNTY)*

FINANCIAL STATEMENTS

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**LANCASTER COUNTY CORRECTIONAL FACILITY
JOINT PUBLIC AGENCY
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FINANCIAL STATEMENTS

Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of the Joint Public Agency

Lancaster County Correctional Facility Joint Public Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of The Lancaster County Correctional Facility Joint Public Agency (JPA), a component unit of Lancaster County, Nebraska, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the JPA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the JPA as of June 30, 2015, 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 November 10, 2015 on our consideration of the JPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the JPA's internal control over financial reporting and compliance.

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

November 10, 2015
Wichita, KS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Lancaster County Correctional Facility Joint Public Agency's financial report presents a narrative overview and analysis of the financial activities of the JPA for the fiscal year ended June 30, 2015. Please read it in conjunction with the JPA's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

As of June 30, 2015, the JPA's total assets exceeded its total liabilities by \$17,786,662. Bonds payable has been decreasing each year as scheduled payments are made, reducing debt. Construction on the warehouse was completed and placed in service during 2015 and construction in progress was closed out in 2015 to depreciable capital assets.

In the statement of activities, the JPA's total revenues exceeded its total expenses by \$509,312 due to reduced capital outlay levels in 2015 with the completion of the warehouse and the fact that debt service costs for principal repayment reduce the liability for bonds payable rather than being recorded as an expense at the government-wide level.

In the statement of revenues, expenditures and changes in fund balance, the JPA's total expenditures exceeded its total revenues by \$496,332 due to final construction expenditures for the new correctional facility warehouse which are not capitalized in the fund level financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

**LANCASTER COUNTY CORRECTIONAL FACILITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Fund Financial Statements

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Changes in Net Position

The following table represents the Statement of Net Position and how it compares to the prior year. The increase to net position is a result of the annual decrease to the bond liability, paid with tax levy revenues, offset by depreciation on the facility and additional construction costs paid from bond proceeds.

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Change</u>
Assets			
Current and other assets	\$ 5,893,071	\$ 6,463,531	\$ (570,460)
Capital assets	62,262,448	63,953,716	(1,691,268)
Total assets	<u>68,155,519</u>	<u>70,417,247</u>	<u>(2,261,728)</u>
Liabilities			
Long-term liabilities	50,156,244	52,857,588	(2,701,344)
Other liabilities	212,613	282,309	(69,696)
Total liabilities	<u>50,368,857</u>	<u>53,139,897</u>	<u>(2,771,040)</u>
Net position			
Net investment in capital assets	12,106,204	11,096,128	1,010,076
Restricted	5,680,458	6,181,222	(500,764)
Total net position	<u>\$ 17,786,662</u>	<u>\$ 17,277,350</u>	<u>\$ 509,312</u>

**LANCASTER COUNTY CORRECTIONAL FACILITY
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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. Expenses showed an increase of \$122,114 due to fiscal 2015 being the first full year of depreciation expense for the jail.

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Change</u>
Revenues			
Taxes	\$ 4,573,937	\$ 4,585,790	\$ (11,853)
State revenues	302,206	283,056	19,150
Interest income	10,284	2,800	7,484
Other intergovernmental	1,421	1,398	23
Total revenues	<u>4,887,848</u>	<u>4,873,044</u>	<u>14,804</u>
Expenses			
JPA services	2,220,992	2,098,878	122,114
Interest on long-term debt	<u>2,157,544</u>	<u>2,236,032</u>	<u>(78,488)</u>
Total expenses	<u>4,378,536</u>	<u>4,334,910</u>	<u>43,626</u>
Change in net position	509,312	538,134	(28,822)
Net position - beginning of year	<u>17,277,350</u>	<u>16,739,216</u>	<u>538,134</u>
Net position - end of year	<u>\$ 17,786,662</u>	<u>\$ 17,277,350</u>	<u>\$ 509,312</u>

GOVERNMENTAL FUND FINANCIAL ANALYSIS

General Fund

The focus of the JPA's general fund is to provide information on near-term inflows, outflows, and balances of spendable resources. The net change in fund balance went from (\$1,393,412) in fiscal year 2014 to (\$496,332) in fiscal year 2015. The difference was due to the amount of capital outlay expenditures. Construction costs of the new facility were greater in fiscal year 2014.

BUDGETARY HIGHLIGHTS

In the table below, budgeted revenues and expenditures are compared with actual figures for the current fiscal year. Actual expenditures were below budgeted costs by \$1,484,470 as construction on the correctional facility was completed in fiscal year 2014.

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
Total Revenues	\$ 4,851,100	\$ 4,938,631	\$ 87,531
Total Expenditures	6,942,306	5,457,836	1,484,470

**LANCASTER COUNTY CORRECTIONAL FACILITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2015, the JPA reported \$62,262,448 invested in capital assets. The warehouse was moved from construction in progress to other assets.

At the end of the fiscal year, the JPA had total bonded debt outstanding of \$50,156,244. During the current year, the JPA made principal payments on outstanding bonds totaling \$2,645,000. The JPA's future debt requirements are detailed in Note 5 following the financial statements. The bonds will be paid off no later than fiscal year 2029.

CONTACTING THE JPA'S FINANCIAL MANAGEMENT

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

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

Statement of Net Position
June 30, 2015

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,888,503
Due from other governmental agencies	20,572
Taxes receivable	1,983,996
Capital assets:	
Other assets, net of depreciation	62,262,448
Total assets	\$ 68,155,519
Liabilities	
Accounts payable	\$ 33,900
Accrued interest payable	178,713
Non-current liabilities:	
Due within one year	2,725,000
Due in more than one year	47,431,244
Total liabilities	50,368,857
Net Position	
Net investment in capital assets	12,106,204
Restricted	5,680,458
Total net position	17,786,662
	\$ 68,155,519

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

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

Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Change in Net Position
Governmental Activities			
Joint public agency services	\$ 2,220,992	\$ --	\$ (2,220,992)
Interest on long-term debt	2,157,544	--	(2,157,544)
Total	\$ 4,378,536	\$ --	(4,378,536)
 General revenues			
Property taxes			4,573,937
State revenues			302,206
Interest income			10,284
Other intergovernmental			1,421
Total general revenues			4,887,848
Change in net position			509,312
Net position - beginning of year			17,277,350
Net position - end of year			\$ 17,786,662

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

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

Balance Sheet - Governmental Fund
June 30, 2015

Assets

Cash and cash equivalents	\$ 3,888,503
Due from other governmental agencies	20,572
Taxes receivable	<u>1,983,996</u>
	<u><u>\$ 5,893,071</u></u>

Liabilities

Accounts payable	<u>\$ 33,900</u>
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Deferred inflows of resources

Unavailable property tax receivable	<u>118,665</u>
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Fund balance

Restricted	<u>5,740,506</u>
	<u><u>\$ 5,893,071</u></u>

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

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

Reconciliation of the Balance Sheet for
Governmental Funds to the Statement
of Net Position
June 30, 2015

Total fund balance - governmental funds	\$ 5,740,506
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	62,262,448
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	118,665
Liabilities that are not due and payable in the current period and, therefore, are not reported in the governmental fund:	
Bonds payable	(49,405,000)
Bond premium	(751,244)
Accrued interest payable	<u>(178,713)</u>
Total net position - governmental activities	<u><u>\$ 17,786,662</u></u>

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

Lancaster County Correctional Facility Joint Public Agency
(A Component Unit of Lancaster County)
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Fund
Year Ended June 30, 2015

Revenues

Taxes	\$ 4,584,913
State revenues	302,206
Interest income	10,284
Other intergovernmental	1,421
Total revenues	4,898,824

Expenditures

Supplies, minor equipment	17,555
Contractual expense	28,670
Building maintenance and repairs	304,291
Capital outlays	179,210
Debt service	
Principal	2,645,000
Interest	2,220,430
Total expenditures	5,395,156

Net change in fund balance (496,332)

Fund balance - beginning of year 6,236,838

Fund balance - end of year \$ 5,740,506

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

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

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental
Funds to the Statement of Activities
Year Ended June 30, 2015

Net change in fund balance - governmental funds \$ (496,332)

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

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

Depreciation expense	(1,870,476)	
Capital assets capitalized	<u>179,208</u>	(1,691,268)

Governmental funds recognize property tax revenues as revenues
when received within 60 days of the end of the fiscal year. However,
in the statement of activities, property tax revenues are recognized based
on the total taxes levied. This is the amount of property tax revenues due
to the JPA, but not collected within 60 days of the fiscal year. (10,974)

Repayment of bond principal is an expenditure in the governmental funds, but
the repayment reduces long-term liabilities in the statement of net position. 2,645,000

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

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

Accrued interest expense		<u>6,542</u>
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Change in net position - governmental activities **\$ 509,312**

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

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

**LANCASTER COUNTY CORRECTIONAL FACILITY
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NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

**LANCASTER COUNTY CORRECTIONAL FACILITY
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NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents - For financial statement purposes, all highly liquid investments with original maturities of three months or less are considered cash equivalents.

Investments - In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are recorded at fair value. The JPA's investment policy allows investment in U.S. government obligations and short-term interest bearing investments consisting of certificates of deposit and other income producing securities.

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

The JPA has two property tax levies. One is levied on the assessed value of Lancaster County and the other is levied on the assessed value of the City of Lincoln. For the year ended June 30, 2015, the levy for the County portion was \$.009378 per \$100 of valuation and the levy for the City portion was \$.016839 per \$100 of valuation for a combined levy of \$.026217.

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

Capital Assets and Depreciation - The JPA issued bonds to finance the construction of the new correctional facility which was completed in the fall of 2013, at which time depreciation commenced. A warehouse facility was completed in the fall of 2014, at which time depreciation commenced. The building and warehouse are included as capital assets on the statement of net position because the JPA owns the facilities until the bonds are no longer outstanding.

In the government-wide financial statements (statement of net position and statement of activities), expenditures for buildings are capitalized at cost and accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Deferred 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 JPA does not have any items that qualify for reporting in this category.

**LANCASTER COUNTY CORRECTIONAL FACILITY
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NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

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

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

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

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

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

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).

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates - Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates employed.

2. CASH AND CASH EQUIVALENTS

Deposits - At June 30, 2015, the reported amount of the JPA's cash and cash equivalents held by the County Treasurer amounted to \$3,888,503. Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The JPA's deposit policy for custodial credit risk requires compliance with the provisions of state law. As of June 30, 2015, JPA's deposits were not exposed to custodial credit risk since all were either covered by federal depository insurance or the collateral was held by the JPA's agent in JPA's name.

Cash and cash equivalents consisted of the following as of June 30, 2015:

Series 2009 - Jail Construction	\$ 1,486,424
Series 2009 - County Corrections	926,270
Series 2009 - City Corrections	<u>1,475,809</u>
	<u>\$ 3,888,503</u>

3. DUE FROM OTHER GOVERNMENTAL AGENCIES

Due from other governmental agencies consisted of amounts due from the State of Nebraska of \$20,572 as of June 30, 2015.

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

NOTES TO FINANCIAL STATEMENTS

4. CAPITAL ASSETS

The changes in capital assets designated for the operation of the JPA for the year ended June 30, 2015 are as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Non-depreciable assets:				
Construction in progress	\$ 1,172,740	\$ --	\$ 1,172,740	\$ --
	<u>1,172,740</u>	<u>--</u>	<u>1,172,740</u>	<u>--</u>
Depreciable capital assets:				
Buildings	60,039,031	1,312,999	--	61,352,030
Machinery and Equipment	4,129,535	38,949	--	4,168,484
	<u>64,168,566</u>	<u>1,351,948</u>	<u>--</u>	<u>65,520,514</u>
Accumulated depreciation:				
Buildings	900,585	1,220,476	--	2,121,061
Machinery and Equipment	487,005	650,000	--	1,137,005
	<u>1,387,590</u>	<u>1,870,476</u>	<u>--</u>	<u>3,258,066</u>
Depreciable capital assets,	<u>62,780,976</u>	<u>(518,528)</u>	<u>--</u>	<u>62,262,448</u>
Total capital assets	<u>\$ 63,953,716</u>	<u>\$ (518,528)</u>	<u>\$ 1,172,740</u>	<u>\$ 62,262,448</u>

Construction Commitments

There are no remaining construction commitment costs to the jail facility projects.

5. LONG-TERM LIABILITIES

The JPA's long-term liabilities as of June 30, 2015 consisted of the following:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
GO Bonds	\$ 52,050,000	\$ --	\$ 2,645,000	\$ 49,405,000	\$ 2,725,000
Premiums	807,588	--	56,344	751,244	--
Total long-term liabilities	<u>\$ 52,857,588</u>	<u>\$ --</u>	<u>\$ 2,701,344</u>	<u>\$ 50,156,244</u>	<u>\$ 2,725,000</u>

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

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

NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM LIABILITIES (CONTINUED)

The maturities of long-term debt for the years ending after June 30, 2015 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,725,000	\$ 2,139,880	\$ 4,864,880
2017	2,805,000	2,056,930	4,861,930
2018	2,890,000	1,971,505	4,861,505
2019	2,980,000	1,868,555	4,848,555
2020	3,095,000	1,754,793	4,849,793
2021 - 2025	17,515,000	6,596,690	24,111,690
2026 - 2029	17,395,000	1,792,375	19,187,375
Total	<u>\$ 49,405,000</u>	<u>\$ 18,180,728</u>	<u>\$ 67,585,728</u>
Less current portion	<u>(2,725,000)</u>		
	<u>\$ 46,680,000</u>		

6. RISK MANAGEMENT

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

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

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

The JPA has not developed an estimated liability for pending and incurred but not reported claims at June 30, 2015, due to claims being paid by the Other Self-Insurance funds at the County level. Accounting principles generally accepted in the United States of America require that an estimated liability be developed for pending and incurred but not reported claims; however, there were no such claims pending at year-end.

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

7. PENDING GOVERNMENTAL ACCOUNTING STANDARDS

GASB Statement No. 77, *Tax Abatement Disclosures*, increases the disclosure requirements for tax abatements affecting the government entity and its ability to raise resources in the future. This standard applies to a reporting government's own tax abatement agreements or agreements entered into by other governments and that reduce the reporting government's tax revenues. The government that enters into the agreement must begin disclosing (1) brief descriptive information, such as the tax being abate, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provision for recapturing abated taxes, and the types of commitments made by tax abatement recipients, (2) the gross dollar amount of taxes abated during the period and (3) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. For governments impacted by other governments' tax abatements, the following must be disclosed: (1) the names of the governments that entered into the agreements, (2) the specific taxes being abated, and (3) the gross dollar amount of taxes abated during the period. The provisions of this statement are effective for financial statements for the JPA's fiscal year ending June 30, 2017.

8. SUBSEQUENT EVENT

The JPA issued a payment to the Lincoln / Lancaster County Public Building Commission (PBC) on September 10, 2015, in the amount of \$1,139,424 to reimburse for construction costs of a sally port in the 605 Building owned by the County. The JPA Board made the decision to use remaining bond proceeds from the Series 2009 bonds on the sally port after consulting with Bond Counsel. It was determined that the sally port was an integral part of the overall project.

REQUIRED SUPPLEMENTARY INFORMATION

Lancaster County Correctional Facility Joint Public Agency
(A Component Unit of Lancaster County)
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget to Actual (Budgetary Basis)
Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Taxes	\$ 4,830,000	\$ 4,830,000	\$ 4,626,140	\$ (203,860)
State revenue	15,600	15,600	300,786	285,186
Interest income	4,200	4,200	10,284	6,084
Other intergovernmental	1,300	1,300	1,421	121
Total revenues	<u>4,851,100</u>	<u>4,851,100</u>	<u>4,938,631</u>	<u>87,531</u>
Expenditures				
Supplies, minor equipment	-	-	17,555	(17,555)
Other contracted services	2,000	2,000	28,670	(26,670)
Repairs and maintenance	-	-	270,391	(270,391)
Capital outlay	2,074,876	2,074,876	275,790	1,799,086
Debt service:				
Principal	2,645,000	2,645,000	2,645,000	-
Interest	2,220,430	2,220,430	2,220,430	-
Total expenditures	<u>6,942,306</u>	<u>6,942,306</u>	<u>5,457,836</u>	<u>1,484,470</u>
Deficiency of revenues over expenditures (budgetary basis)	<u>\$ (2,091,206)</u>	<u>\$ (2,091,206)</u>	(519,205)	<u>\$ 1,572,001</u>
Adjustments required under accounting principles generally accepted in the United States of America:				
To adjust receipts for accruals (net)			(39,807)	
To adjust expenditures for accruals (net)			<u>62,680</u>	
Deficiency of revenues (modified accrual basis) over expenditures			<u>\$ (496,332)</u>	

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

NOTES TO FINANCIAL STATEMENTS

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

Basis of Accounting

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

Budget Law

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of the Lancaster County Correctional Facility Joint Public Agency (JPA), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the JPA's basic financial statements, and have issued our report thereon dated November 10, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

November 10, 2015
Wichita, KS