

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Independent Auditor's Report and Financial Statements

August 31, 2013



West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
August 31, 2013

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Independent Auditor's Report

Board of Representatives
West Haymarket Joint Public Agency
Lincoln, Nebraska

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities and the major fund of the West Haymarket Joint Public Agency (the Agency) (a component unit of the City of Lincoln, Nebraska), as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements 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.

Opinion

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 major fund of the West Haymarket Joint Public Agency as of August 31, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2013 the West Haymarket Joint Public Agency implemented the provisions of GASB Statement No. 65, which changed its method of accounting for bond issuance costs through retroactive application to prior year's financial statements. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 February 25, 2014, on our consideration of the Agency's internal control over financial reporting and 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 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 Agency's internal control over financial reporting and compliance.

BKD, LLP

Lincoln, Nebraska
February 25, 2014

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Management's Discussion and Analysis
August 31, 2013

As management of the West Haymarket Joint Public Agency (the Agency), we offer readers of the Agency's basic financial statements this narrative and analysis of the financial activities of the Agency as of and for the year ended August 31, 2013. We encourage readers to consider the information presented here in conjunction with additional information provided in the basic financial statements.

The West Haymarket Joint Public Agency was organized as a joint public agency on April 2, 2010, created by a Joint Public Agency Agreement entered into between the City of Lincoln, Nebraska and the Board of Regents of the University of Nebraska. The Agency is a component unit of the City of Lincoln, Nebraska.

Overview of Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the Agency's assets and deferred outflows and liabilities and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of activities presents information showing how the Agency's net position changed during the 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flow changes only in future fiscal periods.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The Agency maintains one governmental fund - the Project Fund.

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Fund Financial Statements - Continued

The Agency is not required by the Nebraska State Budget Act to adopt an annual budget, therefore, a budgetary comparison has not been provided in the basic financial statements. The significant expenditures to be made by the Agency will be for capital purposes, which are not appropriated on an annual basis.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Agency's financial position. In the case of the West Haymarket Joint Public Agency, as of August 31, 2013, net position was \$7,989,379. The Agency's condensed financial information as of August 31, 2013 and 2012 is found below.

Condensed Statement of Net Position

	2013	2012
Assets		
Equity in pooled cash and investments	\$ 58,689,631	\$ 38,277,666
Investments	1,275,000	126,448,862
Capital assets, net of accumulated depreciation	284,712,130	167,809,904
Other (as restated - See Note 1)	2,773,378	3,557,895
Total assets	347,450,139	336,094,327
Liabilities		
Other liabilities	32,325,252	23,349,202
Long-term liabilities	307,135,508	304,669,860
Total liabilities	339,460,760	328,019,062
Net Position		
Net investment in capital assets	(2,043,743)	6,712,581
Restricted for improvements	83,333	1,000,000
Restricted by enabling legislation (as restated - See Note 1)	1,311,004	362,684
Unrestricted	8,638,785	-
Total net position	\$ 7,989,379	\$ 8,075,265

West Haymarket Joint Public Agency
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Government-Wide Financial Analysis - Continued

Condensed Statement of Activities

	2013	2012
Revenues		
Occupation taxes	\$ 13,350,311	\$ 12,913,394
Intergovernmental	4,623,425	3,900,278
Investment income (loss)	(256,643)	573,396
Loss on sale of capital assets	(1,260,556)	-
Miscellaneous	285,771	14,225
Total revenues	16,742,308	17,401,293
Expenses		
General government	3,115,478	757,446
Streets and highways	329,061	-
Culture and recreation	319,664	-
Debt service	15,119,300	15,119,886
Total expenses	18,883,503	15,877,332
Capital Contributions	2,055,309	6,307,428
Change in Net Position	(85,886)	7,831,389
Net Position		
Beginning of period, before restatement	8,075,265	4,822,332
Adjustment for implementation of GASB 65	-	(4,578,456)
End of period, as restated	\$ 7,989,379	\$ 8,075,265

Capital Assets

The Agency's investment in capital assets as of August 31, 2013 amounts to \$284,712,130.

Major capital asset expenditures during the fiscal year included the following:

- Arena design and construction of approximately \$108,100,000
- Parking facility design and construction of approximately \$24,600,000
- Road and utility work of approximately \$9,900,000

Additional information on the Agency's capital assets can be found in the notes to the financial statements.

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Debt Administration

At August 31, 2013, the Agency had total bonded debt outstanding of \$300,000,000 being used to fund a portion of the Agency's construction costs. Additional information on the Agency's debt can be found in the notes to the financial statements.

Occupation Taxes

Beginning January 1, 2011, occupation taxes were imposed within the City of Lincoln at a rate of 2% on bar and restaurant revenues and a rate of 4% on car rental and hotel revenues. This tax revenue is generated to finance the activities of the Agency and is pledged to repayment of any outstanding Agency bonds.

Financial Analysis of the Agency's Funds

The Agency has one governmental fund, the Project Fund. The Project Fund is considered a major fund and is used to account for the Agency's general operations, construction, and debt activities. Activity during the year ended August 31, 2013, resulted in a fund deficit of \$114,383,015, resulting in a total fund balance at August 31, 2013 of \$32,808,438. The fund balance is a result of the issuance of bonds in prior years, occupation tax and donation revenue, less the Agency's expenditures for construction, debt service and general operations.

Subsequent Events

In November 2013, the Agency entered into a Direct Purchase Agreement with U.S. Bank National Association for General Obligation Promissory Notes, to provide funds for the West Haymarket Development Project, in the event funding was needed prior to the issuance of the Agency's Series 2013 bonds. As of the date of the Independent Auditor's Report, the Agency has not obtained any funding under this agreement.

In December 2013, the Agency issued \$28,175,000 of General Obligation Facility Bonds, Series 2013, to provide funds for certain projects under Phase 2 of the West Haymarket Development project, primarily consisting of the construction of two additional parking decks.

Request for Information

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the Agency. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lincoln Finance Department, 555 South 10th Street, Lincoln, NE 68508.

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Governmental Fund Balance Sheet/Statement of Net Position
August 31, 2013

	Project Fund	Adjustments (Note 1)	Statement of Net Position
Assets			
Cash	\$ 19,016	\$ -	\$ 19,016
Equity in pooled cash and investments	58,689,631	-	58,689,631
Investments	1,275,000	-	1,275,000
Occupation taxes receivable	1,311,004	-	1,311,004
Accounts receivable	101,222	-	101,222
Interest receivable	88,760	-	88,760
Due from other City funds	499,322	-	499,322
Due from other governments	754,054	-	754,054
Capital assets, net of accumulated depreciation of \$393,342	-	284,712,130	284,712,130
Total assets	<u>62,738,009</u>	<u>284,712,130</u>	<u>347,450,139</u>
Liabilities			
Accounts payable	11,956,279	-	11,956,279
Retainages payable	6,998,817	-	6,998,817
Interest payable	-	3,149,735	3,149,735
Due to other City funds	15,508	-	15,508
Due to other governments	295,000	-	295,000
Security deposits	183,000	-	183,000
Unearned revenue	9,726,913	-	9,726,913
Long-term liabilities	-	307,135,508	307,135,508
Total liabilities	<u>29,175,517</u>	<u>310,285,243</u>	<u>339,460,760</u>
Deferred Inflows of Resources			
Deferred revenue	754,054	(754,054)	-
Fund Balance/Net Position			
Fund balance			
Restricted for capital projects	17,997,320	(17,997,320)	-
Restricted by enabling legislation	4,673,929	(4,673,929)	-
Assigned for debt service	10,137,189	(10,137,189)	-
Total fund balance	<u>32,808,438</u>	<u>(32,808,438)</u>	<u>-</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 62,738,009</u>		
Net Position			
Net investment in capital assets		(2,043,743)	(2,043,743)
Restricted for improvements		83,333	83,333
Restricted by enabling legislation		1,311,004	1,311,004
Unrestricted		8,638,785	8,638,785
Total net position		<u>\$ 7,989,379</u>	<u>\$ 7,989,379</u>

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities
Year Ended August 31, 2013

	Project Fund	Adjustments (Note 1)	Statement of Activities
Expenditures/Expenses			
General government	\$ 570,347	\$ 2,545,131	\$ 3,115,478
Streets and highways	-	329,061	329,061
Culture and recreation	-	319,664	319,664
Debt service	15,119,300	-	15,119,300
Capital outlay	147,097,654	(147,097,654)	-
Total expenditures/expenses	<u>162,787,301</u>	<u>(143,903,798)</u>	<u>18,883,503</u>
Program Revenues			
Capital contributions	<u>2,055,309</u>	<u>-</u>	<u>2,055,309</u>
General Revenues			
Occupation taxes	13,350,311	-	13,350,311
Intergovernmental	4,762,874	(139,449)	4,623,425
Investment loss	(256,643)	-	(256,643)
Sale of capital assets	28,206,664	(29,467,220)	(1,260,556)
Miscellaneous	285,771	-	285,771
Total general revenues	<u>46,348,977</u>	<u>(29,606,669)</u>	<u>16,742,308</u>
Expenditures in excess of revenues and capital contributions	(114,383,015)	114,383,015	-
Change in Net Position	-	(85,886)	(85,886)
Fund Balance/Net Position			
Beginning of Year (As Restated - See Note 1)	<u>147,191,453</u>	<u>(139,116,188)</u>	<u>8,075,265</u>
End of Year	<u><u>\$ 32,808,438</u></u>	<u><u>\$ (24,819,059)</u></u>	<u><u>\$ 7,989,379</u></u>

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Notes to Financial Statements
August 31, 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The West Haymarket Joint Public Agency (the Agency) was organized as a joint public agency under the Nebraska Joint Public Agency Act on April 2, 2010, to facilitate land acquisition, relocation of existing businesses, environmental remediation, site preparation and the construction, equipping, furnishing and financing of public facilities including, but not limited to, a sports/entertainment arena, roads, streets, sidewalks, a pedestrian overpass, public plaza space, sanitary sewer mains, water mains, electric transmission lines, drainage systems, flood control, parking garages and surface parking lots (collectively considered the West Haymarket Development Project or Project) for the benefit of residents of the City of Lincoln, Nebraska (the City). The Agency was created pursuant to a Joint Public Agency Agreement entered into between the City and the Board of Regents of the University of Nebraska.

Reporting Entity

As required by accounting principles generally accepted in the United States of America, these basic financial statements present the financial activities of the Agency. The Agency follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining the governmental activities, organizations, and functions that should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The Agency is not financially accountable for any other organization. Under current GASB pronouncements, the Agency has been determined to be a component unit of the City of Lincoln, Nebraska – the primary government. As such, the Agency's financial results are included in the City of Lincoln, Nebraska's Comprehensive Annual Financial Report.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements (*i.e.*, the statement of net position and the statement of activities) report information on all of the Agency's financial activities. Governmental activities are normally supported by taxes and intergovernmental revenue which are reported as general revenues.

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August 31, 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented using the total economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, the operating statement presents increases and decreases in current assets, net and unreserved fund balance is a measure of available spendable resources. This means that only current liabilities are generally included on the governmental fund balance sheet.

The statement of net position does not equal the governmental funds balance sheet at August 31, 2013, due to commissions payable, net capital assets, deferred revenue and bond principal and interest that are not payable from available spendable resources in the statement of net position.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Measurable means the amount of the transaction can be determined; available means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred and is expected to be paid from available spendable resources.

Occupation taxes and intergovernmental revenues are considered to be susceptible to accrual and are recorded as revenue in the period to which they relate.

Fund Accounting

The accounts of the Agency are organized on the basis of funds. The operations of the Project Fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, deferred inflows and outflows of resources, fund equity, revenues and expenditures. Resources are allocated to and accounted for in the Project Fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The major fund presented in the accompanying basic financial statements is the Project Fund. The Project Fund is the Agency's only fund and is used to account for general government operational activities.

West Haymarket Joint Public Agency
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Notes to Financial Statements
August 31, 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Deposits and Investments

The Agency participates in a cash management pool managed by the City. The pool consists of bank deposits and investments. Cash balances in excess of current requirements are invested along with cash from other City funds and interest earned on these investments is allocated monthly to the various funds by the City Treasurer on a pro rata basis of using aggregate quarterly balances. The Agency's interest in the pool is shown as equity in pooled cash and investments in the statement of net position. Fair value of the equity in the pool is the same as the value of the pool shares determined using the fair value of the pool's underlying investment portfolio.

The Agency may invest in certificates of deposit, in time deposits, and in any securities in which the state investment officer is authorized to invest pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council in effect on the date the investment is made.

Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

Occupation Taxes

Beginning January 1, 2011, occupation taxes were imposed within the City of Lincoln at a rate of 2% on bar and restaurant revenues and a rate of 4% on car rental and hotel revenues. As stated in the related ordinance, occupation taxes, less any administrative expenses, shall be used to fund expenditures of the Agency.

Capital Assets

Arena and infrastructure planning, design and construction costs are capitalized on the government-wide financial statements. At August 31, 2013, certain arena and infrastructure assets were in-service, and are being depreciated on a straight-line basis over their estimated useful lives of 25-50 years.

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Notes to Financial Statements
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Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Unearned Revenue

Unearned revenue is primarily comprised of advance payments received for various arena suites, loge boxes and club seats and the arena naming rights. Revenue for these agreements will be recognized when the term of the related agreements commences on September 1, 2013.

Fund Balance Classification

Fund balances are shown only in the governmental fund financial statements. In accordance with Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund-Type Definitions*, fund balance is required to be classified into four components – nonspendable, restricted, committed and/or assigned. These classifications are defined as follows:

Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.

Restricted - includes fund balance amounts that are constrained for specific purposes as stipulated by constitution; external resource providers, such as donors or creditors; or through enabling legislation.

Committed - includes fund balance amounts that can be used only for the specific purposes determined by a formal action of the Agency's highest level of decision-making authority.

Assigned - includes fund balance amounts that are not classified as either nonspendable, restricted, or committed.

When expenditures are incurred for purposes for which amounts in more than one category of fund balance are available for use, it is the Agency's policy to use the restricted amounts first, followed by the committed and assigned amounts.

Net Position Classification

Net position is required to be classified into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

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August 31, 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Net Position Classification - Continued

Net investment in capital assets - consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets, if any, or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

Restricted - consists of restricted assets, reduced by liabilities related to those assets, with constraints placed on their use either by a) external groups such as creditors (such as through debt covenants), contributors, or laws or regulations of other governments or b) law through constitutional provisions or enabling legislation.

Unrestricted - consists of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the net investment in capital assets or restricted components of net position.

When both restricted and unrestricted resources are available for use, it is Agency's policy to use restricted resources first, then unrestricted as they are needed.

Adjustments Column

The adjustments column on the governmental fund balance sheet/statement of net position represents the recording of certain assets and liabilities as required by GASB Statement No. 34.

The adjustments column on the governmental fund balance sheet/statement of net position is comprised of the following as of August 31, 2013:

Amounts reported for the Project Fund are different from the statement of net position because of:

Capital assets, net of accumulated depreciation	\$ 284,712,130
Interest payable	(3,149,735)
Deferred revenue	754,054
Long-term liabilities	<u>(307,135,508)</u>
Total adjustment amount	<u>\$ (24,819,059)</u>

West Haymarket Joint Public Agency
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Notes to Financial Statements
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Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Adjustments Column - Continued

The adjustments column on the statement of governmental fund revenues, expenditures and changes in fund balance/statement of activities is comprised of the following for the year ended August 31, 2013:

Amounts reported for the Project Fund are different from the statement of activities because of:

Capital outlay	\$ 147,097,654
Sale of capital assets	(29,467,220)
Depreciation expense	(728,208)
Long-term commission expense	(2,465,648)
Change in deferred revenue	<u>(139,449)</u>
Total adjustment amount	<u><u>\$ 114,297,129</u></u>

Implementation of New Accounting Principles

In 2013, the Agency implemented the provisions of the following accounting principles:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This standard was created to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pre-November 30, 1989 FASB and AICPA pronouncements, which do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement amends the net asset reporting requirements in GASB Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The implementation of these standards did not have a significant impact on the Agency's financial statements.

In 2013, the Agency also implemented the provision of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Notes to Financial Statements
August 31, 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Implementation of New Accounting Principles - Continued

The implementation of GASB Statement No. 65 changed how the Agency reports various debt issuance costs, and resulted in a reduction in beginning net position in the amount of \$4,578,456, which was comprised of bond issuance costs previously reported as an asset in the government-wide financial statements. The implementation of GASB Statement No. 65 did not impact prior years' change in net position.

Note 2: Deposits, Investments and Investment Return

Deposits

State statutes require banks either to provide a bond or to pledge government securities to the City Treasurer in the amount of the City's deposits. The Agency has been allocated a portion of the City's pooled cash and investments. The City's cash deposits, including certificates of deposit, are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits or certificates of deposit in excess of FDIC limits are covered by collateral held in a Federal Reserve pledge account or by an agent for the City and thus no custodial credit risk exists. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Investments

The Agency generally follows the investment policy adopted by the City Council and utilized by the City Treasurer. The Agency 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.

At August 31, 2013, the Agency had the following investments, maturities and credit ratings:

Type	Fair Value	Maturities (in Years) More than 10	Credit Ratings Moody's/ S&P
Tax Increment Financing Investments	\$ 1,275,000	\$ 1,275,000	Not rated

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investment securities that are in the possession of an outside party.

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Notes to Financial Statements
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Note 2: Deposits, Investments and Investment Return - Continued

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of a government's financial instruments or a government's cash flows. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits current operating funds to be invested with maturities of no longer than twenty-four months. Fixed income investments held in construction funds, operating funds, and other nonoperating funds are limited to ten-year maturities. Tax Increment Financing investments are allowed to exceed 10 years as the interest rates are guaranteed by the fund and the investment is made within the City's funds.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy establishes requirements for certain investment securities to be rated at certain rates or higher without having collateral pledged to the City. The following investment types must be rated at the minimum rates noted below:

	S & P	Moody's
Money Markets	AA	Aa
Corporate Notes	AA-	Aa3
Investment Agreements	AA-	Aa3

Concentration of Credit Risk

Concentration of credit risk is the risk associated with the amount of investments the Agency has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government are excluded from this requirement. At August 31, 2013, the Agency had no investment concentrations exceeding 5%.

Summary of Carrying Values

The carrying values of deposits and investments are as follows:

Cash	\$ 19,016
Investments	1,275,000
Equity in pooled cash and investments	58,689,631
	\$ 59,983,647

West Haymarket Joint Public Agency
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Notes to Financial Statements
August 31, 2013

Note 2: Deposits, Investments and Investment Return - Continued

Investment Loss

Investment loss, consisting of interest income and the net unrealized loss on investments, was \$256,643 for the year ended August 31, 2013.

Note 3: Capital Assets

As of August 31, 2013, the Agency's capital assets consisted of the following:

Depreciable assets	
Infrastructure	<u>\$ 193,938,866</u>
Total depreciable assets	<u>193,938,866</u>
Nondepreciable assets	
Land	68,866,803
Construction in progress	<u>21,906,461</u>
Total nondepreciable assets	<u>90,773,264</u>
Total capital assets	<u><u>\$ 284,712,130</u></u>

Capital asset activity for 2013 was:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Infrastructure	\$ 11,765,822	\$ 259,754	\$ (24,993,514)	\$ 207,300,146	\$ 194,332,208
Land	70,755,404	745,705	(3,898,232)	1,263,926	68,866,803
Construction in progress	<u>85,422,822</u>	<u>146,092,195</u>	<u>(1,044,484)</u>	<u>(208,564,072)</u>	<u>21,906,461</u>
Total capital assets	167,944,048	147,097,654	(29,936,230)	-	285,105,472
Less accumulated depreciation	<u>(134,144)</u>	<u>(728,208)</u>	<u>469,010</u>	<u>-</u>	<u>(393,342)</u>
Capital assets, net	<u><u>\$ 167,809,904</u></u>	<u><u>\$ 146,369,446</u></u>	<u><u>\$ (29,467,220)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 284,712,130</u></u>

West Haymarket Joint Public Agency
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Note 4: Long-term Liabilities

	<u>Beginning Balance</u>			<u>Ending Balance</u>	
	<u>September 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>August 31, 2013</u>	<u>Due Within One Year</u>
Bonds payable	\$ 300,000,000	\$ -	\$ -	\$ 300,000,000	\$ -
Unamortized bond premium	4,669,860			4,669,860	
Net bonds payable	304,669,860	-	-	304,669,860	-
Commissions Payable	-	2,465,648	-	2,465,648	106,370
	<u>\$ 304,669,860</u>	<u>\$ 2,465,648</u>	<u>\$ -</u>	<u>\$ 307,135,508</u>	<u>\$ 106,370</u>

In September 2010, the Agency issued \$100,000,000 in General Obligation Facility Bonds, Taxable Series 2010A. Semi-annual interest payments began in December 2010. Annual principal payments begin in December 2020 at amounts that range from \$2,440,000 to \$5,855,000 with the final maturity in December 2045. The bonds are Build America Bonds and, as such, the Agency has elected to receive a federal subsidy of 35 percent from the United States Department of the Treasury (Treasury) for a portion of the interest payable on the bonds. The interest rates on the bonds range from 3.50 to 5.00 percent prior to the federal subsidy. The federal subsidy reduces the true interest cost to 3.20 percent.

In December 2010, the Agency issued \$67,965,000 in General Obligation Facility Bonds, Taxable Series 2010B. Semi-annual interest payments began in June 2011. Annual principal payments begin in December 2020 at amounts that range from \$2,440,000 to \$4,650,000 with the final maturity in December 2039. The bonds are direct pay Build America Bonds, with a federal subsidy of 35 percent from the Treasury for a portion of the interest payable on the bonds. The interest rates on the bonds range from 4.00 to 6.00 percent prior to the federal subsidy. The federal subsidy reduces the true interest cost to 3.73 percent.

In December 2010, the Agency issued \$32,035,000 in General Obligation Recovery Zone Economic Development Bonds, Taxable Series 2010C. Semi-annual interest payments began in June 2011. Annual principal payments begin in December 2040 at amounts that range from \$4,865,000 to \$5,855,000 with the final maturity in December 2045. The bonds are direct pay General Obligation Recovery Zone Economic Development Bonds, with a federal subsidy of 45 percent from the Treasury for a portion of the interest payable on the bonds. The interest rate on the bonds is 6.75 percent prior to the federal subsidy. The federal subsidy reduces the true interest cost to 3.79 percent.

In August 2011, the Agency issued \$100,000,000 in General Obligation Facility Bonds, Series 2011. Semi-annual interest payments began in December 2011. Annual principal payments begin in December 2021 at amounts that range from \$3,115,000 to \$6,660,000 with the final maturity in December 2042. The interest rates on the bonds range from 3.50 to 5.00 percent.

West Haymarket Joint Public Agency
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Notes to Financial Statements
August 31, 2013

Note 4: Long-term Liabilities - Continued

The Series 2010A, 2010B and 2010C bonds are callable at the option of the Agency in whole or in part at any time. The Series 2011 bonds are callable at the option of the Agency in whole or in part at any time on or after December 15, 2021.

All bonds were issued to provide a portion of the funds necessary to pay the costs of constructing, equipping, furnishing, and financing the development of the West Haymarket facilities. The full faith and credit and the taxing powers of the City are pledged for the payment of the principal of and interest on the bonds.

Annual requirements to pay principal and interest to maturity on outstanding debt is as follow:

Years Ending August 31	Principal	Interest	Interest Subsidy	Net Interest	Total Debt Service
2014	\$ -	\$ 15,117,521	\$ (3,619,458)	\$ 11,498,063	\$ 11,498,063
2015	-	15,117,521	(3,900,278)	11,217,243	11,217,243
2016	-	15,117,521	(3,900,278)	11,217,243	11,217,243
2017	-	15,117,521	(3,900,278)	11,217,243	11,217,243
2018	-	15,117,521	(3,900,278)	11,217,243	11,217,243
2019-2023	21,375,000	74,417,717	(19,201,610)	55,216,107	76,591,107
2024-2028	45,815,000	65,903,458	(17,396,233)	48,507,225	94,322,225
2029-2033	54,350,000	54,474,525	(14,787,343)	39,687,182	94,037,182
2034-2038	65,385,000	40,089,850	(11,401,625)	28,688,225	94,073,225
2039-2043	79,245,000	21,176,838	(6,954,621)	14,222,217	93,467,217
2044-2046	33,830,000	3,031,794	(1,235,295)	1,796,499	35,626,499
	<u>\$ 300,000,000</u>	<u>\$ 334,681,787</u>	<u>\$ (90,197,297)</u>	<u>\$ 244,484,490</u>	<u>\$ 544,484,490</u>

The Series 2010A, 2010B and 2010C bonds were issued as direct pay Build America Bonds and General Obligation Recovery Zone Economic Development Bonds, respectively, in accordance with the American Recovery and Reinvestment Act of 2009, which allows the Agency to receive a U.S. Treasury subsidy equal to 35% and 45%, respectively, of the amount of interest payable on those bonds. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, refund payments to certain state and local government filers claiming refundable credits under section 6341 of the Internal Revenue Code applicable to certain qualified bonds are subject to sequestration. The refund payments processed on or after October 1, 2013 and on or before September 30, 2014 will be reduced by the fiscal year 2014 sequestration rate of 7.2%.

The interest subsidy is reflected in the table above as the Agency expects to receive these payments throughout the term of the related Bonds. Future subsidy payments are contingent on federal regulations and are subject to change. The subsidy is reflected as intergovernmental revenue in the Statement of Activities.

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Note 5: Lease Agreements

West Haymarket Station Lease

In 2012, the Agency entered into a lease agreement with AMTRAK for the lease and use of West Haymarket Station (“Station”). The lease provides for a thirty-five year term, with the Agency receiving monthly payments of \$2,845, adjusted annually for inflation using the Consumer Price Index. Income from the lease totaled approximately \$34,000 during 2013 and is included in miscellaneous revenue on the statement of activities.

Arena Lease and Operating Agreement

The Agency has entered into a Lease and Operating Agreement with the Board of Regents of the University of Nebraska (“UNL”) as of October 2011. The agreement is for the lease of the basketball space and other defined leased improvements within the sports/entertainment arena, for a term of 30 years commencing on September 1, 2013, with the option to extend the term for three additional periods of five years each. Under the terms of the agreement, UNL is to pay an annual lease payment to the Agency, which is initially \$750,000 and is adjusted for inflation on an annual basis beginning September 1, 2014. The agreement also provides for credits against this lease payment for the annual amount of turnback sales tax receipts the City receives from the sale of UNL basketball tickets, and a provision for lost concession revenue in an amount equal to \$300,000, which is adjusted for inflation on an annual basis beginning September 1, 2014.

Note 6: Contractual Arrangements

Naming Rights and Premium Seating

The Agency has entered into a Title Sponsorship Agreement with Pinnacle Bank for the exclusive naming rights for the sports/entertainment arena through August 2038. The agreement called for Pinnacle Bank to make annual payments of \$280,000 through fiscal year 2023, when the payments increased to \$563,333 annually. The agreement also provided Pinnacle Bank with the opportunity to pay a discounted amount by making a prepayment to the Agency. Pinnacle Bank has exercised this option and has made prepayments to the Agency totaling approximately \$6,700,000 as of August 31, 2013. This amount is included in unearned revenue on the balance sheet at August 31, 2013 and will be recognized as revenue on a pro-rata basis over the remaining term of the agreement.

West Haymarket Joint Public Agency
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Note 6: Contractual Arrangements - Continued

Naming Rights and Premium Seating - Continued

The Agency has entered into agreements with individuals and businesses for various premium seating arrangements. The agreements require an initial security deposit and annual installments from the individuals and businesses, with the option of prepayment, and have terms ranging between five and ten years. As of August 31, 2013, amounts collected by the Agency for premium seating arrangements for future years totaled approximately \$2,970,000. This amount is included in unearned revenue on the balance sheet and will be recognized as revenue in the fiscal year to which the payment relates.

The Agency's future collections under the premium seating agreements are as follows:

Annual Contract Period	
<u>Beginning September 1,</u>	
2014	\$ 2,420,000
2015	2,441,002
2016	2,466,096
2017	2,492,161
2018	1,911,033
Thereafter	<u>7,358,567</u>
	<u><u>\$ 19,088,859</u></u>

Naming Rights and Premium Seating Marketing Agreement

The Agency has entered into a consulting agreement with Legends Sales & Marketing, LLC ("Legends") in connection with the naming rights and premium seating for the sports/entertainment arena. The agreement continues through October 31, 2013, and gives Legends the option to extend the term for an additional two years.

Under the terms of the agreement, the Agency is to be reimburse Legends for actual marketing expenses incurred on a monthly basis in accordance with the Marketing Budget, which is a contracted not to exceed maximum total of \$808,017. Amounts paid to Legends by the Agency, from the inception of the agreement through August 31, 2013, totaled \$565,044.

West Haymarket Joint Public Agency
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Notes to Financial Statements
August 31, 2013

Note 6: Contractual Arrangements - Continued

Naming Rights and Premium Seating Marketing Agreement - Continued

Additionally, Legends is to be paid a commission based upon the gross annual amounts the Agency is contracted to receive under the naming rights and premium seating agreements. The agreement provides for Legends to receive a commission of 5% on the first \$20 million of gross revenues, 7% on the next \$10 million in gross revenues, 12% on the additional gross revenues up to \$40 million, and 14% on any gross revenues above \$40 million. Based on the contracted gross revenues, the Agency has calculated a total commission amount of \$2,581,148, of which the Agency has made payments totaling \$115,500 through August 31, 2013. The remaining amount of \$2,465,648 is recorded as commissions payable as of August 31, 2013.

Advertising and Sponsorship Agreement

The Agency has entered into an agreement with IMG College, LLC (“IMG”) which grants IMG the exclusive advertising and sponsorship rights at the sports/entertainment arena, for the period of September 1, 2013 through June 30, 2021. The agreement requires IMG to make a guaranteed annual payment to the Agency, and 50% of any gross collected cash revenue in excess of the revenue sharing threshold, as outlined in the agreement. The contracted schedule of guaranteed annual payments and the revenue sharing threshold is shown below:

<u>Annual Contract Period Beginning September 1,</u>	<u>Guaranteed Rights Fee</u>	<u>Revenue Sharing Threshold</u>
2014	\$ 750,000	\$ 1,300,000
2015	1,020,000	1,800,000
2016	1,040,400	1,840,000
2017	1,061,208	1,880,800
2018	1,082,432	1,922,416
2019	1,104,081	1,964,864
2020	1,126,162	2,008,162
2021	1,148,686	2,052,325
	<u>\$ 8,332,969</u>	<u>\$ 14,768,567</u>

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Notes to Financial Statements
August 31, 2013

Note 7: Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Agency carries commercial insurance for risks of loss, including liability, property, errors and omissions, and workers' compensation. Specifically related to the construction of the Arena, the Agency also carries pollution and builders risk insurance. The Agency has had no claims or judgments exceeding the policy limits.

Note 8: Related Party Transactions

The City provides certain administrative services to the Agency for which the Agency pays fees to the City. These fees amounted to approximately \$374,000 for the year ended August 31, 2013. These charges are recorded as general government expenses in the statement of governmental fund revenues, expenditures and changes in fund balance and statement of activities.

During 2013, the Agency entered into an Amended and Restated Facilities Agreement with the City, which clarified the responsibilities for operation of maintenance of certain infrastructure assets within the West Haymarket Development Project. With the exception of the certain infrastructure assets, the agreement details that ownership of arena project assets, including the related parking facilities, will remain with the Agency until such time as no associated bonds are outstanding, at which time these assets will be conveyed to the City for the sum of one dollar and other good and valuable consideration. Under the terms of the agreement, the Agency conveyed ownership of certain infrastructure assets to the City in consideration of the City's transfer of the net proceeds of its Limited Tax General Obligation Bonds, Series 2013. The net proceeds received from the City in the amount of \$24,605,341, are recorded as revenue in the project fund statement of governmental fund revenues, expenditures and changes in fund balance at August 31, 2013, and are offset by the net book value of infrastructure assets conveyed to the City in the amount of \$25,865,896 in the government-wide statement of activities.

As discussed in Note 1, the Agency is invested in the City of Lincoln, Nebraska's pooled cash and investment management system.

West Haymarket Joint Public Agency
(A Component Unit of the City of Lincoln, Nebraska)
Notes to Financial Statements
August 31, 2013

Note 9: Commitments

Construction

The Agency has commitments under major construction contracts in progress of approximately \$32,500,000 at August 31, 2013.

Environmental Matters

In connection with the West Haymarket Development Project, the Agency is involved with the clean-up and remediation of several development sites relating to soil and groundwater contamination. This clean-up and remediation is performed as sites are developed, as the Agency has not been designated as a potentially responsible party (PRP or equivalent status) by any regulatory agency requiring the immediate clean-up of impacted areas. Although future costs may be incurred, it is not possible at this time to reasonably estimate the amount of any obligation for remediation activities because of uncertainties with respect to assessing the extent of the contamination or the applicable regulatory requirements. No liability has been recorded for potential future remediation activities as of August 31, 2013.

Litigation

The Agency is involved in lawsuits arising in the normal course of operations. Management is currently of the opinion that ultimate settlement of such lawsuits and claims will not have a materially adverse effect on the Agency's financial statements.

Note 10: Subsequent Events

In November 2013, the Agency entered into a Direct Purchase Agreement with U.S. Bank National Association for General Obligation Promissory Notes, Series 2013, to provide funds for the West Haymarket Development Project, in the event funding was needed prior to the issuance of the Agency's Series 2013 bonds. Under the agreement, funding can be obtained as needed, up to \$10,000,000. The initial series of the Notes shall be in the principal amount of not less than \$1,000,000, with additional amounts being in required increments of at least \$100,000. The Notes bear interest at 0.50% plus the one-month LIBOR rate, and mature on November 14, 2014. The agreement provides for an unused commitment fee of 0.20% per annum on the average daily unused portion of the maximum commitment and shall be paid quarterly. As of the date of the Independent Auditor's Report, the Agency has not obtained any funding under this agreement.

In December 2013, the Agency issued \$28,175,000 of General Obligation Facility Bonds, Series 2013, to provide funds for certain projects under Phase 2 of the West Haymarket Development Project, primarily consisting of two additional parking decks in the downtown Haymarket area. Interest rates range from 2.0% to 5.0%. Debt service principal payments are scheduled annually at amounts that range from \$540,000 to \$1,285,000, with \$7,325,000 of term bonds due in 2044.

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Representatives
West Haymarket Joint Public Agency
Lincoln, Nebraska

We have audited 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, the basic financial statements of the governmental activities and the major fund of the West Haymarket Joint Public Agency (the Agency) (a component unit of the City of Lincoln, Nebraska), and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated February 25, 2014, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principle.

Internal Control Over Financial Reporting

Management of the West Haymarket Joint Public Agency is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Agency's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of 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*.

Other Matters

We also noted a certain matter that we reported to the Agency's management in a separate letter dated February 25, 2014.

The purpose of this communication 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 compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Lincoln, Nebraska
February 25, 2014