NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The accompanying financial statements present the government of the City of Lincoln, Nebraska (City) and its blended component unit, the West Haymarket Joint Public Agency (WHJPA), established April 2, 2010, for which the City is considered to be financially accountable. Regarding related organizations, the City's Mayor appoints and the City Council approves all of the board appointments of the Housing Authority of the City of Lincoln. However, the City has no further accountability for this organization.

Blended component units, although legally separate entities, are, in substance, part of the government's operations. The participants in the WHJPA are the City and University of Nebraska (UNL), and the agency is governed by a board consisting of the Mayor, a member of the UNL Board of Regents, and a member of the City Council. The purpose of the agency is to make the most efficient use of the taxing authority and other powers of the participants to facilitate the redevelopment of the West Haymarket Redevelopment Area. The WHJPA is reported as a major governmental fund in the City's financial statements. Complete separate financial statements for the WHJPA may be obtained at the City of Lincoln Finance Department, 555 South 10th Street, Suite 103, Lincoln, NE 68508.

FISCAL YEAR-END

All funds of the City, with the exception of Lincoln Electric System (LES), are reported as of and for the year ended August 31, 2010. December 31st is the fiscal year-end of LES as established by the City Charter, and the last separate financial statements were as of and for the year ended December 31, 2009. The amounts included in the City's 2010 financial statements for LES are amounts as of and for the year ended December 31, 2009.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. Fiduciary activities, whose resources are not available to finance the City's programs, are excluded from the government-wide statements. The material effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Functional expenses may also include an element of indirect cost, designed to recover administrative (overhead) costs. *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*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *total economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and trust fund financial statements. 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Agency funds, reporting only assets and liabilities, have no measurement focus but use the accrual basis of accounting.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when 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 City 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, including interest on long-term debt, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, sales taxes, highway user fees, interdepartmental charges, and intergovernmental revenues are all considered to be susceptible to accrual. Special assessments are recorded as revenues in the year the assessments become current. Annual installments not yet due are reflected as special assessment receivables and deferred revenues. Other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund finances the day-to-day operation of the basic governmental activities, such as legislative, judicial, administration, police and fire protection, legal services, planning, and parks and recreation.

The Street Construction Fund accounts for the resources accumulated and payments made for the maintenance, construction, and improvement of the streets and highways in the City.

The West Haymarket JPA Fund accounts for the activities of the joint public agency, a blended component unit of the City, established to facilitate the redevelopment of the West Haymarket Area.

The City reports the following major enterprise funds:

The Lincoln Wastewater System Fund accounts for the activities of the City's wastewater utility.

The Lincoln Water System Fund accounts for the activities of the City's water distribution operations.

The Lincoln Electric System Fund accounts for the activities of the City's electric distribution operations.

Additionally, the City reports the following fund types:

Internal Service Funds account for data processing, engineering, risk management, fleet management, telecommunications, and copy services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

The Pension Trust Fund accounts for the receipt, investment, and distribution of retirement contributions made for the benefit of police officers and firefighters.

The Agency Funds account for the collection of various taxes, fines, and fees due to other government entities; funds held in escrow for homeowners; good faith money due to contractors upon project completion; funds held for payroll taxes and other payroll related payables: funds held to pay outstanding warrants; funds to pay phone system charges; funds to pay matured bonds and coupons for which the City Treasurer is trustee; funds for the joint administrative entity known as JAVA, created to coordinate planning and implementation of the Antelope Valley Project; funds deposited by Gateway Shopping Center in fulfillment of a condition of the use permit for expansion; and reserve funds held for the Public Building Commission Bonds.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict pronouncements of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. Only the City's Lincoln Wastewater System and Lincoln Water System funds have elected to follow subsequent private-sector guidance.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and charges between the business-type functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, fines and forfeitures, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service funds are charges to customers for goods and services. Operating expenses include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

ASSETS, LIABILITIES, AND NET ASSETS OR FUND EQUITY

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. These investments are not specifically identified with any one fund. Interest is allocated to the individual funds on the basis of average cash balances.

The City 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.

Investments in the Pension Trust Fund are carried at fair value. Investments in other funds are carried at fair value, except for short-term investments, which are reported at amortized cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value, based on relevant market information of similar financial instruments. Income from investments held by the individual funds is recorded in the respective funds as it is earned.

Receivables and Payables

Loans receivable in governmental funds consist of rehabilitation and redevelopment loans that are generally not expected or scheduled to be collected in the subsequent year.

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Recognition of governmental fund type revenues represented by noncurrent receivables generally is deferred until they become current receivables.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Amounts of governmental fund inventories and vendor prepaid items are offset by a fund balance reserve account to indicate that they do not represent “available spendable resources”.

Certain payments that have been made which benefit future accounting periods and are funded by interfund borrowings, are also recorded as prepayments, with a like amount of interfund liability reflected. These prepayments are charged to expenditures on the governmental fund financial statements over the period of their related borrowings. On the government-wide financial statements these prepayments have been capitalized and are charged to expenditures as the assets are depreciated over their useful lives.

Deferred Charges

Advances for mine development are payments made for the construction of the Dry Fork Coal Mine and are included in deferred charges on the statement of net assets. The mine is expected to provide fuel for Laramie River Station over the estimated 25-year life of the mine. The advances will be returned to LES over the estimated life of the mine. In addition, costs related to certain capital improvements at Sheldon Station have been deferred under accounting pronouncements applicable to regulated utilities.

Investment in Joint Venture

Investment in joint venture consists of the City’s interest in the Joint Antelope Valley Authority (see Note 23), a joint administrative entity reported in the City’s financial statements using the equity method of accounting.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, drainage systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalization value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	10 - 50
Improvements	5 - 40
Infrastructure	20 - 100
Equipment	2 - 20
Utility Plant	30 - 40

The exception to this rule is library media, which is depreciated using a composite depreciation method.

Compensated Absences

City employees generally earn vacation days at a variable rate based on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation, which is in no case longer than 35 days.

Employees earn sick leave at the rate of one day per month with total accumulation limits established by the employees' bargaining unit. Upon retirement, an employee is reimbursed for accumulated sick leave with maximums depending on the employees' bargaining unit contract. In some cases payment may be placed in a medical spending account rather than reimbursing the employee directly. Police union employees who leave the City's service in good standing after giving two weeks notice of termination of employment are also compensated for sick leave. LES is covered by a separate personnel plan regarding vacation and sick leave with the liability for these benefits recorded in accrued liabilities.

Vacation leave and other compensated absences with similar characteristics are accrued as the benefits are earned if the leave is attributable to past service and it is probable that the City will compensate the employees for such benefits. Sick leave and other compensated absences with similar characteristics are accrued as the benefits are earned only to the extent it is probable that the City will compensate the employees for such benefits through cash payments conditioned on the employee's termination or retirement, and is recorded based on the termination method. Such accruals are based on current salary rates and include salary-related payments directly and incrementally associated with payments made for compensated absences on termination.

All vacation and sick leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. In the governmental funds, only compensated absences that have matured as of year-end, for example, as a result of employee resignations and retirements, are recorded as a fund liability.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the bonds-outstanding method. For current and advance refundings of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are 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 current expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of unrestricted fund balance represent tentative management plans that are subject to change.

The City has established a policy providing for an unreserved fund balance in the City's General Fund. To meet excess cash flow needs, no less than twenty percent of the ensuing year's General Fund budget is to be set aside as an unrestricted reserve. Currently $24,054,573 of the General Fund's unreserved fund balance of $25,701,931 meets the requirements of this policy, leaving an additional unreserved balance of $1,647,358.

Net Assets Classification

Net assets are required to be classified into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net 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 improvements of those assets. 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 invested in capital assets, net of related debt.

Restricted – This component of net assets consists of restrictions placed on net assets use through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or law or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $158,196,487 of restricted net assets, of which enabling legislation restricts $12,567,922.

Unrestricted – This component consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

BUDGETARY DATA

The City Council follows these procedures, set out in the City Charter, in establishing the budgetary data reflected in the financial statements:

1) At least 40 days prior to the end of the budget and fiscal year, the Mayor submits to the City Council a proposed annual budget for the ensuing year. The annual budget is a complete financial plan for the ensuing budget year and consists of an operating budget and a capital budget.

2) Public hearing on the proposed budget is scheduled for not later than 10 days prior to the budget adoption date.

3) Not later than 5 days prior to the end of the fiscal year, the budget is legally adopted by resolution of the City Council.

4) The Mayor is authorized to transfer unencumbered balances between appropriations of the same department or agency. The Mayor also has authority to lower appropriations in any fund where actual revenues are less than appropriated in order to avoid incurring a budget deficit for the year.

Appropriation transfers between departments or agencies may only be authorized by resolution of the City Council. The Council may not make any appropriations in addition to those authorized in the annual budget, except that it may authorize emergency appropriations in the event of an emergency threatening serious loss of life, health, or property in the community.

5) Budgets for all funds are adopted on a basis inconsistent with accounting principles generally accepted in the United States of America (GAAP). Since encumbrances are included in the City's budget accounting, year-end encumbrances are reappropriated to the next year in the budget process. Various funds have expenditures automatically appropriated through the budget resolution, based on funds available. These expenditures are reflected in the original and final budgets at amounts equal to the actual expenditures. Budget basis expenditures are presented on a cash basis.

   Amendments to the adopted budget were made this year and resulted from prior fiscal year encumbrances identified subsequent to budget adoption, appropriation of unanticipated revenues to certain funds as provided in the budget resolution, and appropriation revisions between or among departments as provided for under the City Charter.

6) Appropriation controls are required at the departmental level. However, as a matter of policy and practice, appropriations generally are controlled at the next level of organization (division) or by fund within a department.

7) Operating appropriations lapse at the end of the fiscal year except for capital improvement appropriations and year-end encumbrances against operating budgets. Capital improvement appropriations are continuing appropriations through completion of the project.

8) Budgets are adopted by resolution for the following fund types: general, special revenue, debt service, capital projects, permanent, enterprise, internal service, and pension trust. Legally adopted annual budgets are not established for the West Haymarket JPA component unit, certain special revenue (Advance Acquisition, Police & Fire Pension Contributions, Special Assessment, Impact Fees, Fast Forward, Parks & Recreation Special Projects, Seniors Foundation of Lincoln & Lancaster County, and R.P. Crawford Park), permanent (J.J. Hompes), and agency funds. In addition, capital project funds are budgeted on a project rather than an annual basis.

ENDOWMENTS

The Community Health Permanent Endowment Fund was established in 1997 with the $37,000,000 cash proceeds realized by the City from the sale of Lincoln General Hospital, and may be increased by donations, bequests, or appropriations to the fund. Investment earnings of the fund are used for funding health and health-related programs that further the health, safety, or welfare of the citizens of Lincoln. Earnings deposited with the City Treasurer shall be paid out only by order of those persons designated by the Community Health Endowment (CHE) Board of Trustees as outlined in the Fiscal and Budget Directives policy between the CHE and the City. State law directs that, subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. The current amount of net appreciation available for expenditure is $15,205,970, which is reported as expendable health care restricted net assets in the statement of net assets. The initial endowment principal is reported as nonexpendable health care restricted net assets in the statement of net assets.

PRIOR-YEAR SUMMARIZED FINANCIAL INFORMATION

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City’s basic financial statements as of and for the year ended August 31, 2009, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ materially from those estimates.

IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

In 2010, the City implemented the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies in the areas of recognition, initial measurement, and amortization, thereby enhancing the comparability among state and local governments. The implementation of GASB 51 did not have a material impact on the financial statements.

In 2010, the City implemented the provisions of GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*, which addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The implementation of GASB 53 did not have a material impact on the financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

GASB has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for financial statements for periods beginning after June 15, 2010. Statement 54 looks to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

GASB has issued Statements No. 59, *Financial Instruments Omnibus*, effective for periods beginning after June 15, 2010. The objective of Statement No. 59 is to improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

The City will review these standards in preparation for meeting the implementation deadlines as established by the statements.

(2) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

The governmental funds balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of the $173,623,085 difference are as follows:

Bonds Payable	$ 124,988,473
Less deferred charge for issuance costs	(1,835,187)
Less issuance discounts	(20,577)
Plus issuance premiums	2,597,706
Capital Leases Payable	28,989,369
Accrued Interest Payable	1,643,833
Net Pension Obligation	3,595,657
Net OPEB Obligation	1,904,919
Compensated Absences	11,758,892
Net difference	$ 173,623,085

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances – total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "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." The details of this $8,335,241 difference are as follows:

Capital outlay	$	31,525,515
Depreciation expense		(23,190,274)
Net difference	$	8,335,241

Another element of that reconciliation states, "The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $7,077,674 difference are as follows:

Debt issued or incurred:		
Issuance of capital lease	$	(1,110,000)
Issuance of certificates of participation		(3,021,948)
Deferred charge for issuance costs		562,591
Amortization of deferred items		(559)
Principal repayments		10,647,590
Net difference	$	7,077,674

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this $(3,933,333) difference are as follows:

Loss on disposal of capital assets	$	(3,983,086)
Construction contracts		448,261
Other		41,131
Accrued interest		36,461
Compensated absences		(476,100)
Net difference	$	(3,933,333)

(3) RESTRICTED ASSETS

Certain proceeds of the enterprise funds revenue bonds and resources set aside for their repayment are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Assets included in the Bond Principal and Interest Account and the Bond Reserve Account are restricted for the payment of bond principal and interest. Assets included in the Surplus Account and the Depreciation and Replacement Account are restricted for purposes including improvements, repairs and replacements, acquisition of equipment, and the payment of bond principal and interest. Assets included in the Construction Account are restricted for paying the cost of the capital projects.

Certain assets of the Golf Enterprise Fund are classified as restricted assets to be used for capital improvements.

Certain assets of the Pershing Municipal Auditorium Enterprise Fund are classified as restricted assets to be used for improvements.

A recap of restrictions and related balances at August 31, 2010 are as follows:

Fund Account		Golf	Parking Facilities	Pershing Municipal Auditorium	Solid Waste Management	EMS	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Totals
Principal and Interest	$	4,330	303,312	-	-	-	1,331,676	397,309	16,696,000	18,732,627
Reserve		316,500	1,815,575	-	400,000	-	6,416,951	9,386,640	22,239,000	40,574,666
Depreciation and Replacement		100,000	682,850	-	-	-	-	-	-	782,850
Construction		-	-	-	14,490	-	7,064,388	4,532,973	82,000	11,693,851
Capital Projects		3,892	6,461	9,616	-	659,468	-	-	-	679,437
Marketing		-	-	38,082	-	-	-	-	-	38,082
	$	424,722	2,808,198	47,698	414,490	659,468	14,813,015	14,316,922	39,017,000	72,501,513

Resources of the permanent funds totaling $37,160,000 are legally restricted to the extent that only earnings and not principal may be used to support the City’s programs.

(4) DEPOSITS AND INVESTMENTS

DEPOSITS

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 City’s deposit policy for custodial credit risk requires compliance with the provisions of state law.

State Statutes 15-846 and 15-847 R.R.S., 1943 require banks either to provide a bond or to pledge government securities (types of which are specifically identified in the Statutes) to the City Treasurer in the amount of the City's deposits. The Statutes allow pledged securities to be reduced by the amount of the deposit insured by the Federal Deposit Insurance Corporation (FDIC).

One or more of the financial institutions holding the City’s cash accounts are participating in the FDIC Transaction Account Guarantee Program. Under the program, through December 31, 2012, all noninterest-bearing transaction accounts at these institutions are fully guaranteed by the FDIC for the entire amount in the account. For interest-bearing cash accounts, the City’s cash deposits, including certificates of deposit, are insured up to $250,000 by the FDIC. Any cash deposits or certificates of deposit in excess of the $250,000 FDIC limits are covered by collateral held in a Federal Reserve pledge account or by an agent for the City and thus no custodial risk exists.

INVESTMENTS

At August 31, 2010, the City had the following investments, maturities and credit ratings:

	August 31, 2010						
		Maturities in Years				Credit Rating	
Type	Fair Value	Less than 1	1-5	6-10	More than 10	Moody's	S&P
General City:							
U.S. Treasury Obligations	$ 69,118,621	54,012,000	15,106,621	-	-	N/A	N/A
U.S. Sponsored Agency Obligations	143,858,491	75,297,170	68,561,321	-	-	Aaa	AAA
Collateralized Repurchase Agreements	4,982,098	4,982,098	-	-	-	N/A	N/A
Collateralized Investment Agreements	1,120,000	-	-	1,120,000	-	A1	A+ (Fitch)
Collateralized Investment Agreements	3,139,981	-	-	-	3,139,981	A3	A-
Collateralized Investment Agreements	4,930,000	-	-	-	4,930,000	Aaa	AA-
Money Market Funds - U.S. Treasury	3,986,824	3,986,824	-	-	-	N/A	N/A
Money Market Funds - U.S. Agencies	41,667,056	41,667,056	-	-	-	Aaa	AAAm
External Investment Trust	16,950,000	16,950,000	-	-	-	Not rated	Not rated
Tax Increment Financing Investments	2,767,427	-	238,953	1,414,915	1,113,559	Not rated	Not rated
Fixed Income Mutual Funds	135,703	135,703	-	-	-	Not rated	Not rated
Equities	269,047	269,047	-	-	-	Not rated	Not rated
Complementary Strategies	53,285	53,285	-	-	-	Not rated	Not rated
Real Assets	80,834	80,834	-	-	-	Not rated	Not rated
Total General City	293,059,367	197,434,017	83,906,895	2,534,915	9,183,540		
Community Health Endowment:							
Money Market Mutual Funds	519,671	519,671	-	-	-	Not rated	Not rated
Mutual Funds							
Convertible Bonds	5,007,595	5,007,595	-	-	-	Not rated	Not rated
Institutional Funds							
Fixed Income	11,439,866	11,439,866	-	-	-	Not rated	Not rated
Intermediate Term Credit	6,555,625	6,555,625	-	-	-	Not rated	Not rated
Large Cap Equity	6,492,897	6,492,897	-	-	-	Not rated	Not rated
International Equity	5,017,156	5,017,156	-	-	-	Not rated	Not rated
High-Yield Bonds	4,001,450	4,001,450	-	-	-	Not rated	Not rated
Emerging Markets Equity	2,999,230	2,999,230	-	-	-	Not rated	Not rated
Hedge Funds	2,555,718	2,555,718	-	-	-	Not rated	Not rated
U.S. Treasuries	2,516,591	2,516,591	-	-	-	Not rated	Not rated
Small Cap Equity	1,512,406	1,512,406	-	-	-	Not rated	Not rated
Commodities	1,253,818	1,253,818	-	-	-	Not rated	Not rated
Real Estate	257,029	257,029	-	-	-	Not rated	Not rated
Limited Partnership	1,168,240	1,168,240	-	-	-	Not rated	Not rated
U.S. Treasuries	1,409,827	-	1,409,827	-	-	Aaa	AAA
Securities lending short-term					-		
investment pool	1,025,994	1,025,994	-	-	-	Not rated	Not rated
Total Community Health Endowment:	53,733,113	52,323,286	1,409,827	-	-		
Police & Fire Pension Trust:							
Corporate Bonds	1,331,400	-	-	-	1,331,400	B (Fitch)	B+
Mutual Funds	135,177,710						
Private Equity	464,992						
Real Estate Limited Partnerships	9,712,116						
Total Police & Fire Pension Trust	146,686,218						
Total Primary Government	$ 493,478,698						

INVESTMENT POLICIES

General City Policy

Generally, the City's investing activities are managed under the custody of the City Treasurer. Investing is performed in accordance with the investment policy adopted by the City Council complying with state statutes and the City Charter. The City may legally invest in U.S. government securities and agencies, U.S. government sponsored agencies, and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds, bankers' acceptances, and investment agreements.

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

Interest Rate Risk. 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 not longer than twenty-four months. Fixed income investments held in construction funds, operating funds, and other nonoperating funds are limited to ten-year maturities. Investment agreements are not subject to interest rate risk, as the issuer guarantees the interest rate. Money market mutual funds and external investment funds are presented as investments with a maturity of less than one year because they are redeemable in full immediately. 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

Investment agreements are made with provisions that if the provider is downgraded below Aa3 by Moody's Investors Service (Moody's) or AA- by Standard & Poor's (S&P) the provider must deliver collateral of U.S. Government agencies obligations at a margin of 104% and if the provider is further downgraded, the City will have the right to terminate the agreement and receive all invested amounts plus accrued but unpaid interest without penalty. As of August 31, 2010, the investment agreements were adequately collateralized with U.S. Government agencies obligations that had a rating of Aaa by Moody's and AAA by S&P.

The external investment funds are held in the City's idle fund pool and are comprised of Nebraska Public Agency Investment Trust (NPAIT) and Short-Term Federal Investment Trust (STFIT). NPAIT and STFIT invest in only the highest quality securities, including U.S. government, rated U.S. sponsored agencies, and guaranteed student loans.

Type	Portfolio Composition	Policy Limits on Issuer
U.S. agency obligations:		
Federal Home Loan Bank	23.91 %	40.00 %
Federal Home Loan Mortgage Corporation	7.26	40.00
Federal National Mortgage Association	12.67	40.00
Federal Farm Credit Bank	5.26	40.00

Concentration of Credit Risk. The City's investment policy places various limits on the amount that may be invested in any one issuer. Per the policy, allocation limits do not apply to the investment of proceeds from issuance of debt. These investments shall be governed by the debt covenant included in the debt instrument. Non-compliance due to a decrease in investment balance does not require corrective action.

Community Health Endowment (CHE) Policy

As a public endowment fund, under State law, CHE is permitted to invest in the manner required of a prudent investor acting with care, skill and diligence under the prevailing circumstance, without restrictions as to the type and limits of investments.

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

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, CHE's investment policy requires the average duration of the fixed income portfolio to be no more than 120% of the appropriate fixed income benchmark. Mutual and institutional funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is CHE's policy to limit its investments in fixed income securities to issues with at least BBB-/Baa3 ratings. Short-term fixed income issues should have a minimum A-2/P-2 rating.

Concentration of Credit Risk. CHE limits the percentage of cost that may be invested in any one industry, company and issuer. CHE's portfolio shall not own more than 5% of the outstanding securities of any single issuer. Exceptions are allowed where a fund's benchmark includes securities greater than 3%, in which case the investment manager may have no more than the securities index weight plus 2%. The entire portfolio shall have no more than 5% of its assets invested in the securities of any one issuer, with the exception of U.S. Treasurury and U.S. agencies obligations.

Foreign Currency Risk. This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. CHE had no investment denominated in foreign currency at August 31, 2010.

<u>Police & Fire Pension Trust Policy</u>

The Police & Fire Pension Trust Investment Board, established by the City Council in accordance with the Lincoln Municipal Code chapter 4.62, directs and oversees the trust's investments for the sole benefit of plan participants and beneficiaries. The board also provides oversight and directions to the plan administrator with regard to the investments of the trust's funds. The daily management responsibility of the trust and routine investment transactions are delegated to the plan administrator.

The Police & Fire Pension Trust is allowed to invest in domestic and international equity funds, domestic and foreign bonds, real estate, mortgage-backed securities, and other alternative investments.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Police & Fire Pension Trust will not be able to recover the value of its investment securities that are in the possession of an outside party.

Interest Rate Risk. The Investment Board for the Police & Fire Pension Trust compares the risk and return characteristics derived from the actual performance of the Fund, separate asset classes and specific securities to appropriate benchmarks, financial indices and/or funds at least annually. Asset allocation, investments, and/or investment managers are adjusted as necessary by this monitoring.

Credit Risk. The policy states that the plan will select appropriate investments, or investment manager(s), to fill each asset class allocation. The individual investment, or investment managers, chosen shall be those determined to meet the board's objectives in terms of their overall combination of risk, return, and liquidity.

Concentration of Credit Risk. It is the desire of the board that no more than 5% of assets may be from a single corporate or sovereign issuer exclusive of the U.S. government. The board reviews assets to monitor the concentration of overlapping securities held by multiple mutual funds.

Summary of Deposit and Investment Balances

Following is a reconciliation of the City's deposit and investment balances as of August 31, 2010:

	Totals
Investments	$ 493,478,698
Deposits and Cash on Hand	2,234,242
	$ 495,712,940

	Government-wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	Totals
Cash and Cash Equivalents	$ 82,317,793	3,985,042	86,302,835
Investments	148,704,783	150,340,717	299,045,500
Invested Securities Lending	1,025,994	-	1,025,994
Restricted Assets:			
Cash and Cash Equivalents	18,790,915	-	18,790,915
Investments	90,547,696	-	90,547,696
	$ 341,387,181	154,325,759	495,712,940

Securities Lending Transactions

The policies of the Community Health Endowment Board of Trustees authorize CHE to participate in securities lending transactions, where securities are loaned to brokers and broker dealers with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank administers the securities lending program and receives cash at least equal in value to the fair value of the loaned securities as collateral for securities of the type on loan at year-end. Securities lent at year-end for cash collateral are presented as unclassified in the preceding schedule of custodial risk. At year-end, CHE has no credit risk exposure to borrowers because the amounts CHE owes the borrowers exceed the amounts the borrowers owe CHE. The cash cannot be spent by CHE unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year. At August 31, 2010, securities lending transactions included U.S. treasuries and U.S. agency obligations.

Cash collateral is invested in one of the lending agent's short-term investment pools that had an average duration of 85 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. Loss indemnification is provided to CHE by the contract with the custodian. Either CHE or the borrowers can terminate all securities loans on demand. Subsequent to August 31, 2010, CHE liquidated the securities lending transactions and terminated its participation in the program.

(5) RECEIVABLES

Receivables at August 31, 2010, consist of the following (in thousands):

Fund	Taxes	Accounts	Loans	Contributions	Special Assessment Current	Special Assessment Deferred	Accrued Interest	Gross Receivables	Allowance For Uncollectibles	Net
General	$ 3,177	1,529	-	-	-	-	81	4,787	-	4,787
Street Construction	-	996	-	-	-	-	97	1,093	-	1,093
West Haymarket JPA	-	-	-	-	-	-	1	1	-	1
Wastewater System	-	5,679	-	-	-	-	131	5,810	-	5,810
Water System	-	6,513	-	-	-	-	108	6,621	-	6,621
Electric System	-	26,384	-	-	-	-	248	26,632	-	26,632
Nonmajor -										
Special Revenue	1,174	467	24,607	-	382	1,250	188	28,068	5,164	22,904
Debt Service	795	-	-	-	-	-	93	888	-	888
Capital Projects	-	1	-	-	-	-	77	78	-	78
Permanent	-	-	-	-	-	-	15	15	-	15
Enterprise	-	5,352	-	-	-	-	96	5,448	3,460	1,988
Internal Service	-	237	-	-	-	-	162	399	-	399
Fiduciary	-	36	-	389	-	-	727	1,152	-	1,152
	$ 5,146	47,194	24,607	389	382	1,250	2,024	80,992	8,624	72,368

Enterprise funds customer accounts receivable include unbilled charges for services.

Delinquent special assessment receivables at August 31, 2010, were $194,468.

(6) DUE FROM OTHER GOVERNMENTS

The total of Due From Other Governments of $27,971,533 includes the following significant items:

Fund/Fund Type	Amount	Service
General/General	$ 9,633,161	State of Nebraska, July/August Sales and Use Tax
	392,007	August Motor Vehicle Taxes Collected by Lancaster County
	67,154	Federal Government, Cost Reimbursements
	17,167	State of Nebraska, Cost Reimbursements
	125,707	Lancaster County, Cost Reimbursements
Street Construction/Special Revenue	2,921,919	State of Nebraska, July/August Highway User Fees
	179,875	Railroad Transportation Safety District, Cost Reimbursements
	8,338,417	Federal Government, Cost Reimbursements
	20,164	State of Nebraska, Cost Reimbursements
	439,412	Lancaster County, Cost Reimbursements
Lincoln Area Agency on Aging/Special Revenue	13,136	Federal Government, Cost Reimbursements
Lincoln/Lancaster Co. Health/Special Revenue	355,621	Lancaster County, Cost Reimbursements
Snow Removal/Special Revenue	101,594	August Motor Vehicle Taxes Collected by Lancaster County
StarTran/Special Revenue	26,815	Federal Government, Cost Reimbursements
Federal Grants/Special Revenue	3,077,747	Federal Government, Cost Reimbursements
	666,246	State of Nebraska, Cost Reimbursements
Antelope Valley/Tax Supported Bonds/Debt Service	166,666	State of Nebraska, July/August Development Fund Disbursements
Vehicle Tax/Capital Projects	995,534	August Motor Vehicle Taxes Collected by Lancaster County
Storm Sewer Construction/Capital Projects	24,893	Federal Government, Cost Reimbursements
Information Services/Internal Service	336,850	Lancaster County Billings
Fleet Services/Internal Service	11,506	Lincoln Public Schools Billings
Copy Services/Internal Service	22,570	Lancaster County Billings
Subtotal	27,934,161	
All other	37,372	
Total Due From Other Governments	$ 27,971,533	

(7) CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2010 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	$ 65,038,172	1,305,178	2,477,225	63,866,125
Construction in Progress	89,070,850	13,015,846	13,465,695	88,621,001
Total Capital Assets, not being Depreciated	154,109,022	14,321,024	15,942,920	152,487,126
Capital Assets, being Depreciated:				
Buildings	74,492,330	2,317,474	147,222	76,662,582
Improvements Other Than Buildings	61,762,633	3,387,349	227,817	64,922,165
Machinery and Equipment	77,567,053	7,042,858	2,927,207	81,682,704
Infrastructure	512,144,037	22,895,115	108,546	534,930,606
Total Capital Assets, being Depreciated	725,966,053	35,642,796	3,410,792	758,198,057
Less Accumulated Depreciation for:				
Buildings	28,984,131	1,868,252	140,031	30,712,352
Improvements Other Than Buildings	24,912,466	1,950,067	129,809	26,732,724
Machinery and Equipment	46,524,484	6,328,168	2,770,885	50,081,767
Infrastructure	164,888,695	15,498,708	25,436	180,361,967
Total Accumulated Depreciation	265,309,776	25,645,195	3,066,161	287,888,810
Total Capital Assets, being Depreciated, Net	460,656,277	9,997,601	344,631	470,309,247
Governmental Activities Capital Assets, Net	$ 614,765,299	24,318,625	16,287,551	622,796,373

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type Activities:				
Capital Assets, not being Depreciated:				
Land	$ 21,691,556	367,472	108,476	21,950,552
Construction in Progress	105,586,567	59,195,878	114,409,768	50,372,677
Total Capital Assets, not being Depreciated	127,278,123	59,563,350	114,518,244	72,323,229
Capital Assets, being Depreciated:				
Buildings	192,385,546	1,080,445	155,824	193,310,167
Improvements Other Than Buildings	561,805,034	45,458,544	3,360,482	603,903,096
Machinery and Equipment	27,641,957	2,689,264	1,207,439	29,123,782
Utility Plant	1,128,630,000	68,127,000	4,357,000	1,192,400,000
Total Capital Assets, being Depreciated	1,910,462,537	117,355,253	9,080,745	2,018,737,045
Less Accumulated Depreciation for:				
Buildings	62,349,048	4,573,420	155,824	66,766,644
Improvements Other Than Buildings	149,444,539	11,704,462	3,360,482	157,788,519
Machinery and Equipment	16,320,107	1,722,919	1,151,255	16,891,771
Utility Plant	399,228,000	36,311,000	3,848,000	431,691,000
Total Accumulated Depreciation	627,341,694	54,311,801	8,515,561	673,137,934
Total Capital Assets, being Depreciated, Net	1,283,120,843	63,043,452	565,184	1,345,599,111
Business-type Activities Capital Assets, Net	$ 1,410,398,966	122,606,802	115,083,428	1,417,922,340

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:		
General Government	$	1,103,159
Public Safety		1,851,825
Streets and Highways, including Infrastructure		14,868,202
Culture and Recreation		3,559,691
Economic Opportunity		59,205
Health and Welfare		279,387
Mass Transit		1,468,805
Subtotal		23,190,274
Internal Service Funds Capital Assets Depreciation is charged to the various functions based on usage of the assets.		2,454,921
Total Depreciation Expense - Governmental	$	25,645,195
Business-type Activities:		
Parking Lots	$	26,983
Golf		535,153
Parking Facilities		1,146,213
Pershing Municipal Auditorium		47,657
Solid Waste Management		1,919,100
Wastewater System		7,163,336
Water System		7,162,359
Lincoln Electric System		36,311,000
Total Depreciation Expense - Business-type	$	54,311,801

Capital asset activity of each major enterprise fund was as follows:

		Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Wastewater System:					
Capital Assets, not being Depreciated:					
Land	$	5,774,849	45,984	-	5,820,833
Construction in Progress		3,799,297	7,712,835	4,987,546	6,524,586
Total Capital Assets, not being Depreciated		9,574,146	7,758,819	4,987,546	12,345,419
Capital Assets, being Depreciated:					
Buildings		75,192,066	323,456	155,824	75,359,698
Improvements Other Than Buildings		242,828,463	5,002,341	2,801	247,828,003
Machinery and Equipment		8,783,360	81,045	312,674	8,551,731
Total Capital Assets, being Depreciated		326,803,889	5,406,842	471,299	331,739,432
Less Accumulated Depreciation for:					
Buildings		20,013,832	1,709,167	155,824	21,567,175
Improvements Other Than Buildings		59,411,477	4,958,640	2,801	64,367,316
Machinery and Equipment		4,234,440	495,529	282,425	4,447,544
Total Accumulated Depreciation		83,659,749	7,163,336	441,050	90,382,035
Total Capital Assets, being Depreciated, Net		243,144,140	(1,756,494)	30,249	241,357,397
Wastewater System Capital Assets, Net	$	252,718,286	6,002,325	5,017,795	253,702,816

		Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Water System:					
Capital Assets, not being Depreciated:					
Land	$	5,123,119	321,488	-	5,444,607
Construction in Progress		30,363,834	7,933,962	36,180,874	2,116,922
Total Capital Assets, not being Depreciated		35,486,953	8,255,450	36,180,874	7,561,529
Capital Assets, being Depreciated:					
Buildings		66,986,924	233,058	-	67,219,982
Improvements Other Than Buildings		288,236,209	35,249,281	3,356,205	320,129,285
Machinery and Equipment		6,898,028	1,812,303	526,547	8,183,784
Total Capital Assets, being Depreciated		362,121,161	37,294,642	3,882,752	395,533,051
Less Accumulated Depreciation for:					
Buildings		21,167,628	1,729,142	-	22,896,770
Improvements Other Than Buildings		73,336,417	4,977,547	3,356,205	74,957,759
Machinery and Equipment		4,271,065	455,670	514,712	4,212,023
Total Accumulated Depreciation		98,775,110	7,162,359	3,870,917	102,066,552
Total Capital Assets, being Depreciated, Net		263,346,051	30,132,283	11,835	293,466,499
Water System Capital Assets, Net	$	298,833,004	38,387,733	36,192,709	301,028,028

		Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Electric System:					
Capital Assets, not being Depreciated:					
Construction in Progress	$	68,035,000	40,827,000	67,633,000	41,229,000
Capital Assets, being Depreciated:					
Utility Plant		1,128,630,000	68,127,000	4,357,000	1,192,400,000
Less Accumulated Depreciation		399,228,000	36,311,000	3,848,000	431,691,000
Total Capital Assets, being Depreciated, Net		729,402,000	31,816,000	509,000	760,709,000
Electric System Capital Assets, Net	$	797,437,000	72,643,000	68,142,000	801,938,000

During 2010, Lincoln Wastewater System incurred $3,612,415 of interest cost, of which $213,669 was capitalized into construction in progress. Lincoln Water System incurred $3,247,849 of interest cost, of which $1,108,439 was capitalized into construction in progress. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

Lincoln Electric System utility plant includes an allowance for funds used during construction of projects costing in excess of $500,000 with a construction period in excess of 12 months. The allowance for funds used during construction consists of the plant balance times the weighted-average interest rate on debt based on Federal Energy Regulatory Commission accounting method. The weighted-average rate for 2009 was 4.6%.

(8) INTERFUND BALANCES AND ACTIVITY

Balances Due To/From Other Funds at August 31, 2010, consist of the following:

Due To	Due From						
	General Fund	Street Construction	West Haymarket JPA	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General Fund	$ -	338	2,461	27,984	660,892	1,040,410	1,732,085
Street Construction	1,462,925	-	-	2,956,391	-	-	4,419,316
Nonmajor Governmental	2,631,524	-	-	2,300,111	-	-	4,931,635
Lincoln Wastewater System	581,735	-	-	522,914	-	-	1,104,649
Lincoln Water System	339,412	-	-	2,454	-	-	341,866
Nonmajor Enterprise	897,150	8,006	-	-	-	-	905,156
Internal Service	1,959,616	19,138	280	107,623	11,399	47,248	2,145,304
	$ 7,872,362	27,482	2,741	5,917,477	672,291	1,087,658	15,580,011

"Due to" and "Due from" balances are recorded when funds overdraw their share of pooled cash. Other balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

During 2005 the City's General Fund purchased the street light system from LES at an amount equal to the net book value of the street light system at the transaction date. The purchase was financed through an interfund borrowing. On the government-wide statements, the purchase was accounted for as a purchase of capital assets of governmental activities and a sale of capital assets of business-type activities. On the governmental fund statements, the General Fund recognized a liability in due to other funds and a prepayment for the funds borrowed from the City's other funds. Each fund has recorded a receivable for the pro-rata share of the borrowed funds. The General Fund will pay back the amount borrowed plus interest in scheduled monthly installments over a period of 120 months. As payments are made, the General Fund will reduce the liability, the related prepayment, and recognize streets and highways expenditures.

Transfers To/From Other Funds for the year ended August 31, 2010, consist of the following:

Transfer To	Transfer From						
	General Fund	Street Construction	Nonmajor Governmental	Lincoln Electric System	Nonmajor Enterprise	Internal Service	Total
General Fund	$ -	-	400,873	1,597,000	851,029	17,999	2,866,901
Street Construction	969,393	-	11,178,647	-	-	-	12,148,040
Nonmajor Governmental	19,376,419	6,250,425	4,405,450	-	979,551	-	31,011,845
Nonmajor Enterprise	626,077	-	51,000	-		-	677,077
Internal Service	-	829	-	-	-	10,000	10,829
Total	$ 20,971,889	6,251,254	16,035,970	1,597,000	1,830,580	27,999	46,714,692

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (3) transfer payment in lieu of taxes from LES to the General Fund.

(9) DEBT OBLIGATIONS

SHORT-TERM

Established by City Ordinance, LES may borrow up to $150 million under a commercial paper note program. At December 31, 2009, LES had $90 million of tax-exempt commercial paper notes outstanding. The notes mature at various dates but not more than 270 days after the date of issuance. The weighted-average interest rate for the year ended December 31, 2009, was 0.54 percent. The outstanding commercial paper notes are secured by a revolving credit agreement, which provides for borrowings up to $150 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement, LES can either settle or refinance the commercial paper upon maturity. LES uses these vehicles as part of their long-term financing strategy. As such, commercial paper is renewed as it matures. The weighted average length of maturity of commercial paper for 2009 was 62 days.

Lincoln Electric System:		Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Commercial Paper Notes	$	90,000,000	514,500,000	(514,500,000)	90,000,000	90,000,000

The City of Lincoln is authorized by Ordinance No. 19402 to issue up to $22,500,000 of General Obligation Bond Anticipation Notes and $27,500,000 of General Obligation Tax Anticipation Notes for the purpose of providing interim financing for costs in connection with construction of a new arena and related improvements in the West Haymarket area of the City. As of August 31, 2010, only $2,000,000 of tax anticipation notes had been issued. The notes are payable 120 days after their date of issuance and bear interest at 0.60% plus 70% of LIBOR. The full faith and credit and the taxing powers of the City have been pledged for the payment of the principal and interest on the notes. Payment of the principal and interest on the notes will be paid from the proceeds of bonds to be issued by the West Haymarket JPA (see Note 25).

City of Lincoln:		Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Tax Anticipation Notes	$	-	2,000,000	-	2,000,000	2,000,000

LONG-TERM

The City issues general obligation, special assessment, and revenue bonds to finance the acquisition and construction of major capital assets. Bonded indebtedness has also been entered into to advance refund several general obligation and revenue bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Special assessment bonds are repaid from amounts levied against affected property owners, but in the unlikely event collections are not sufficient to make debt payments, the responsibility rests with the City to meet that obligation. For revenue bonds the government pledges income derived from the acquired or constructed assets to pay the debt service.

Net assets of $3,448,228, $2,928,428, and $9,795,813, are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, and Tax Allocation Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

The City has entered into lease agreements for financing the acquisition of land, buildings, street lights, emergency ambulances and defibrillators, fire engines, golf equipment, and computer equipment and software. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Land	$ 515,750	$ 210,000
Buildings	12,914,750	-
Improvements	219,925	-
Infrastructure	12,460,176	-
Machinery and Equipment	1,838,042	3,278,413
Less Accumulated Depreciation, (where applicable)	(4,348,400)	(2,271,231)
Total	$ 23,600,243	$ 1,217,182

Under the City's Home Rule Charter, there is no legal debt limit. The various bond indentures contain significant limitations and restrictions on annual debt service requirements, minimum amounts to be maintained in various bond reserve funds, and minimum revenue bond coverages.

Lincoln Wastewater System has entered into a loan agreement with the Nebraska Department of Environmental Quality consisting of two separate contracts. Funding totaling $5,000,000 is available under Contract A to fund certain sewer system extension and repairs. During the year ended August 31, 2010, Lincoln Wastewater System incurred project costs totaling $4,136,604, resulting in the recognition of $1,250,000 of federal grant funds as capital contributions and a project loan payable of $3,048,891. The remaining $863,396 under Contract A is not reflected on the financial statements. Under Contract B Lincoln Wastewater Systm has available a $5,000,000 loan, subject to availability of state and federal funds, to finance certain projects of the system. No costs were incurred under Contract B during the year ended August 31, 2010, therefore, the available loan is not reflected on the financial statements. The interest rate for these loans range from 0.0 to 2.0 percent.

Long-term bonded debt of the City is comprised of the following individual issues (in thousands of dollars):

Original Amount	Issued	Issue	Interest Rate	When Due	Date Callable	Interest Date	Outstanding
Governmental Activities:							
General Obligation Bonds:							
General Bonds:							
14,435	03/01/99	Various Purpose Series A	3.000 - 4.600	Serial 2000 to 2014	2009	Semiannually	$ 4,775
7,365	03/01/99	Various Purpose Series A	4.750	Term 2019	2009	"	7,365
8,220	03/01/99	Various Purpose Series B	3.000 - 4.250	Serial 1999 to 2011	2007	"	525
6,350	05/29/02	Storm Sewer and Drainage	3.000 - 5.000	Serial 2004 to 2020	2010	"	4,625
1,150	05/29/02	Storm Sewer and Drainage	5.00	Term 2022	2010	"	1,150
15,595	07/08/03	Various Purpose	2.625 - 3.750	Serial 2004 to 2017	2013	"	6,180
3,710	07/08/03	Various Purpose	4.000 / 4.125	Term 2020 & 2023	2013	"	3,710
6,555	06/01/05	Storm Sewer Refunding	2.500 - 4.375	Serial 2005 to 2017	2011	"	4,395
9,950	06/15/05	Storm Sewer Construction	3.250 - 4.250	Serial 2006 to 2025	2015	"	8,070
8,295	06/27/07	Stormwater Drainage and Flood Mgmt	4.625 - 5.000	Serial 2008 to 2027	2017	"	7,535
	Total General Bonds						$ 48,330
Tax Allocation Bonds:							
1,035	04/21/04	Tax Allocation Bonds	2.000 - 3.200	Serial 2004 to 2011	2008	Semiannually	290
5,500	04/21/04	Tax Allocation Bonds	3.000 - 4.800	Serial 2004 to 2015	2010	"	3,325
365	08/15/05	Tax Allocation Bonds	4.750	Serial 2006 to 2018	Anytime	"	244
288	10/01/06	Tax Allocation Bonds	5.100	Serial 2008 to 2016	Anytime	"	219
2,205	04/05/07	Tax Allocation Bonds	5.000 - 5.550	Serial 2009 to 2018	2012	"	2,030
601	06/01/07	Tax Allocation Bonds	5.240	Serial 2008 to 2018	Anytime	"	571
388	06/01/07	Tax Allocation Bonds	5.240	Serial 2007 to 2020	Anytime	"	323
369	06/15/07	Tax Allocation Bonds	5.400	Serial 2007 to 2014	Anytime	"	239
42	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2021	Anytime	"	39
71	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2017	Anytime	"	67
474	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2022	Anytime	"	382
547	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	501
200	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	182
611	06/30/09	Tax Allocation Bonds	7.00	Serial 2011 to 2023	Anytime	"	611
3,375	07/28/09	Tax Allocation Bonds	2.500 - 6.400	Serial 2011 to 2023	Anytime	"	3,375
	Total Tax Allocation Bonds						$ 12,398
Tax Supported Bonds:							
35,000	03/17/04	Highway Allocation Fund	2.000 - 5.000	Serial 2007 to 2023	2014	Semiannually	33,365
27,000	12/05/06	Highway Allocation Fund	4.000 - 5.000	Serial 2008 to 2027	2016	"	24,290
	Total Tax-Supported Bonds						$ 57,655
	TOTAL GENERAL OBLIGATION BONDS						$ 118,383
Tax Supported Bonds:							
11,080	3/13/02	Antelope Valley Project	1.500 - 5.000	Serial 2002 to 2016	2012	Semiannually	$ 6,605
Business-Type Activities:							
Revenue Bonds:							
39,235	07/31/03	Wastewater Revenue	2.000 - 5.000	Serial 2004 to 2023	2013	Semiannually	$ 28,060
15,765	07/31/03	Wastewater Revenue	4.625 / 5.000	Term 2025 & 2028	2013	"	15,765
18,000	08/03/05	Wastewater Revenue	4.000 - 5.000	Serial 2006 to 2030	2015	"	15,525
16,710	04/18/07	Wastewater Revenue	4.000 - 4.500	Serial 2008 to 2029	2017	"	15,310
3,750	04/18/07	Wastewater Revenue	4.375	Term 2032	2017	"	3,750
	Total Wastewater Bonds						$ 78,410
11,850	11/22/02	Water Revenue	2.750 - 5.000	Serial 2005 to 2017	2012	Semiannually	$ 7,075
6,660	11/22/02	Water Revenue	5.000	Term 2022	2012	"	6,660
32,180	05/01/03	Water Revenue	5.000	Serial 2004 to 2012	-	"	6,965
40,000	11/16/04	Water Revenue	3.000 - 5.000	Serial 2005 to 2025	2014	"	34,110
10,515	08/04/09	Water Revenue	2.000 - 4.125	Serial 2013 to 2029	2019	"	10,515
4,905	08/04/09	Water Revenue	4.5000	Term 2034	2019	"	4,905
	Total Water Bonds						$ 70,230
6,695	09/08/99	Parking Revenue Series A	5.375	Term 2014	2009	"	$ 5,525
4,360	12/18/01	Parking Revenue	3.750 - 5.000	Serial 2002 to 2017	2011	"	2,210
1,640	12/18/01	Parking Revenue	5.125	Term 2021	2011	"	1,640
	Total Parking Bonds						$ 9,375
3,165	11/27/01	Golf Course Revenue Refunding	2.300 - 4.050	Serial 2002 to 2011	2008	Semiannually	$ 365
4,000	08/17/06	Solid Waste Management Revenue	4.000 - 4.250	Serial 2007 to 2021	2013	Semiannually	$ 3,230
148,190	10/01/02	Electric Revenue and Refunding Bonds	4.000 - 5.000	Serial 2004 to 2025	2012	"	92,730
93,045	10/01/03	Electric Revenue and Refunding Bonds	3.000 - 5.000	Serial 2004 to 2026	2014	"	81,370
33,265	10/01/03	Electric Revenue and Refunding Bonds	4.750	Term 2028	2014	"	33,265
61,290	10/01/05	Electric Revenue Bonds	5.000	Serial 2029 to 2032	2015	"	61,290
53,710	10/01/05	Electric Revenue Bonds	4.750	Term 2035	2015	"	53,710
183,230	05/15/07	Electric Revenue and Refunding Bonds	4.000 - 5.000	Serial 2009 to 2035	2016	"	179,835
81,850	05/15/07	Electric Revenue and Refunding Bonds	4.500 / 4.750	Term 2034 & 2037	2016	"	81,850
	Total Electric Bonds						$ 584,050
	TOTAL REVENUE BONDS						$ 745,660

Annual requirements to pay principal and interest to maturity on outstanding debt follow (in thousands of dollars):

Fiscal Year Ended August 31		Governmental Activities					
		General Obligation Bonds		Tax Supported Bonds		Capital Leases	
		Principal	Interest	Principal	Interest	Principal	Interest
2011	$	7,288	5,130	685	299	3,575	1,010
2012		8,162	4,816	710	271	4,008	920
2013		8,063	4,474	740	238	2,779	798
2014		8,385	4,120	780	200	2,772	709
2015		8,700	3,746	815	162	2,863	618
2016 - 2020		41,294	12,956	2,875	173	8,504	1,825
2021 - 2025		31,551	4,516	-	-	2,673	729
2026 - 2030		4,940	319	-	-	1,662	137
2031 - 2035		-	-	-	-	153	3
	$	118,383	40,077	6,605	1,343	28,989	6,749

Fiscal Year Ended August 31		Business-Type Activities					
		Revenue Bonds		Loans Payable		Capital Leases	
		Principal	Interest	Principal	Interest	Principal	Interest
2011	$	29,000	35,271	-	-	318	31
2012		28,750	33,895	112	62	258	24
2013		27,800	32,481	139	35	198	18
2014		29,265	31,121	140	33	205	13
2015		28,955	29,673	142	32	152	7
2016 - 2020		166,625	125,483	735	133	197	7
2021 - 2025		128,475	87,971	780	89	-	-
2026 - 2030		111,185	60,614	829	40	-	-
2031 - 2035		116,345	33,258	172	2	-	-
2036 - 2040		79,260	6,078	-	-	-	-
	$	745,660	475,845	3,049	426	1,328	100

Major Enterprise fund annual requirements to pay principal and interest to maturity on outstanding debt follow (in thousands of dollars):

Fiscal Year Ended August 31		Major Enterprise Funds					
		Wastewater System		Water System		Electric System	
		Principal	Interest	Principal	Interest	Principal	Interest
2011	$	2,785	3,607	6,310	3,192	17,820	27,840
2012		2,992	3,566	5,380	2,905	18,680	26,956
2013		3,119	3,423	3,310	2,647	19,610	26,007
2014		3,225	3,296	3,425	2,506	20,595	25,010
2015		3,347	3,147	3,555	2,354	21,620	23,972
2016 - 2020		18,760	13,338	20,055	9,147	125,255	102,390
2021 - 2025		23,115	8,691	20,130	4,300	84,860	75,017
2026 - 2030		21,389	3,078	4,045	1,434	86,580	56,141
2031 - 2035		2,727	171	4,020	464	109,770	32,626
2036 - 2040		-	-	-	-	79,260	6,078
	$	81,459	42,317	70,230	28,949	584,050	402,037

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2010

Long-term liability activity for the year ended August 31, 2010 was as follows (in thousands of dollars):

		Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:						
Bonds and Leases Payable:						
General Bonds	$	52,440	-	(4,110)	48,330	3,835
Tax Allocation Bonds		13,356	-	(958)	12,398	1,003
Tax Supported Bonds		59,385	-	(1,730)	57,655	2,450
Tax Supported Antelope Valley Project Bonds		7,265	-	(660)	6,605	685
Capital Leases		28,094	4,132	(3,237)	28,989	3,575
Gross Bonds and Leases Payable		160,540	4,132	(10,695)	153,977	11,548
Deferred Amounts:						
For Issuance Premiums		2,698	-	(100)	2,598	-
For Issuance Discounts		(23)	-	2	(21)	-
Net Bonds and Leases Payable		163,215	4,132	(10,793)	156,554	11,548
Other Liabilities:						
Compensated Absences		12,654	7,316	(6,780)	13,190	7,021
Construction Contracts		5,237	650	(800)	5,087	530
Claims and Judgements		8,564	22,118	(21,968)	8,714	5,098
Net Pension Obligation		3,983	51	(438)	3,596	-
Net OPEB Obligation		711	1,340	-	2,051	-
Governmental Activities Long-Term Liabilities	$	194,364	35,607	(40,779)	189,192	24,197
Business-Type Activities:						
Bonds, Loans and Leases Payable:						
Wastewater Revenue Bonds	$	81,105	-	(2,695)	78,410	2,785
Wastewater Loan Payable		-	3,049	-	3,049	-
Water Revenue Bonds		76,280	-	(6,050)	70,230	6,310
Parking Revenue Bonds		10,810	-	(1,435)	9,375	1,510
Golf Course Revenue Bonds		715	-	(350)	365	365
Solid Waste Management Revenue Bonds		3,430	-	(200)	3,230	210
Electric System Revenue Bonds		601,050	-	(17,000)	584,050	17,820
Capital Leases		338	1,190	(200)	1,328	318
Gross Bonds, Loans and Leases Payable		773,728	4,239	(27,930)	750,037	29,318
Deferred Amounts:						
For Issuance Premiums		18,576	-	(2,593)	15,983	-
For Issuance Discounts		(12,349)	-	1,776	(10,573)	-
For Refunding		(2,637)	-	430	(2,207)	(6)
Net Bonds and Leases Payable		777,318	4,239	(28,317)	753,240	29,312
Other Liabilities:						
Compensated Absences		1,643	1,049	(1,004)	1,688	1,052
Construction Contracts		5,451	645	(2,187)	3,909	-
Claims and Judgements		1,001	7,185	(7,708)	478	478
Accrued Liabilaities		-	33	-	33	-
Net OPEB Obligation		119	231	-	350	-
Accrued Landfill Closure/Postclosure Care Costs		9,796	3,694	-	13,490	-
Business-Type Activities Long-Term Liabilities	$	795,328	17,076	(39,216)	773,188	30,842

Internal Service funds predominantly serve the governmental funds. Therefore, their long-term liabilities are included with the governmental activities above. Compensated absences for governmental activities are generally liquidated in the General Fund as well as various other Special Revenue and Internal Service funds where personal costs are incurred. The construction contracts are liquidated in the Street Construction fund, financed with impact fee collections. The claims and judgements liability will generally be liquidated through the City's Insurance Revolving Internal Service Fund, which will finance the payment of those claims by charging other funds based on management's assessment of the relative insurance risk that should be assumed by individual funds. The net pension obligation will be liquidated through the Police & Fire Pension Contributions Special Revenue Fund with financing provided by an annual property tax levy. The net OPEB obligation for an implicit rate subsidy will be liquidated with those governmental funds where personal insurance costs are incurred.

Long-term liability activity for the major enterprise funds for the year ended August 31, 2010, was as follows (in thousands of dollars):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Lincoln Wastewater System:					
Bonds Payable:					
Wastwater Revenue Bonds	81,105	-	(2,695)	78,410	2,785
Wastewater Loan Payable	-	3,049	-	3,049	-
Deferred For Issuance Premiums	1,794	-	(93)	1,701	-
Deferred For Issuance Discounts	(10)	-	-	(10)	-
Net Bonds Payable	82,889	3,049	(2,788)	83,150	2,785
Other Liabilities:					
Compensated Absences	515	359	(330)	544	348
Construction Contracts	2,889	54	(261)	2,682	-
Net OPEB Obligation	29	55	-	84	-
Total Long-Term Liabilities	$ 86,322	3,517	(3,379)	86,460	3,133
Lincoln Water System:					
Bonds Payable:					
Water Revenue Bonds	$ 76,280	-	(6,050)	70,230	6,310
Deferred for Issuance Premiums	2,180	-	(336)	1,844	-
Deferred For Issuance Discounts	(36)	-	1	(35)	-
Deferred for Refunding	(401)	-	135	(266)	-
Net Bonds Payable	78,023	-	(6,250)	71,773	6,310
Other Liabilities:					
Compensated Absences	758	404	(381)	781	409
Construction Contracts	2,562	591	(1,926)	1,227	-
Net OPEB Obligation	41	78	-	119	-
Total Long-Term Liabilities	$ 81,384	1,073	(8,557)	73,900	6,719
Lincoln Electric System:					
Bonds Payable:					
Electric System Revenue Bonds	$ 601,050	-	(17,000)	584,050	17,820
Deferred for Issuance Premiums	14,592	-	(2,165)	12,427	-
Deferred for Issuance Discounts	(12,303)	-	1,775	(10,528)	-
Deferred for Refunding	(2,224)	-	290	(1,934)	-
Net Bonds Payable	601,115	-	(17,100)	584,015	17,820
Other Liabilities:					
Claims and Judgements	1,001	7,185	(7,708)	478	478
Accrued Liabilities	-	33	-	33	-
Total Long-Term Liabilities	$ 602,116	7,218	(24,808)	584,526	18,298

(10) RECONCILIATION OF BUDGET BASIS TO GAAP

Amounts presented on a non-GAAP budget basis of accounting differ from those presented in accordance with GAAP due to the treatment afforded accruals, encumbrances, and funds for which legally adopted annual budgets are not established. A reconciliation for the year ended August 31, 2010, which discloses the nature and amount of the adjustments necessary to convert the actual GAAP data to the budgetary basis, is presented below:

	General Fund	Street Construction Fund
Net Change in Fund Balances:		
Balance on a GAAP basis	$ (1,829,641)	3,198,330
Basis differences (accruals) occur because the cash basis of accounting used for budgeting differs from the modified accrual basis of accounting prescribed for governmental funds.	(798,683)	(146,855)
Amount budgeted on a project basis.	-	12,727,628
Balance on a budget basis	$ (2,628,324)	15,779,103

(11) DEFICIT NET ASSETS

The following funds had a net asset or fund balance deficit as of August 31, 2010:

Major Governmental -	West Haymarket JPA Fund	$ (2,474,531)
Special Revenue -	Impact Fees Fund	(101,808)
Internal Service -	Engineering Revolving Fund	(331,035)

The West Haymarket JPA Fund deficit will be reduced by proceeds from the issuance of bonds.

The Impact Fees Fund deficit is expected to be reduced through future fee collections.

The Engineering Revolving Fund is evaluating various means to reduce expenses and improve revenue collections affected by staffing levels, overhead costs, billing practices, and intra-City services reimbursements.

(12) EXCESSES OF EXPENDITURES OVER APPROPRIATIONS

The following fund had expenditures for which there were no appropriations:

General Fund	
Building and Plant	$ 1,110,000
Street Lighting	2,490,797
Debt Service	49,918

(13) EMPLOYEES' RETIREMENT PLANS

The employees of the City are covered by several retirement plans. Article II Section 3 of the Lincoln Charter assigns the authority to establish and amend benefit provisions of the various plans to the City Council. The Police and Fire Department Plan (PFDP) is administered by the City and is included in the Fiduciary Fund type. All other plans are administered by outside trustees and are not included in the City's basic financial statements.

POLICE AND FIRE PENSION

Plan Description – PFDP is a single-employer defined benefit pension plan administered by the City of Lincoln. PFDP provides retirement, disability, and death benefits to plan members and beneficiaries. PFDP recognizes plan member contributions in the period in which they are due. Employer contributions are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Cost-of-living adjustments are provided to members and beneficiaries in accordance with the plan document. The City does not issue a separate report that includes financial statements and required supplementary information for PFDP.

The City has established the Deferred Retirement Option Plan (DROP) for police and fire pension members. The DROP program allows a member to retire for pension purposes, but to continue working. The member receives a paycheck and the member’s monthly pension benefit is deposited into the member’s DROP account. At the end of five years, or anytime before five years, the member must “retire-in-fact”. Contributions to the pension are eliminated at the beginning of the DROP period. Pension benefits are set, and will not be increased because of raises, promotions, increased years of service or pension enhancements. When a member retires-in-fact, their monthly pension benefit will be paid directly to them and the member will have access to the funds in their DROP account.

Membership of the pension plan consisted of the following at August 31, 2010, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	408
Terminated plan members entitled to but not yet receiving benefits	26
Active plan members (non-DROP)	561
DROP members	55
Total	1,050
Number of participating employers	1

Funding Policy – The contribution requirements of plan members and the City are established by City Ordinance #15728 dated September 24, 1990, and may be amended by the City Council. Plan members are required to contribute between 7% and 8% of their annual covered salary based on an election made by the employee. The City is required to contribute at an actuarially determined rate; the rate for fiscal year 2010 was 10.7% of annual covered payroll. Actual contributions by the City were 11.7% of annual covered payroll. Administrative costs of PFDP are financed through investment earnings.

Annual Pension Cost and Net Pension Obligation – The City's annual pension cost and net pension obligation to PFDP for the current year were as follows:

(Dollar amounts in thousands)

Annual required contribution	$ 3,752
Interest on net pension obligation	302
Adjustment to annual required contribution	(478)
Annual pension cost	3,576
Contributions made	3,963
Decrease in net pension obligation	(387)
Net pension obligation beginning	3,983
Net pension obligation ending	$ 3,596

Three-Year Trend Information
(Dollar amounts in thousands)

Year Ended August 31	Annual Pension Cost (APC)	Annual Pension Contribution	Percentage of APC Contributed	Net Pension Obligation
2010	$ 3,576	$ 3,963	111 %	$ 3,596
2009	3,123	3,572	114	3,983
2008	3,907	3,456	88	4,432

Actuarial Methods and Assumptions – The annual required contribution for the current year was determined as part of the August 31, 2008, actuarial valuation using the entry age actuarial funding method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 4.25 to 8.25% per year, including wage inflation at 4.25%, and (c) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using a four year smoothed market method. The unfunded actuarial accrued liability is being amortized as a level percentage of payrolls on an open basis over a period of thirty years.

Funded Status and Funding Progress – As of August 31, 2010, the most recent actuarial valuation date, the plan was 88 percent funded. The actuarial accrued liability for benefits was $195,206,000, and the actuarial value of assets was $172,317,000, resulting in an unfunded actuarial accrued liability (UAAL) of

$22,889,000. The covered payroll (annual payroll of active employees covered by the plan) was $34,233,000, and the ratio of the UAAL to the covered payroll was 66.86 percent.

The Schedule of Funding Progress, presented as RSI following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ELECTRIC SYSTEM

The City owns and operates its own electric system which is included in the enterprise funds in the accompanying basic financial statements. The electric system is controlled and managed by an administrative board and is not supported by the City's general tax revenues. The electric system provides retirement benefits to its employees under its own separate plan, such benefits being funded solely from revenues derived from the operation of the electric system. A summary of the electric system plan is as follows:

LES has a defined contribution retirement plan covering all employees upon employment; however, employees are not eligible to receive employer contributions until they have been employed six months. The plan is a straight-money purchase plan, administered by LES. LES' contribution is equal to 200% of the employees' contributions, which range from 2% to 5% of gross wages. The administrative board of directors authorized this plan and related contribution requirements. Vesting of LES contributions occurs over a five-year period. Employee forfeitures are used to reduce employer contributions. Vested benefits are fully funded. For the year ended December 31, 2009, LES incurred contribution expense of approximately $3,143,000 (9.5% of covered payroll) and its employees contributed approximately $2,117,000 (6.4% of covered payroll).

DEPARTMENT DIRECTORS

Directors of City departments are eligible the first of the month following the date employed to be covered by the Director’s Money Purchase Plan, established by City Ordinance, and administered by an insurance company. The Plan is a defined contribution plan requiring the City to contribute 6% of the first $4,800 of earned income plus 12% of earned income over $4,800 in one calendar year. Employees covered by the Plan may also make voluntary contributions. Participant accounts are immediately 100% vested. Total and covered payroll for the year ended December 31, 2009, was $1,806,788. City contributions totaled $210,349 or 11.6% of covered payroll. There were no employee contributions made for the year ended December 31, 2009.

ALL OTHER CITY EMPLOYEES

All other City employees are eligible after 6 months' service and age 19 to be covered under the City's Money Purchase Pension Plan, established by City Ordinance, and administered by an insurance company. Enrollment in the program is mandatory at age 40 with 5 years service. Vesting occurs in increments between 3 and 7 years of enrollment in the plan. The Plan is a defined contribution plan requiring employees to contribute 3% of earnings on the first $4,800 and 6% on the balance of earnings. Currently, the City contributes 200% of the employees' contributions. Employee forfeitures are used to reduce employer contributions. Employees covered by the Plan may also make voluntary contributions. During the year ended December 31, 2009, total payroll was approximately $73,098,000 and covered payroll was approximately $64,753,000. City contributions totaled $7,147,081 or 11.0% of covered payroll and employee contributions totaled $3,693,124 or 5.7% of covered payroll. Employees made $104,982 in voluntary contributions for the year ended December 31, 2009.

(14) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The City offers employees and their families the opportunity to continue their health care coverage when there is a qualifying event, such as retirement, that would result in a loss of coverage under the City’s plan. Each qualified beneficiary pays the entire cost of premiums for the continuous coverage. The City recognizes as OPEB the implicit rate subsidy provided to retirees when their premium is the "full cost" of the insurer's charge for the active population. Since the retirees have higher costs, the premium they pay is not expected to cover their costs, and the difference is essentially covered by the City's payment for active employees. The City plan is a single-employer defined benefit plan. The City does not issue a separate report that includes financial statements and required supplementary information for OPEB.

Funding Policy – The plan is a pay-as-you-go and therefore, is not funded.

Annual OPEB cost and Net OPEB Obligation – The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The net OPEB obligation as of August 31, 2010, was calculated as follows:

(Dollar amounts in thousands)

Annual required contribution	$ 2,111
Interest on net OPEB obligation	37
Adjustment to annual required contribution	(51)
Annual OPEB cost	2,097
Contributions made	(526)
Increase in net OPEB obligation	1,571
Net OPEB obligation beginning	830
Net OPEB obligation ending	$ 2,401

The City's annual OPEB cost, the percentage of annual OPEB costs contributed and the net OPEB obligation are as follows:

Year Ended August 31	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$ 2,097,000	25.1 %	$ 2,401,000
2009	656,000	37.2	830,000
2008	662,000	36.9	418,000

Funded Status and Funding Progress – As of September 1, 2009, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was $19,796,000 and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAL) of $19,796,000. Annual covered payroll was approximately $112,002,000, and the ratio of the UAL to the covered payroll was 17.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statement, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 1, 2009, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5% discount rate and an annual healthcare cost trend rate of 9.5% initially, reduced by decrements to an ultimate rate of 5.0% for 2020 and beyond. Participation assumptions include 60% of eligible civilian members and 40% of eligible Fire/Police members electing coverage, with 30% and 20% participation assumed for civilian and Fire/Police spouses, respectively. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over a period of thirty years.

PEHP – Defined Contribution Plan

The City has a defined contribution Post Employment Health Plan (PEHP) administered by Nationwide Retirement Solutions. The purpose of the PEHP plan is to provide reimbursement of qualifying health care and medical insurance premium expenses for employees upon separation from employment.

Terms for eligibility and contribution rates are specified in the City's various collective bargaining agreements. Individual employee accounts consist of employer contributions, investment returns and any forfeiture allocations. Current employer contributions range from $18-$50 per pay period based on union contracts. Current year contributions totaled approximately $894,000.

(15) PROPERTY TAXES

The Home Rule Charter of the City imposes a tax ceiling for general revenue purposes. The City tax ceiling was established by using the September 1, 1966, City dollar tax limit as an initial tax limit, and increasing that tax limit each year following 1966 by 7% so that in each fiscal year thereafter the amount of the City tax limit shall be the amount of the City tax limit for the previous year plus 7% thereof. In addition, the City has the power to levy taxes each year sufficient to pay any judgment existing against the City, the interest on bonded debt, and the principal on bonded debt maturing during the fiscal year or within 6 months thereafter, as well as taxes authorized by state law. The 2009 tax levy, for the 2009-2010 fiscal year, was $84,939,527 below the legal limit, with a tax rate per $100 valuation of $0.2879. The assessed value upon which the 2009 levy was based was $15,746,453,582.

The tax levies for all political subdivisions in Lancaster County are certified by the County Board on or before October 15th. Real estate taxes are due on December 31st and attach as an enforceable lien on property on January 1st following the levy date and become delinquent in two equal installments on April 1st and August 1st. Personal property taxes are due December 31st and become delinquent on April 1st and August 1st following the levy date. Delinquent taxes bear 14% interest.

Within the government-wide financial statements, property taxes are recognized as revenue in the year for which they are levied. Property taxes levied for 2009-2010 are recorded as revenue in the fund financial statements when expected to be collected within 60 days after August 31, 2010. Prior-year levies were recorded using these same principles, and remaining receivables are re-evaluated annually. Property taxes expected to be collected after 60 days are recorded as deferred revenue on the fund balance sheets.

The City-owned electric utility is required by City Charter to make payments in lieu of taxes, aggregating 5% of its gross retail operating revenues derived from within the city limits of incorporated cities and towns served.

(16) RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and the public; or acts of God. All risk management activities are accounted for in the Insurance Revolving Fund, an internal service fund, and administered through the Risk Management Division.

For the year ended August 31, 2010, the City had a self-insured retention for workers' compensation exposures up to $500,000 per individual; law enforcement liability, general liability, public officials liability, public transportation liability, medical professional liability, and auto liability exposures up to $250,000 per occurrence; building and contents property exposures up to $50,000 per occurrence; health and dental benefits, and employee long-term disability benefits.

The City also obtained excess liability insurance coverage in the current year. Workers' compensation was covered by a policy that provided statutory limits above the City's retention of $500,000 per individual. Law enforcement, general, public officials, public transportation, medical professional, and auto liabilities were covered by policies that provided limits of $6 million per occurrence with a $12 million annual aggregate. Health had excess loss indemnity coverage above $150,000 per claim and above 125% of the aggregate attachment point. The Nebraska Political Tort Claims Act limits the City's liability for tort claims to $1 million per individual and $5 million per occurrence.

There were no significant insurance recoveries in the current year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The City annually retains the services of independent actuaries to analyze the self-insured workers' compensation, general liability, public transportation liability, law enforcement liability, auto liability, and long-term disability exposures. Such analysis has been used to assist the City with its financial planning and management of the self-insurance program. Included in the specific objectives of the studies were to:

- Estimate the outstanding liabilities for the current fiscal year ended August 31,
- Forecast ultimate incurred losses and incurred but not reported losses for future years, and
- Estimate the required funding level for the City's self-insured liabilities.

The City funds its self-insurance program on an "incurred loss" basis. The governmental and proprietary funds pay annual premium amounts, based on past experience of incurred losses, to the Insurance Revolving Fund. Claim liabilities of $8,714,070 were recorded at August 31, 2010. Excluding medical care claims approximating $1,228,000, the remaining liability is the actuarially estimated amount of claims based on an estimate of ultimate incurred and incurred but not reported losses as of that date and is calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic and social factors. The claims liability estimate also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of their allocation to specific claims. These liabilities have been discounted using a 2.36% discount rate. The City has purchased no annuity contracts in the current fiscal year to resolve City of Lincoln claims.

The following is a summary of the changes in the estimated claims liability for the years ended August 31, 2010 and 2009:

2010		Worker's Compensation and Others	Long-Term Disability	Health and Dental	Total
Balance at September 1	$	6,267,000	604,770	1,691,707	8,563,477
Current year claims and changes in estimates		3,088,000	370,067	18,659,998	22,118,065
Claims payments		(2,765,000)	(78,654)	(19,123,818)	(21,967,472)
Balance at August 31	$	6,590,000	896,183	1,227,887	8,714,070

2009		Worker's Compensation and Others	Long-Term Disability	Health and Dental	Total
Balance at September 1	$	4,745,000	559,821	1,367,981	6,672,802
Current year claims and changes in estimates		3,816,000	110,933	17,430,160	21,357,093
Claims payments		(2,294,000)	(65,984)	(17,106,434)	(19,466,418)
Balance at August 31	$	6,267,000	604,770	1,691,707	8,563,477

LINCOLN ELECTRIC SYSTEM

LES has a self-funded health insurance program with claims processed by and on behalf of the utility. As part of the plan, a reinsurance policy has been purchased which covers claims in excess of $100,000 per individual. Total accrual and payment history is shown below:

		2009	2008
Balance beginning of year	$	1,001,000	1,202,000
Claims accrued		7,185,000	3,848,000
Claims paid/other		(7,708,000)	(4,049,000)
Balance end of year	$	478,000	1,001,000

(17) COMMITMENTS AND CONTINGENCIES

GENERAL

The City participates in a number of federally assisted grant programs. Federal financial assistance programs are subject to financial and compliance audits. The amount of expenditures, if any, which may be disallowed by the granting agencies is not determinable at this time; however, City officials do not believe that such amounts would be significant.

At August 31, 2010, approximately 96% of the full-time, regular City's employees are represented by a Union. The existing union contracts will expire either in August 2011 or August 2012. Public Association of Government Employees contract negotiations are currently under review by the Commission on Industrial Relations.

The City is a defendant in a number of lawsuits and claims in its 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 financial statements.

The City has been identified as a potentially responsible party (PRP) or equivalent status in relation to several sites with environmental remediation activities. Management currently believes that the liability of the City in connection with these activities will be immaterial. However, the ultimate cost will depend on the extent of remediation required. Management does not believe that changes in these cost estimates will have a materially adverse effect on the financial statements.

The City of Lincoln owns a solid waste disposal area which discontinued operations in 1990, but still requires certain closure and postclosure care, including the construction of final cover, monitoring of groundwater conditions and landfill gas migration, and general site maintenance. While accrual of closure and postclosure care costs has been reflected in the financial statements in the current year, additional corrective action costs related to landfill gas migration and groundwater conditions may be identified once testing is completed and the state regulatory agency has issued a final determination.

The City has entered into various agreements with developers for reimbursement of eligible infrastructure construction. After construction is substantially complete, the developer will be reimbursed based upon the anticipated expenditure appropriations or collection of directed impact fees within the development area. As of August 31, 2010, the City's commitment to developers is estimated to be approximately $41,000,000.

STREET CONSTRUCTION PROJECTS

The City's Street Construction Capital Projects Fund has commitments under major construction contracts in progress of approximately $5,500,000 as of August 31, 2010, which will be financed primarily through highway user fees, bond proceeds, federal and state grants, and developer contributions.

LINCOLN WASTEWATER SYSTEM

The Lincoln Wastewater System has commitments under major construction contracts in progress of approximately $4,900,000 at August 31, 2010.

LINCOLN WATER SYSTEM

The Lincoln Water System has commitments under major construction contracts in progress of approximately $1,600,000 as of August 31, 2010.

LINCOLN ELECTRIC SYSTEM

Participation Contracts with NPPD

LES has participating interests in the output of two existing NPPD power plants, a thirty percent (68 MW) and eight percent (109 MW) entitlement to the output of the Sheldon Station Power Plant (nominally rated 225 MW coal plant) and Gerald Gentleman Station Power Plant (nominally rated 1,268 MW coal plant), respectively.

LES is responsible for its respective participating interests in the two facilities' capital additions and improvements. LES's share of debt service payments necessary to retire the respective participating interests of principal and interest on bonds issued by NPPD for the facilities was approximately $6,600,000 in 2009. LES recognizes its share of capital acquisition costs and debt service payments as power costs in the period the costs are billed with the exception of costs approved for deferral under FAS 71. Fixed cost payments under the agreements are on a participation basis whether or not such plants are operating or operable. LES recognized expense for its share of the total fixed costs of approximately $18,600,000 in 2009.

The participation contracts continue until the facilities are removed from commercial operation or the final maturity occurs on the related debt incurred by NPPD to finance the facilities, whichever occurs last. The estimated fixed cost payments to NPPD under these contracts, including capital additions and improvements, debt service payments and fixed costs, and credits aggregate approximately $23,400,000, $21,000,000, $21,800,000, $19,600,000, and $21,500,000, respectively, in each of the five years subsequent to December 31, 2009.

Laramie River Station (LRS)

LES is a 12.76 percent co-owner of the Missouri Basin Power Project, which includes LRS, a three-unit, 1,650 MW coal-fired generating station in eastern Wyoming and a related transmission system. Costs, net of accumulated depreciation, associated with LRS of approximately $26,000,000 are reflected in utility plant at December 31, 2009.

LES has a participation power sales agreement with the County of Los Alamos, New Mexico (the County) whereby the County purchases from LES 10 MW of LES's capacity interest in LRS. The agreement provides for the County to pay LES monthly fixed payments for the repayment of debt service. The amount is subject to change each July 1 based on debt costs of LES relative to the current market rates, until termination of the agreement. The agreement remains in effect until either the final maturity occurs on any LRS related debt, LRS is removed from commercial operation, or the County gives LES six-months' notice to terminate the agreement. During 2009, LES billed the County approximately $3,200,000 for demand and energy charges.

The LRS project participants, including LES, filed a rate case in 2004 with the federal Surface Transportation Board (STB) challenging the reasonableness of the freight rates from the Burlington Northern Santa Fe (BNSF) railroad for coal deliveries to LRS. In early 2009 the STB issued its decision and awarded the LRS project participants a favorable decision estimated by the STB at approximately $345 million in rate relief. The STB awarded $119 million to the LRS participants for past freight overcharges plus an expectation of present value rate benefits of approximately $245 million due to a new tariff the STB ordered to be charged through 2024. BNSF remitted $15,000,000 to LES, which has been escrowed pending an appeal filed by BNSF.

Walter Scott Energy Center (WS4)

MidAmerican Energy's Walter Scott Energy Center includes the following units: Unit #1 – a 1954 coal-fired unit built with 43 MW capacity, Unit #2 – a 1958 coal-fired unit built with 88 MW capacity, Unit #3 – a 1979 coal-fired unit built with 675 MW capacity, and Unit #4 - the recently completed supercritical technology, coal-fired 790 MW unit that became commercial in June, 2007, as well as the associated common equipment and inventories. LES maintains ownership interest in 12.6 percent of 105 MW of Unit #4. In order to minimize unit outage risk, LES has executed a power purchase and sales agreement with MidAmerican Energy. Under this agreement, beginning in 2009, LES will schedule 50 MW of Unit #3 and 55 MW of Unit #4 under the twenty year unit agreement which can be extended through mutual agreement of the parties. LES is responsible for the operation and maintenance expense and maintains a fuel inventory at the plant site. LES issued debt in conjunction with the construction of Unit #4 and has capitalized these costs plus interest.

(18) LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The City of Lincoln currently owns and operates both a municipal solid waste landfill and a construction and demolition debris landfill. State and federal laws require the City to close the landfills once capacity is reached and to monitor and maintain the site for thirty subsequent years on the municipal solid waste landfill and five subsequent years on the construction and demolition debris landfill. Although certain closure and postclosure care costs will be paid only near or after the date that the landfills stop accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each statement of net assets date.

At August 31, 2010, the City had incurred a liability of approximately $9,140,000 for the municipal solid waste landfill which represents the amount of costs reported to date based on the approximately 47 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately $10.1 million, which will be recognized as the remaining capacity is used (estimated to be approximately 24 years).

As of August 31, 2010, the City had incurred a liability of approximately $558,000 for the construction and demolition debris landfill which represents the amount of costs reported to date based on the approximately 52 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately $508,000, which will be recognized as the remaining capacity is used (estimated to be approximately 20 years).

The estimated costs of closure and postclosure care, as determined by an independent engineering consultant, are subject to changes including the effects of inflation, revision of laws, changes in technology, actual sequence of landfill development and closure, and other variables.

The City of Lincoln, in a review by the Nebraska Department of Environmental Quality (NDEQ), has demonstrated compliance with the financial assurance requirements as specified in Title 132 - *Integrated Solid Waste Management Regulations*, through the Local Government Financial Test.

The City of Lincoln also owns a solid waste disposal area that discontinued operations in 1990. Although exempt from the U.S. Environmental Protection Agency *Solid Waste Disposal Facility Criteria* issued October 9, 1991, the City must still adhere to certain closure and postclosure care requirements under prior legislation, including the construction of final cover, monitoring of ground water conditions and landfill gas migration, and general site maintenance. At August 31, 2010, a liability for closure and postclosure care costs is recorded in the amount of approximately $3,792,000, which is based on appropriations identified in the City's capital improvement projects budgeting process. Additional corrective action costs related to possible landfill gas migration and groundwater conditions may be identified once testing is completed and the state regulatory agency has issued a final determination. These additional potential costs cannot be reasonably estimated and thus no liability has been accrued as of August 31, 2010.

(19) FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Lincoln Water System and Lincoln Wastewater System to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash, accounts receivable and accounts payable – The carrying amount approximates fair value because of the short maturity of these instruments.

Long-term debt – The estimated fair value of the long-term debt is approximately $82,307,000 for the Water System and $94,913,000 for the Wastewater System based on borrowing rates currently available as of August 31, 2010.

Investments – The fair values of investments held directly by the funds are based on quoted market prices.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(20) SEGMENT INFORMATION

The City has issued revenue bonds and other debt instruments to finance capital construction and acquisitions for both the Parks and Recreation and Public Works/Utilities Departments. The Golf Division of the Parks and Recreation Department operates the City's golf courses and is accounted for in the Golf Fund. The Parking Facilities Division of the Urban Development Department operates the City's downtown parking garages and is accounted for in the Parking Facilities Fund. The Solid Waste Operations Section of the Public Works/Utilities Department operates the City's solid waste disposal sites, yard waste composting facility, and re-cycling drop-off program. Summary financial information for these divisions as of and for the year ended August 31, 2010, is presented as follows:

		Golf	Parking Facilities	Solid Waste Management
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current Assets, excluding Due from Other Funds	$	69,933	6,595,701	9,198,687
Due from Other Funds		20,554	352,048	443,862
Restricted Assets		399,838	2,500,861	394,336
Deferred Charges		8,868	259,619	60,969
Capital Assets		5,722,449	35,118,904	19,661,219
Total Assets		6,221,642	44,827,133	29,759,073
Liabilities:				
Current Liabilities, excluding Due to Other Funds		998,377	2,627,327	617,984
Due to Other Funds		600,389	1,848	2,197
Noncurrent Liabilities		496,310	7,866,328	16,574,228
Total Liabilities		2,095,076	10,495,503	17,194,409
Net Assets:				
Invested in Capital Assets, Net of Related Debt		5,020,071	27,565,296	16,821,065
Restricted		107,175	966,631	14,490
Unrestricted		(1,000,680)	5,799,703	(4,270,891)
Total Net Assets	$	4,126,566	34,331,630	12,564,664
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS				
Operating Revenues	$	2,777,524	6,747,738	5,322,585
Depreciation Expense		(535,153)	(1,146,213)	(1,919,100)
Other Operating Expenses		(2,562,064)	(3,340,601)	(8,482,526)
Operating Income (Loss)		(319,693)	2,260,924	(5,079,041)
Nonoperating Revenues (Expenses):				
Investment Earnings		(2,765)	121,654	70,400
Loss on Disposal of Capital Assets		(5,212)	-	(62,895)
Insurance Recovery		1,900	-	-
Occupation Tax		-	-	1,984,400
Interest Expense and Fiscal Charges		(63,017)	(602,262)	(143,254)
Capital Contributions		71,722	-	61,270
Transfers		46,500	(843,000)	(979,551)
Change in Net Assets		(270,565)	937,316	(4,148,671)
Beginning Net Assets		4,397,131	33,394,314	16,713,335
Ending Net Assets	$	4,126,566	34,331,630	12,564,664
CONDENSED STATEMENT OF CASH FLOWS				
Net Cash Provided (Used) by:				
Operating Activitites	$	292,121	3,552,865	557,259
Noncapital Financing Activities		344,665	(822,518)	1,177,788
Capital and Related Financing Activities		(634,013)	(2,267,319)	(4,266,791)
Investing Activities		(12,126)	1,001,393	1,613,670
Net Increase (Decrease) in Cash		(9,353)	1,464,421	(918,074)
Beginning Balance		118,015	2,090,624	3,258,436
Ending Balance	$	108,662	3,555,045	2,340,362

(21) PLEDGED REVENUES

The City has pledged future revenues derived from the operation of the Lincoln Wastewater System, net of operating and maintenance expenses, to repay $96,508,891 in wastewater revenue bonds & loans. Proceeds provided financing for improvements to the sanitary sewer system, as well as refunding a $4.5 million loan to the City from the Nebraska Department of Environmental Quality. The debt is payable solely from the net earnings of the Wastewater System and are payable through 2032. The total principal and interest remaining to be paid on the debt is $123,775,832, with annual payments expected to require 59 percent of net revenues. Principal and interest paid for the current year and net system revenues were $6,426,444 and $10,807,502, respectively.

The City has pledged future revenues derived from the operation of the Lincoln Water System, net of operating and maintenance expenses, to repay $106,110,000 in water revenue bonds. Proceeds from the bonds provided financing for improvements to the water supply system, as well as refunding $37.8 million of water revenue bonds. The bonds are payable solely from the net earnings of the Water System and are payable through 2034. The total principal and interest remaining to be paid on the bonds is $99,179,389, with annual payments expected to require 76.5 percent of net revenues. Principal and interest paid for the current year and net system revenues were $9,508,097 and $12,424,175, respectively.

The City has pledged future revenues derived from the operation of the Lincoln Electric System, net of operating, maintenance and certain power expenses, to repay $654,580,000 in electric revenue bonds. Proceeds from the bonds provided financing for construction of additional utility plant, as well as refunding certain issues of electric revenue bonds. The bonds are payable solely from the net earnings of the Electric System and are payable through 2037. The total principal and interest remaining to be paid on the bonds is $986,087,000, with annual payments expected to require 52 percent of net revenues. Principal and interest paid for the current year and net system revenues were $45,946,000 and $91,687,000, respectively.

The City has pledged future revenues derived from the operation of the Lincoln Golf Courses, net of operating expenses, to repay $3,165,000 in golf revenue refunding bonds. Proceeds from the bonds provided financing for refunding $3.3 million of 1991 Golf Course Revenue Bonds. The bonds are payable solely from the net earnings of the municipal golf courses and are payable through 2011. The total principal and interest remaining to be paid on the bonds is $379,782, with annual payments expected to require 83 percent of net revenues. Principal and interest paid for the current year and net system revenues were $378,783 and $217,360, respectively.

The City has pledged future revenues derived from the operation of the Lincoln Parking System, net of operating and maintenance expenses, and amounts, if any, distributed by the State for street purposes to repay $19,510,000 in parking revenue bonds. Proceeds from the bonds provided financing for construction and improvements to the parking system, as well as refunding $8,755,000 of Series 1994 A & C parking revenue bonds. The bonds are payable solely from the net earnings of the Parking System and are payable through 2022. The total principal and interest remaining to be paid on the bonds is $11,394,813, with annual payments expected to require 50 percent of net revenues. Principal and interest paid for the current year and net system revenues were $1,993,519 and $3,528,791, respectively.

The City has pledged future revenues derived from the operation of the municipally owned solid waste management facilities, net of operating and maintenance expenses, to repay $4,000,000 in solid waste management revenue bonds. Proceeds from the bonds provided financing for improvements to the solid waste facilities. The bonds are payable solely from the net earnings of the Solid Waste System and are payable through 2021. The total principal and interest remaining to be paid on the bonds is $4,162,312, with annual payments expected to require 15 percent of net revenues. Principal and interest paid for the current year and net system revenues were $340,425 and $0, respectively.

(22) PUBLIC BUILDING COMMISSION

In 1990, the City and the County of Lancaster, pursuant to state statute, activated a separate governmental entity denominated as the Lincoln-Lancaster County Public Building Commission. The purpose of this joint venture is to design, acquire, construct, maintain, operate, improve, remodel, remove and reconstruct, so long as its corporate existence continues, public buildings, structures, or facilities for use jointly by the City and the County. The City and the County each appoint two members to the five-member Commission, with the fifth member being appointed by the other four members. All property held or acquired by the Commission is held or acquired in the name of the City and the County for use by the Commission in its corporate capacity. The Commission's costs of operation and debt service are funded through rental payments made by the City and the County based upon their proportionate occupancy of such buildings to the extent not covered by a maximum property tax levy of 1.7 cents for each $100 of actual valuation of taxable property in the County. For the year ended August 31, 2010, the City made rental payments of approximately $2.6 million to the Commission.

As of August 31, 2010, the Commission has bonds outstanding of $43,770,000 attributable to several bond issues. Certain proceeds from the bonds totaling $28,925,000 have been utilized by the Commission to acquire, construct, and/or renovate certain buildings occupied by the City and County. The City's proportionate share of such buildings are recorded as capital assets and the corresponding debt are reflected as capital leases in the City's financial statements. Lease payments are not recorded as capital lease payments in the Debt Service funds but rather are recorded as current expenditures in the various individual funds.

Additional bond proceeds, totaling $29,000,000, have been utilized by the Commission to construct a new County-City building and to renovate the prior County-City building to be used as a Hall of Justice. It is anticipated that property tax levies by the Commission will be sufficient to meet bond principal and interest payments. Should revenues from such property tax levies not be sufficient to meet debt service requirements in any given year, the City and County would contribute the necessary payments based on their proportionate occupancy in such buildings. Such contributions are expected to be minimal and will be expensed in the appropriate funds when incurred. The City's proportionate share of the buildings has been recorded in capital assets in accordance with the terms of the joint venture agreement regarding the ultimate transfer of assets to the City and County.

Complete separate financial statements for the Commission may be obtained at the Lincoln-Lancaster County Public Building Commission, 920 "O" Street, Room 203, Lincoln, Nebraska 68508.

(23) JOINT ANTELOPE VALLEY AUTHORITY

Joint Antelope Valley Authority is a joint administrative entity created April 15, 2000, in accordance with Article XV, Section 18 of the Constitution of the State of Nebraska and Nebraska Revenue Statutes Sections 13.801 through 13.827 (1997) authorizing the creation of a joint entity by public agencies. Per an interlocal cooperative agreement by and between the Board of Regents of the University of Nebraska, a public body corporate, the City of Lincoln, Nebraska, a municipal corporation, and the Lower Platte South Natural Resources District, a political subdivision of the State of Nebraska, this joint administrative entity was created to be known as Joint Antelope Valley Authority (JAVA). JAVA constitutes a separate administrative entity, exercising the public power granted by the interlocal cooperation agreement on behalf of the three aforementioned "Partners" to coordinate planning and implementation of a public project described in the Antelope Valley Study and the U.S. Army Corps of Engineers Antelope Creek Feasibility Study (the Project). The Project generally includes community revitalization, transportation, and drainage/flood control improvements.

After completion of a specific component of the Project, JAVA will transfer all real estate and improvements thereon to the appropriate individual Partner, subject to the necessary and agreed upon easements which will be conveyed to such Partner or other appropriate public or private entity, or reserved by such a Partner, for the operation, maintenance, repair, and inspection of each specific component.

During the implementation period of the agreement, JAVA shall have the power and authority to acquire and condemn property rights, borrow, mortgage, pledge, or secure loans and bond its appropriated revenues and assets; provided, however, that JAVA shall have no power and authority to bond the credit or revenues of the three Partners or each Partner, or levy taxes.

For the year ended August 31, 2010, total assets of JAVA reached approximately $182 million, an increase of $3 million from the prior year. The City's equity interest increased by approximately $3 million to $153 million.

Complete separate financial statements for JAVA may be obtained at the City of Lincoln Public Works Business Office, 555 South 10th Street, Lincoln, Nebraska 68508.

(24) JOINTLY GOVERNED ORGANIZATIONS

District Energy Corporation

LES, in conjunction with two other governmental entities, created the District Energy Corporation (DEC) in 1989 to own, operate, maintain, and finance the heating and cooling facilities utilized by certain city, county, and state buildings. The Board of Directors of DEC is comprised of five members: two appointed by the County Board of Commissioners, two by the Mayor of Lincoln who must be confirmed by the City Council, and one by LES. No participant has any obligation, entitlement, or residual interest.

The DEC Board of Directors, under a twenty-year management agreement, has appointed LES to supervise and manage the system and business affairs of DEC. LES is reimbursed for these management services based on the allocated actual costs of these services. LES also provides electric energy to DEC at an established interruptible commercial rate. The total amount of payments to LES for management, operations, and maintenance services was approximately $280,000 in 2009. The total amount of payments to LES for energy was approximately $84,000 in 2009.

Nebraska Utility Corporation

On May 17, 2001, LES, in conjunction with another governmental entity, created the Nebraska Utility Corporation (NUCorp) to purchase, lease, construct, and finance facilities and acquire services in order to furnish energy requirements, utility and infrastructure facilities, and all related energy, utility, and infrastructure services to counties, cities, villages, school districts, sanitary and improvement districts, or other municipal corporations or political subdivisions of the State of Nebraska or political subdivisions of another state. The Board of Directors of NUCorp is comprised of five members: three members appointed by the University of Nebraska and two members appointed by LES. No participant has any obligation, entitlement, or residual interest.

Operations commenced in January 2002. The NUCorp board of directors, under a twenty-year management agreement, appointed LES to supervise and manage the system and business affairs of NUCorp. LES is reimbursed for these management services based on the allocated actual costs of these services. LES also provides electric energy to NUCorp on an established rate schedule. The total payment to LES for management, operations, and maintenance services was approximately $89,000 in 2009. The total amount of payments to LES for energy was approximately $9.5 million in 2009.

(25) SUBSEQUENT EVENTS

In September 2010, the WHJPA issued $100,000,000 in General Obligation Facility Bonds, Taxable Series 2010A, 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. Debt service principal payments are scheduled annually beginning in 2020 at amounts that range from $2,440,000 to $5,855,000 with the final maturity December 2045. The bonds are Build America Bonds and, as such, the WHJPA has elected to receive a federal subsidy of 35 percent from the U.S. Department of the 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 WHJPA issued an additional $100,000,000 in General Obligation Facility Bonds, Series 2010B and C. The first series was $67,965,000 of taxable Build America Bonds, with the federal government providing a 35 percent subsidy. The second series was $32,035,000 of taxable Recovery Zone Economic Development Bonds, which have a federal subsidy of 45 percent. Debt service principal payments are scheduled annually beginning in 2020 at amounts that range from $2,440,000 to $5,855,000 with the final maturity December 2045. The two series have interest rates ranging from 4.00 to 6.75 percent prior to the federal subsidy. The federal subsidy reduces the true interest cost to 3.75 percent.

In November 2010, the City issued $7,780,000 in Certificates of Participation, Series 2010B, to provide funds for the purchase and improvements to the former Experian Building. Interest rates range from 2.00 to 3.50 percent and the final maturity is November 2025. Debt service principal payments are scheduled annually at amounts that range from $495,000 to $650,000.

Also in December 2010, the City issued $2,065,000 of taxable Parking Revenue Bonds, Series 2010B, to provide a portion of the funds necessary to pay the costs of constructing a new downtown garage. The interest rates on the bonds range from 1.25 to 2.85 percent and the final maturity is August 2014. Debt service principal payments are scheduled annually at amounts that range from $305,000 to $600,000.

In January 2011, the City issued an additional $18,520,000 of tax exempt Parking Revenue Bonds, Series 2011, to provide the remainder of funds necessary to pay the costs of constructing a new downtown garage and the refunding of the 1999A bonds. The interest rates on the bonds range from 2.000 to 5.209 percent and the final maturity is August 2031. Debt service principal payments are scheduled annually at amounts that range from $545,000 to $1,780,000.

In February 2011, the City issued $8,200,000 of General Obligation Stormwater Bonds, Series 2011, to provide a portion of the funds necessary to pay the costs of constructing extensions of and improvements to the City's stormwater system. The interest rates on the bonds range from 2.00 to 4.50 percent and the final maturity is June 2030. Debt service principal payments are scheduled annually at amounts that range from $365,000 to $615,000.