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, or online at www.lincoln.ne.gov/city/finance/account/jpa-audits.htm.

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, 2013. 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, 2012. The amounts included in the City's 2013 financial statements for LES are amounts as of and for the year ended December 31, 2012.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position 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, aging services, police and fire protection, emergency communications, legal services, planning, and parks and recreation. Primary resources of the fund include property, sales, and occupation taxes.

The Street Construction Fund, a special revenue fund, accounts for the resources accumulated, primarily highway allocation fees received from the State of Nebraska, and the 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. Occupation taxes imposed on bar, restaurant, car rental, and hotel revenues provides the resources to finance the activities of the JPA.

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, municipal services center operations, 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; funds for shared library services; and reserve funds held for the Public Building Commission Bonds.

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, return on equity, 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.

In 2011, the City Council approved an ordinance requiring LES to pay an annual dividend to the City for the City's ownership of LES, in an amount based on the total net position of LES as of the most recent audited year-end financial statements. The annual dividend shall be remitted to the City on a semiannual basis on the 20th day of February and August of each year, with each payment representing fifty percent of the annual dividend payment.

ASSETS, LIABILITIES, AND NET POSITION 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

Materials, supplies, and fuel inventories are stated at cost, which is generally determined using the average cost 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 reported as nonspendable net position 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.

Costs Recoverable From Future Billings

Certain income and expense items of the Wastewater System, Water System, and LES, which would be recognized during the current period are deferred and not included in the determination of the change in net position until such costs are expected to be recovered through rates, in accordance with the regulated operations provisions of GASB Statement No. 62.

Investment in Joint Venture

Investment in joint venture consists of the City's interest in the Joint Antelope Valley Authority (see Note 22), 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, street lights, 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

The exceptions to this rule are library media, which is depreciated using a composite depreciation method, and LES, which depreciates it's utility plant on a straight-line basis using composite rates ranging between 2% and 20%, depending on the respective asset type.

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 37 days.

Employees earn sick leave at the rate of one day per month with total accumulation unlimited. Upon retirement, an employee is reimbursed for a percentage of accumulated sick leave with percentages and maximums depending on the employees' bargaining unit contract. Upon resignation from City service an employee may also be compensated for a percentage of accumulated sick leave, again, based on the employees' bargaining union contract. In some cases payment may be placed in a medical spending account rather than reimbursing the employee directly. 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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. 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. The unamortized balance of the refunding gain or loss is reported as deferred inflows or outflows of resources, as applicable, on the statement of net position.

In the fund financial statements, governmental funds recognize bond premiums and discounts 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

Fund balances reflect assets plus deferred outflows of resources minus liabilities and deferred inflows of resources in the governmental fund statements. Fund balance is divided into five classifications; nonspendable, restricted, committed, assigned and unassigned. Fund balance is reported as nonspendable when not in spendable form or legally or contractually required to be maintained intact. Fund balance is reported as restricted when constraints placed on the use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. Fund balance is reported as committed when constraints are imposed by formal action (ordinance) of the City Council, the City's highest level of decision-making authority. Fund balance is reported as assigned when the intent of the City (resolution, executive order) is to use the funds for a specific purpose. Unassigned fund balance is the residual amount and only the General Fund can report a positive unassigned balance.

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 $27,424,940 of the General Fund's spendable and unrestricted fund balance meets the requirements of this policy.

Net Position Classification

Net position is assets plus deferred outflows of resources minus liabilities and deferred inflows of resources and is shown in the entity-wide, proprietary, and fiduciary fund financial statements. Net position is required to be classified into three components – net investment in capital assets, restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets – This component of net position 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvements of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

Restricted – This component of net position consists of restricted assets, reduced by liabilities related to those assets, with constraints placed on their use through external parties such as creditors (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 position reports $158,092,565 of restricted net position, of which enabling legislation restricts $16,973,440.

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

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

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 beginning of the biennial budget period, the Mayor submits to the City Council a proposed biennial budget for the ensuing years. The biennial budget is a complete financial plan for the biennial period 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 biennial period, 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 during the biennium. 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 that fiscal or biennial period.

   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 biennial 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 biennial period for which authorized except for those reappropriated by Council resolution, 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, Parks & Recreation Special Projects, Seniors Foundation of Lincoln & Lancaster County, and R.P. Crawford Park), permanent (J.J. Hompes), Fast Forward, and agency funds. In addition, capital project funds are budgeted on a project rather than a biennial 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 $20,691,044, which is reported as expendable health care restricted net position in the statement of net position. The initial endowment principal is reported as nonexpendable health care restricted net position in the statement of net position.

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 2013, the City implemented the provisions of the following accounting principles:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard addresses service concession arrangements, which are a type of public-private or public-public partnership, and improving consistency in financial reporting of such arrangements among state and local governments.

GASB Statement No. 61, *The Financial Reporting Entity-Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. The requirements of GASB Statements No. 14 and No. 34 were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

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

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

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

The City also early implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In addition, the statement changes the method of reporting debt issuance costs. Prior to implementation of GASB Statement No 65, the City reported debt issuance costs as deferred charges which were capitalized and amortized over the life of the debt. Deferred charges were reported as an asset on the statement of net position. Under GASB Statement No. 65, debt issuance costs are to be recognized in the period of the debt issue. Implementation of GASB Statement No. 65 resulted in a restatement of previously reported net position for the retrospective removal of these debt issuance costs. However, as the Wastewater, Water and Electric Systems meet the criteria as rate-making entities under the regulated operations provisions of GASB Statement No. 62, their bond issuance costs were deferred and are shown as costs recoverable from future billings on the statement of net position.

(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 POSITION

The governmental funds balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position of governmental activities* as reported in the government-wide statement of net position. 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 $508,183,648 difference are as follows:

Bonds Payable	$	443,743,559
Less issuance discounts		(1,002,012)
Plus issuance premiums		12,067,421
Less deferred charge on refunding		(1,223,669)
Capital Leases Payable		23,784,756
Accrued Interest Payable		4,636,216
Net Pension Obligation		3,251,955
Net OPEB Obligation		7,032,488
Compensated Absences		15,892,934
Net difference	$	508,183,648

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 position 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 $155,163,658 difference are as follows:

Capital outlay	$	183,770,567
Depreciation expense		(28,606,909)
Net difference	$	155,163,658

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 position. Also, governmental funds report the effect of 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 $(24,390,654) difference are as follows:

Debt issued or incurred:		
Issuance of general obligation stormwater bonds	$	(7,900,000)
Issuance of limited tax general obligation arena bonds		(25,000,000)
Issuance of tax allocation bonds		(103,437)
Issuance of certificates of participation		(2,430,000)
Issuance premiums		(980,328)
Amortization of deferred premiums, discounts, and amounts from refundings		256,547
Principal repayments		11,766,564
Net difference	$	(24,390,654)

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 $(8,408,489) difference are as follows:

Loss on disposal of capital assets	$ (3,902,559)
Construction contracts	136,563
Commissions	(2,465,648)
Other	219,521
Accrued interest	(157,314)
Compensated absences	(2,239,052)
Net difference	$ (8,408,489)

(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 position 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 capital improvements. Lincoln Electric System has also restricted certain assets for employee health claims. Certain assets of the Pershing Municipal Auditorium Enterprise Fund are classified as restricted assets to be used for marketing and improvements. Certain assets of the Municipal Services Center Internal Service Fund are also restricted for capital improvements.

A recap of restrictions and related balances at August 31, 2013, are as follows:

Fund Account	Golf	Parking System	Pershing Municipal Auditorium	Solid Waste Management	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Municipal Services Center	Total
Principal and Interest	$ -	206,916	-	-	1,366,555	265,675	16,278,000	-	18,117,146
Reserve	-	2,847,374	-	695,140	5,660,664	5,697,896	20,041,000	-	34,942,074
Depreciation and Replacement	-	1,143,275	-	-	-	-	-	-	1,143,275
Capital Construction and Equipment	100,760	7,184,690	9,540	5,675,176	35,434	668,993	125,000	1,183,744	14,983,337
Claims	-	-	-	-	-	-	1,025,000	-	1,025,000
Marketing	-	-	39,099	-	-	-	-	-	39,099
Total	$ 100,760	11,382,255	48,639	6,370,316	7,062,653	6,632,564	37,469,000	1,183,744	70,249,931

Restricted assets for internal balances are shown on the fund statements and included above, but are segregated and not included in restricted asset balances on the statement of net position.

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).

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. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

INVESTMENTS

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

	August 31, 2013						
		Maturities in Years				Credit Rating	
Type	Carrying Value	Less than 1	1-5	6-10	More than 10	Moody's	S&P
General City:							
U.S. Treasury Obligations	$ 43,731,220	41,739,960	1,991,260	-	-	Aaa	AA+
U.S. Sponsored Agency Obligations	369,804,271	215,135,190	75,370,565	75,081,789	4,216,727	Aaa	AA+
Collateralized Repurchase Agreements	4,474,756	4,474,756	-	-	-	N/A	N/A
Collateralized Investment Agreements	1,120,000	-	1,120,000	-	-	Baa1	A+ (Fitch)
Collateralized Investment Agreements	3,139,981	-	-	-	3,139,981	Aa3	AA-
Money Market Funds - U.S. Treasury	4,003,193	4,003,193	-	-	-	Aaa	AAAm
Money Market Funds - U.S. Agencies	53,380,469	53,380,469	-	-	-	Aaa	AAAm
External Investment Trust	4,000,000	4,000,000	-	-	-	Not rated	Not rated
Tax Increment Financing Investments	3,600,132	-	591,875	1,634,418	1,373,839	Not rated	Not rated
Fixed Income Mutual Funds	122,392	122,392	-	-	-	Not rated	Not rated
Equities	829,107	829,107	-	-	-	Not rated	Not rated
Complementary Strategies	97,948	97,948	-	-	-	Not rated	Not rated
Real Assets	83,401	83,401	-	-	-	Not rated	Not rated
Total General City	488,386,870	323,866,416	79,073,700	76,716,207	8,730,547		
Community Health Endowment:							
Money Market Mutual Funds	178,907	178,907	-	-	-	Not rated	Not rated
Institutional Funds							
Fixed Income	15,849,926	15,849,926	-	-	-	Not rated	Not rated
Intermediate Term Credit	280,381	280,381	-	-	-	Not rated	Not rated
Large Cap Equity	2,593,219	2,593,219	-	-	-	Not rated	Not rated
International Equity	9,881,600	9,881,600	-	-	-	Not rated	Not rated
High-yield Bonds	3,959,008	3,959,008	-	-	-	Not rated	Not rated
Emerging Markets Equity	2,261,945	2,261,945	-	-	-	Not rated	Not rated
Hedge Funds	5,528,919	5,528,919	-	-	-	Not rated	Not rated
Mid Cap Equity	2,633,343	2,633,343	-	-	-	Not rated	Not rated
U.S. Treasuries	4,655,607	4,655,607	-	-	-	Not rated	Not rated
Small Cap Equity	2,654,468	2,654,468	-	-	-	Not rated	Not rated
Commocities	2,998,553	2,998,553	-	-	-	Not rated	Not rated
Real Estate	2,629,500	2,629,500	-	-	-	Not rated	Not rated
Limited Partnership	881,014	881,014	-	-	-	Not rated	Not rated
Total Community Health Endowment	56,986,390	56,986,390	-	-	-		
Police & Fire Pension Trust:							
Equities	4,186,736	4,186,736	-	-	-	Not rated	Not rated
Fixed Income Mutual Funds	23,062,129	23,062,129	-	-	-	Not rated	Not rated
Non-Fixed Income Mutual Funds	92,065,365	92,065,365	-	-	-	Not rated	Not rated
ETF Mutual Funds	45,564,748	45,564,748	-	-	-	Not rated	Not rated
Corporate Bonds	1,363,400	-	-	-	1,363,400	B (Fitch)	BB+
	166,242,378	164,878,978	-	-	1,363,400		
Limited Partnership	495,988						
Real Estate Limited Partnerships	11,245,353						
Total Police & Fire Pension Trust	177,983,719						
Total Primary Government	$ 723,356,979						

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. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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 102-104%, and if the provider is further downgraded below A3 by Moody's or A- by S&P, 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, 2013, the investment agreements were adequately collateralized with U.S. Government agencies obligations that had a rating of Aaa by Moody's and AA+ by S&P, or by small business administration obligations which are 100% guaranteed by the U.S. Government.

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) funds. NPAIT and STFIT invest in only the highest quality securities, including U.S. government, rated U.S. sponsored agencies, and guaranteed student loans.

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.

Type	Portfolio Composition	Policy Limits on Issuer
U.S. agency obligations:		
Federal Home Loan Bank	35.29% %	40.00 %
Federal Home Loan Mortgage Corporation	23.92%	40.00
Federal National Mortgage Association	30.25%	40.00
Federal Farm Credit Bank	10.55%	40.00

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. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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. Treasury 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, 2013.

Police & Fire Pension Trust Policy

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. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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, 2013:

	Totals
Investments	$ 723,356,979
Deposits and Cash on Hand	9,588,523
	$ 732,945,502

	Government-wide Statement of Net Position	Fiduciary Funds Statement of Net Position	Totals
Cash and Cash Equivalents	$ 55,413,239	6,826,067	62,239,306
Investments	379,369,181	184,078,402	563,447,583
Restricted Assets:			
Cash and Cash Equivalents	11,608,168	-	11,608,168
Investments	95,650,445	-	95,650,445
	$ 542,041,033	190,904,469	732,945,502

(5) FUND BALANCES

Fund balances are classified as nonspendable, restricted, committed, assigned or unassigned. The City generally follows this same order in spending available resources unless special circumstances apply. The following provides details of the aggregate amounts displayed on the face of the balance sheet:

	Major Funds				
	General Fund	Street Construction	West Haymartket JPA	Other Funds	Total
Fund Balances:					
Nonspendable:					
Inventory	$ 466,956	221,510	-	518,537	1,207,003
Prepaid Items	2,846,827	-	-	-	2,846,827
Permanent Fund Principal	-	-	-	37,160,000	37,160,000
Total Nonspendable	3,313,783	221,510	-	37,678,537	41,213,830
Restricted For:					
Capital Improvements	721,327	30,360,494	17,997,320	16,818,180	65,897,321
Human Services	938,410	-	-	-	938,410
Donor Purposes	2,141,899	-	-	1,724,432	3,866,331
Public Improvements	2,479,594	-	-	-	2,479,594
Agency Activities	-	-	4,673,929	-	4,673,929
Land Purchases	-	-	-	216,590	216,590
Social Security Obligations	-	-	-	1,169,123	1,169,123
Community Betterment	-	-	-	2,734,244	2,734,244
Federal Loan Programs	-	-	-	19,719,000	19,719,000
Grant Programs	-	-	-	1,903,966	1,903,966
Special Assessment Improvements	-	-	-	656,847	656,847
Debt Service	-	-	-	18,524,649	18,524,649
Health Care	-	-	-	20,691,044	20,691,044
Claims Contingencies	-	-	-	865,000	865,000
Library Media	-	-	-	523,964	523,964
Total Restricted	6,281,230	30,360,494	22,671,249	85,547,039	144,860,012
Committed To:					
Public Access Television	-	-	-	821,517	821,517
Assigned To:					
Capital Improvements	-	26,572,414	-	54,154	26,626,568
Donor Purposes	770,984	-	-	-	770,984
Public Improvements	513,093	-	-	-	513,093
Athletic Facility Improvements	859,725	-	-	-	859,725
Senior Care	222,796	-	-	-	222,796
Emergency Communications	2,016,091	-	-	-	2,016,091
Economic Development Projects	5,647,184	-	-	-	5,647,184
Snow Removal	-	861,620	-	-	861,620
Debt Service	-	-	10,137,189	-	10,137,189
Land Purchases	-	-	-	22,397	22,397
Public Access Television	-	-	-	8,255	8,255
Library Services	-	-	-	2,872,364	2,872,364
Health Care	-	-	-	1,380,730	1,380,730
Social Security Obligations	-	-	-	358,353	358,353
Public Transportation	-	-	-	1,903,973	1,903,973
Community Betterment	-	-	-	15,005	15,005
Building Code Enforcement	-	-	-	3,937,661	3,937,661
Park Projects	-	-	-	119,288	119,288
Other Purposes	4,396,060	-	-	-	4,396,060
Total Assigned	14,425,933	27,434,034	10,137,189	10,672,180	62,669,336
Unassigned	31,198,290	-	-	(133,773)	31,064,517
Total Fund Balances	$ 55,219,236	58,016,038	32,808,438	134,585,500	280,629,212

(6) RECEIVABLES AND DUE FROM OTHER GOVERNMENTS

Receivables at August 31, 2013, consist of the following (in thousands):

Fund	Taxes	Accounts	Loans	Lease	Contributions	Special Assessment Current	Special Assessment Deferred	Accrued Interest	Gross Receivables	Allowance For Uncollectibles	Net
General	$ 4,173	2,908	-	-	-	-	-	73	7,154	-	7,154
Street Construction	-	294	-	-	-	-	-	70	364	-	364
West Haymarket JPA	1,311	101	-	-	-	-	-	89	1,501	-	1,501
Wastewater System	-	4,492	-	-	-	-	-	-	4,492	-	4,492
Water System	-	7,938	-	-	-	-	-	-	7,938	-	7,938
Electric System	-	32,802	-	-	-	-	-	81	32,883	1,633	31,250
Nonmajor -											
Special Revenue	1,867	330	24,217	-	-	-	-	62	26,476	4,498	21,978
Debt Service	934	-	-	-	-	518	3,220	50	4,722	280	4,442
Capital Projects	-	-	-	-	-	-	-	46	46	-	46
Permanent	-	-	-	-	-	-	-	3	3	-	3
Enterprise	-	5,646	-	-	-	-	-	48	5,694	2,709	2,985
Internal Service	-	220	-	785	-	-	-	62	1,067	-	1,067
Fiduciary	-	41	-	-	735	-	-	1,008	1,784	-	1,784
Total	$ 8,285	54,772	24,217	785	735	518	3,220	1,592	94,124	9,120	85,004

Enterprise funds customer accounts receivable include unbilled charges for services. Delinquent special assessment receivables at August 31, 2013, were $161,642.

The total of Due From Other Governments of $28,567,324 includes the following significant items:

Fund/Fund Type	Amount	Service
General/Major Governmental	$ 10,995,254	State of Nebraska, July/August Sales and Use Tax
	431,083	August Motor Vehicle Taxes Collected by Lancaster County
	113,337	Federal Government, Cost Reimbursements
	31,932	State of Nebraska, Cost Reimbursements
	83,057	Lancaster County, Cost Reimbursements
Street Construction/Major Governmental	3,793,251	State of Nebraska, July/August Highway User Fees
	400,000	State of Nebraska, Cost Reimbursements
	197,568	Lancaster County, Cost Reimbursements
	2,019,123	Federal Government, Cost Reimbursements
West Haymarket JPA/Major Governmental	754,054	Federal Government, Cost Reimbursements
Wastewater/Major Enterprise	1,136,734	State of Nebraska, Cost Reimbursements
Water/Major Enterprise	3,618,166	State of Nebraska, Cost Reimbursements
Lincoln/Lancaster Co. Health/Special Revenue	363,903	Lancaster County, Cost Reimbursements
StarTran/Special Revenue	146,381	Federal Government, Cost Reimbursements
Federal Grants/Special Revenue	1,661,900	Federal Government, Cost Reimbursements
	581,390	State of Nebraska, Cost Reimbursements
Antelope Valley/Tax Supported Bonds/Debt Service	166,667	State of Nebraska, July/August Development Fund Disbursements
Vehicle Tax/Capital Projects	1,487,897	August Motor Vehicle Taxes Collected by Lancaster County
Storm Sewer Bonds/Capital Projects	186,622	Federal Government, Cost Reimbursements
Other Capital Projects/Capital Projects	23,925	Federal Government, Cost Reimbursements
Parking System/Enterprise	30,380	State of Nebraska, Cost Reimbursements
Pinnacle Bank Arena/Enterprise	18,076	University of Nebraska-Lincoln Billings
Information Services/Internal Service	270,779	Lancaster County Billings
Insurance Revolving/Internal Service	12,507	Lancaster County Billings
Copy Services/Internal Service	13,632	Lancaster County Billings
Subtotal	28,537,618	
All other	29,706	
Total Due From Other Governments	$ 28,567,324	

(7) CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2013, was as follows:

		Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:					
Capital Assets, not being Depreciated:					
Land	$	138,768,877	4,374,402	3,708,806	139,434,473
Construction in Progress		159,386,583	168,953,556	264,992,880	63,347,259
Total Capital Assets, not being Depreciated		298,155,460	173,327,958	268,701,686	202,781,732
Capital Assets, being Depreciated:					
Buildings		88,406,277	193,574,249	515,217	281,465,309
Improvements Other Than Buildings		69,467,103	4,142,883	131,246	73,478,740
Machinery and Equipment		89,069,443	7,438,277	5,186,320	91,321,400
Infrastructure		607,935,448	80,223,554	72,324	688,086,678
Total Capital Assets, being Depreciated		854,878,271	285,378,963	5,905,107	1,134,352,127
Less Accumulated Depreciation for:					
Buildings		34,588,816	2,556,910	452,967	36,692,759
Improvements Other Than Buildings		29,106,974	2,197,110	128,055	31,176,029
Machinery and Equipment		53,767,082	7,482,569	5,004,608	56,245,043
Infrastructure		213,679,369	19,079,475	37,356	232,721,488
Total Accumulated Depreciation		331,142,241	31,316,064	5,622,986	356,835,319
Total Capital Assets, being Depreciated, Net		523,736,030	254,062,899	282,121	777,516,808
Governmental Activities Capital Assets, Net	$	821,891,490	427,390,857	268,983,807	980,298,540

		Beginning Balances	Increases	Decreases	Ending Balances
Business-type Activities:					
Capital Assets, not being Depreciated:					
Land	$	24,232,300	6,355	-	24,238,655
Construction in Progress		59,869,232	82,943,902	54,333,705	88,479,429
Total Capital Assets, not being Depreciated		84,101,532	82,950,257	54,333,705	112,718,084
Capital Assets, being Depreciated:					
Buildings		215,720,069	2,119,405	77,306	217,762,168
Improvements Other Than Buildings		633,568,065	17,988,221	506,419	651,049,867
Machinery and Equipment		31,003,757	3,378,446	1,078,634	33,303,569
Utility Plant		1,267,997,000	36,904,000	4,693,000	1,300,208,000
Total Capital Assets, being Depreciated		2,148,288,891	60,390,072	6,355,359	2,202,323,604
Less Accumulated Depreciation for:					
Buildings		75,328,261	4,625,456	77,306	79,876,411
Improvements Other Than Buildings		182,617,177	12,807,678	483,499	194,941,356
Machinery and Equipment		18,238,290	1,973,454	619,449	19,592,295
Utility Plant		506,423,000	41,947,000	5,585,000	542,785,000
Total Accumulated Depreciation		782,606,728	61,353,588	6,765,254	837,195,062
Total Capital Assets, being Depreciated, Net		1,365,682,163	(963,516)	(409,895)	1,365,128,542
Business-type Activities Capital Assets, Net	$	1,449,783,695	81,986,741	53,923,810	1,477,846,626

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:		
General Government	$	1,416,382
Public Safety		2,080,111
Streets and Highways, including Infrastructure		18,363,694
Culture and Recreation		4,300,423
Economic Opportunity		51,459
Health and Welfare		293,212
Mass Transit		2,101,628
Subtotal		28,606,909
Internal Service Funds Capital Assets Depreciation is charged to the various functions based on usage of the assets.		2,709,155
Total Depreciation Expense - Governmental	$	31,316,064
Business-type Activities:		
Golf		492,968
Parking System		1,621,709
Pershing Municipal Auditorium		19,418
Solid Waste Management		1,833,106
Emergency Medical Services		210,967
Wastewater System		7,778,690
Water System		7,449,730
Lincoln Electric System		41,947,000
Total Depreciation Expense - Business-type	$	61,353,588

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	$	5,996,823	4,306	-	6,001,129
Construction in Progress		1,767,162	6,977,258	3,808,174	4,936,246
Total Capital Assets, not being Depreciated		7,763,985	6,981,564	3,808,174	10,937,375
Capital Assets, being Depreciated:					
Buildings		79,839,389	74,684	-	79,914,073
Improvements Other Than Buildings		265,147,852	5,512,038	-	270,659,890
Machinery and Equipment		8,793,982	307,181	128,994	8,972,169
Total Capital Assets, being Depreciated		353,781,223	5,893,903	128,994	359,546,132
Less Accumulated Depreciation for:					
Buildings		25,086,939	1,894,624	-	26,981,563
Improvements Other Than Buildings		74,251,088	5,341,568	-	79,592,656
Machinery and Equipment		5,341,708	542,498	113,984	5,770,222
Total Accumulated Depreciation		104,679,735	7,778,690	113,984	112,344,441
Total Capital Assets, being Depreciated, Net		249,101,488	(1,884,787)	15,010	247,201,691
Wastewater System Capital Assets, Net	$	256,865,473	5,096,777	3,823,184	258,139,066

		Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Water System:					
Capital Assets, not being Depreciated:					
Land	$	5,449,698	2,049	-	5,451,747
Construction in Progress		4,400,696	11,585,123	10,286,791	5,699,028
Total Capital Assets, not being Depreciated		9,850,394	11,587,172	10,286,791	11,150,775
Capital Assets, being Depreciated:					
Buildings		67,727,299	275,445	-	68,002,744
Improvements Other Than Buildings		327,271,789	11,454,746	-	338,726,535
Machinery and Equipment		8,616,076	562,818	99,125	9,079,769
Total Capital Assets, being Depreciated		403,615,164	12,293,009	99,125	415,809,048
Less Accumulated Depreciation for:					
Buildings		25,778,198	1,230,986	-	27,009,184
Improvements Other Than Buildings		86,316,745	5,766,887	-	92,083,632
Machinery and Equipment		4,576,144	451,857	86,233	4,941,768
Total Accumulated Depreciation		116,671,087	7,449,730	86,233	124,034,584
Total Capital Assets, being Depreciated, Net		286,944,077	4,843,279	12,892	291,774,464
Water System Capital Assets, Net	$	296,794,471	16,430,451	10,299,683	302,925,239

		Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Electric System:					
Capital Assets, not being Depreciated:					
Construction in Progress	$	52,684,000	55,132,000	37,796,000	70,020,000
Capital Assets, being Depreciated:					
Utility Plant		1,267,997,000	36,904,000	4,693,000	1,300,208,000
Less Accumulated Depreciation		506,423,000	41,947,000	5,585,000	542,785,000
Total Capital Assets, being Depreciated, Net		761,574,000	(5,043,000)	(892,000)	757,423,000
Electric System Capital Assets, Net	$	814,258,000	50,089,000	36,904,000	827,443,000

Interest incurred during the construction phase of capital assets of business-type activities is added to the cost of the underlying assets constructed and is amortized over the useful lives of the assets. During 2013, capitalized interest activity was as follows:

		Incurred Interest Cost	Capitalized Interest
Lincoln Wastewater System	$	3,036,393	73,366
Lincoln Water System		2,347,697	248,479
Lincoln Parking System		1,188,954	148,919
Golf Fund		39,191	23,495

Lincoln Electric System utility plant includes an allowance for funds used during construction for projects costing in excess of $500,000. The allowance for funds used during construction is based on LES' approximate weighted-average interest rate on debt during the current period. The weighted-average rate for 2012 was 4.6%, until August 2012. On September 1, 2012 the rate was decreased to 3.5%.

(8) INTERFUND BALANCES AND ACTIVITY

Balances Due To/From Other Funds at August 31, 2013, consist of the following:

Due To	Due From						
	General Fund	Street Construction	West Haymarket JPA	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General Fund	$ -	645	15,499	33,538	898,149	537,478	1,485,309
Street Construction	402,532	-	-	8,635,505	-	-	9,038,037
West Haymarket JPA	499,322	-	-	-	-	-	499,322
Nonmajor Governmental	529,030	-	-	1,225,880	6,251	-	1,761,161
Lincoln Wastewater System	174,043	-	-	274,406	-	-	448,449
Lincoln Water System	195,924	-	-	867,183	-	-	1,063,107
Nonmajor Enterprise	202,345	5,846	-	33	162,385	-	370,609
Internal Service	873,392	281,977	9	98,982	29,364	65,486	1,349,210
Total	$ 2,876,588	288,468	15,508	11,135,527	1,096,149	602,964	16,015,204

"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 134 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, 2013, consist of the following:

Transfer To	Transfer From								
	General Fund	Street Construction	Nonmajor Governmental	Lincoln Electric System	Lincoln Wastewater	Lincoln Water	Nonmajor Enterprise	Internal Service	Total
General Fund	$ -	-	531,048	8,609,168	510	250,510	1,450,205	4,416	10,845,857
Street Construction	2,968,449	-	16,330,509	-	-	-	9,023	154,810	19,462,791
Nonmajor Governmental	17,606,672	4,272,216	2,934,049	-	11,212	554,563	1,163,226	9,383	26,551,321
Nonmajor Enterprise	628,187	-	29,715	-	-	-	-	-	657,902
Internal Service	79,992	-	-	-	-	-	-	-	79,992
Total	$ 21,283,300	4,272,216	19,825,321	8,609,168	11,722	805,073	2,622,454	168,609	57,597,863

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 and return on equity from LES to the General Fund.

The $250,168 variance for transfers on the Statement of Activities is caused by the different fiscal year end dates used by the City (August 31) and Lincoln Electric System (December 31). Lincoln Electric System records an estimate for payments of return on equity as an accrued liability at December 31. The City however, receives the payments before the August 31 fiscal year end, and records the total amount as a transfer in.

(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, 2012, LES had $88.5 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, 2012, was 0.16%. 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 commercial paper notes as part of their long-term financing strategy. As such, commercial paper is typically renewed as it matures. The weighted average length of maturity of commercial paper for 2012 was 51 days.

Commercial paper activity for the year ended December 31, 2012, is as follows:

Lincoln Electric System:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Commercial Paper Notes	$ 128,500,000	779,500,000	(819,500,000)	88,500,000	88,500,000

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 position of $4,413,826, $3,293,427, $10,244,591, and $572,805 is currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, Tax Allocation Bonds, and Special Assessment 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	$ 1,774,450	$ 210,000
Buildings	19,902,404	1,576,024
Improvements	219,925	-
Infrastructure	17,442,628	-
Machinery and Equipment	6,383,372	3,438,897
Construction in Progress	5,367,422	-
Less Accumulated Depreciation, (where applicable)	(8,610,204)	(2,249,521)
Total	$ 42,479,997	$ 2,975,400

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.

In 2013 the City issued the following refunding bonds:

- $277,315,000 of LES revenue and refunding bonds to advance refund $58,040,000 of series 2002 bonds, $94,435,000 of series 2003 bonds, and $61,290,000 of series 2005 bonds. The issuance was also used to fund electric system projects and the redemption of $40,000,000 of outstanding commercial paper notes. The refunding resulted in debt service savings of approximately $40,860,000 and net present value savings of approximately $28,140,000.

- $2,900,000 in parking revenue refunding bonds with an average interest rate of 2.52% to advance refund $3,290,000 of 2001 parking revenue bonds. The refunding resulted in a cash flow differential of $673,821, and a net present value savings of $519,494.

- $2,490,000 in solid waste management revenue refunding bonds with an average interest rate of 2.39% to refund $2,800,000 in outstanding solid waste management revenue bonds, series 2006. The refunding resulted in a cash flow differential of $425,451 and a net present value savings of $267,683.

- $28,595,000 in water revenue refunding bonds with an average interest rate of 3.42% to advance refund $31,210,000 in outstanding water revenue bonds, series 2004. The refunding resulted in a cash flow differential of $5,748,864 and a net present value savings of $3,315,926.

Lincoln Wastewater System has entered into a loan agreement with the Nebraska Department of Environmental Quality (NDEQ) consisting of two separate contracts. Under contract 317247 the Lincoln Wastewater System has borrowed $4,808,792 to fund certain sewer system extension and sewer repairs. The System also borrowed $5,000,000 under contract 317078 to fund certain treatment facilities projects. The interest rate throughout the term of the loan is 2.0%.

The Wastewater System has also entered into a $17,000,000 loan agreement with NDEQ to fund certain System improvements. The interest rate during the period of construction is 2%. After the date of initiation of operation, the interest rate will increase to 2.25%. In addition, an administrative fee of 1% will be incurred on the loan. During the fiscal year ended August 31, 2013, Lincoln Wastewater System incurred project costs totaling $4,929,999, resulting in a project loan payable of $10,136,822. The remaining available funds totaling $6,863,178 are not reflected in the financial statements.

Lincoln Water System has entered into a $15,000,000 loan agreement with NDEQ. This funding is available to fund certain water system extension and water repairs. The interest rate during the period of construction is 2%. After the date of initiation of operation, the interest rate will increase to 2.25%. In addition, an administrative fee of 1% will be incurred on the loan. During the year ended August 31, 2013, project costs were incurred totaling $7,383,648, resulting in the recognition of a project loan payable of $9,439,593. The remaining available funds totaling $5,560,407 are not reflected in the financial statements.

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:							
$ 9,950	06/15/05	Storm Sewer Construction	3.250 - 4.250	Serial 2006 to 2025	2015	Semiannually	$ 6,795
8,295	06/27/07	Stormwater Drainage and Flood Mgmt	4.625 - 5.000	Serial 2008 to 2027	2017	"	6,590
8,200	02/10/11	Stormwater Bonds	2.000 - 4.500	Serial 2013 to 2030	2020	"	7,835
19,290	06/21/11	Refunding	0.200 - 5.000	Serial 2011 to 2022	2019	"	16,710
8,090	06/26/12	Refunding	1.000 - 3.000	Serial 2013 to 2023	---	"	7,185
6,385	03/20/13	Stormwater Bonds	2.000 - 4.000	Serial 2014 to 2029	2023	"	6,385
1,515	03/20/13	Stormwater Bonds	3.125	Term 2032	2023	"	1,515
	Total General Bonds						$ 53,015
Tax Allocation Bonds:							
$ 5,500	04/21/04	Tax Allocation Bonds	3.000 - 4.800	Serial 2004 to 2015	2010	Semiannually	$ 1,930
365	08/15/05	Tax Allocation Bonds	4.750	Serial 2006 to 2018	Anytime	"	157
288	10/01/06	Tax Allocation Bonds	5.100	Serial 2008 to 2016	Anytime	"	124
2,205	04/05/07	Tax Allocation Bonds	5.000 - 5.550	Serial 2009 to 2018	2012	"	1,455
601	06/01/07	Tax Allocation Bonds	5.240	Serial 2008 to 2018	Anytime	"	535
388	06/01/07	Tax Allocation Bonds	5.240	Serial 2007 to 2020	Anytime	"	248
369	06/15/07	Tax Allocation Bonds	5.400	Serial 2007 to 2014	Anytime	"	86
42	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2021	Anytime	"	31
71	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2017	Anytime	"	53
474	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2022	Anytime	"	225
547	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	400
200	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	144
611	06/30/09	Tax Allocation Bonds	7.00	Serial 2011 to 2023	Anytime	"	573
3,375	07/28/09	Tax Allocation Bonds	2.500 - 6.400	Serial 2011 to 2023	Anytime	"	2,970
263	04/01/11	Tax Allocation Bonds	3.990	Serial 2011 to 2022	Anytime	"	224
103	04/15/13	Tax Allocation Bonds	2.370	Serial 2013 to 2025	Anytime	"	99
	Total Tax Allocation Bonds						$ 9,254
Tax Supported Bonds:							
$ 27,000	12/05/06	Highway Allocation Fund	4.000 - 5.000	Serial 2008 to 2027	2016	Semiannually	$ 21,030
28,095	06/06/12	Highway Allocation Fund Refunding	1.000 - 5.000	Serial 2012 to 2023	---	"	27,135
16,515	07/23/13	Limited Tax Arena Bonds	2.000 - 4.500	Serial 2016 to 2031	2023	"	16,515
2,635	07/23/13	Limited Tax Arena Bonds	2.000 - 4.500	Term 2035	2023	"	2,635
5,850	07/23/13	Limited Tax Arena Bonds	2.000 - 4.500	Term 2037	2023	"	5,850
	Total Tax Supported Bonds						$ 73,165
Special Assessment Bonds:							
$ 825	08/18/11	Special Assessment	0.400 - 3.700	Serial 2012 to 2026	2016	Semiannually	$ 725
375	08/18/11	Special Assessment	4.200	Term 2031	2016	"	375
3,000	11/23/11	Special Assessment	2.000 - 3.500	Serial 2012 to 2031	2021	"	2,740
	Total Special Assessment Bonds						$ 3,840
West Haymarket Joint Public Agency							
$ 31,515	09/08/10	Facility Bonds Taxable Build America Bonds	3.500 - 4.45	Serial 2020 to 2030	Anytime	Semiannually	$ 31,515
68,485	09/08/10	Facility Bonds Taxable Build America Bonds	4.750 / 5.000	Term 2035 & 2045	Anytime	"	68,485
15,785	12/01/10	Facility Bonds Taxable Build America Bonds	4.000 - 5.000	Serial 2020 - 2025	Anytime	"	15,785
52,180	12/01/10	Facility Bonds Taxable Build America Bonds	5.400 / 5.800 / 6.000	Term 2030 2035 2039	Anytime	"	52,180
32,035	12/01/10	Recovery Zone Economic Development	6.750	Term 2045	Anytime	"	32,035
44,290	08/24/11	Facility Bonds	3.500 - 5.000	Serial 2021 to 2032	2021	"	44,290
55,710	08/24/11	Facility Bonds	4.250 / 5.000	Term 2036 & 2042	2021	"	55,710
	Total West Haymarket Joint Public Agency						$ 300,000
	TOTAL GENERAL OBLIGATION BONDS						$ 439,274
Tax Supported Bonds:							
$ 11,080	3/13/02	Antelope Valley Project	1.500 - 5.000	Serial 2002 to 2016	2012	Semiannually	$ 4,470

Original Amount	Issued	Issue	Interest Rate	When Due	Date Callable	Interest Date	Outstanding
Business-Type Activities:							
Revenue Bonds:							
$ 18,000	08/03/05	Wastewater Revenue	4.000 - 5.000	Serial 2006 to 2030	2015	Semiannually	$ 13,900
16,710	04/18/07	Wastewater Revenue	4.000 - 4.500	Serial 2008 to 2029	2017	"	13,595
3,750	04/18/07	Wastewater Revenue	4.375	Term 2032	2017	"	3,750
38,290	05/24/12	Wastewater Revenue and Refunding	1.000 - 5.000	Serial 2013 to 2028	2023	"	36,325
	Total Wastewater Bonds						$ 67,570
$ 10,515	08/04/09	Water Revenue	2.000 - 4.125	Serial 2013 to 2029	2019	Semiannually	$ 10,050
4,905	08/04/09	Water Revenue	4.5000	Term 2034	2019	"	4,905
10,895	06/21/12	Water Revenue Refunding	1.000 - 4.000	Serial 2013 to 2022	---	"	9,885
28,595	05/30/13	Water Revenue Refunding	1.000 - 5.000	Serial 2014 to 2025	2023	"	28,220
	Total Water Bonds						$ 53,060
$ 2,065	12/29/10	Parking Revenue	1.250 - 2.850	Serial 2011 to 2014	---	Semiannually	$ 600
7,745	01/27/11	Parking Revenue and Refunding	2.000 - 5.000	Serial 2015 to 2024	2021	"	7,745
10,775	01/27/11	Parking Revenue and Refunding	5.000 / 5.125 / 5.500	Term 2026 & 2031	2021	"	10,775
9,315	11/29/12	Parking Revenue and Refunding	0.400 - 4.000	Serial 2013 to 2027	2022	"	8,630
2,765	11/29/12	Parking Revenue and Refunding	3.00	Term 2032	2022	"	2,765
	Total Parking Bonds						$ 30,515
$ 8,340	02/26/13	Solid Waste Management Revenue and Refunding	.250 - 4.000	Serial 2013 to 2029	2023	Semiannually	$ 7,865
$ 93,045	10/01/03	Electric Revenue and Refunding Bonds	3.000 - 5.000	Serial 2004 to 2026	2014	Semiannually	$ 10,330
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	"	168,285
81,850	05/15/07	Electric Revenue and Refunding Bonds	4.500 / 4.750	Term 2034 & 2037	2016	"	81,850
247,150	08/15/12	Electric Revenue and Refunding Bonds	1.000 - 5.000	Serial 2013 to 2032	2016	"	247,150
30,165	08/15/12	Electric Revenue and Refunding Bonds	3.625 - 5.000	Term 2037	2016	"	30,165
	Total Electric Bonds						$ 591,490
	TOTAL REVENUE BONDS						$ 750,500

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
2014	$	8,883	20,158	780	200	4,812	1,163
2015		9,593	19,915	815	162	5,347	1,047
2016		10,863	19,574	855	122	5,195	902
2017		9,987	19,225	2,020	51	3,580	765
2018		10,204	18,881	-	-	2,920	658
2019 - 2023		69,100	87,819	-	-	10,694	2,119
2024 - 2028		71,239	71,698	-	-	6,220	575
2029 - 2033		65,095	56,927	-	-	275	20
2034 - 2038		71,235	40,760	-	-	-	-
2039 - 2043		79,245	21,177	-	-	-	-
2044 - 2046		33,830	3,032	-	-	-	-
Total	$	439,274	379,166	4,470	535	39,043	7,249

Fiscal Year Ended August 31		Business-Type Activities					
		Revenue Bonds		Loans/Note Payable		Capital Leases	
		Principal	Interest	Principal	Interest	Principal	Interest
2014	$	28,655	32,544	532	375	450	46
2015		29,895	31,679	888	715	399	36
2016		31,075	30,446	1,280	695	346	29
2017		33,060	29,201	1,309	666	352	23
2018		34,445	27,763	1,339	637	202	17
2019 - 2023		163,835	115,149	7,172	2,707	640	32
2024 - 2028		136,525	82,691	7,263	1,828	-	-
2029 - 2033		135,440	52,405	7,295	832	-	-
2034 - 2038		157,570	22,392	1,926	64	-	-
Total	$	750,500	424,270	29,004	8,519	2,389	183

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
2014	$	3,619	3,014	3,685	1,755	19,865	26,780
2015		3,695	2,977	4,060	1,990	21,060	26,083
2016		4,202	2,808	4,100	1,919	22,050	25,093
2017		4,361	2,631	4,161	1,847	23,800	24,109
2018		4,444	2,525	4,268	1,711	24,990	22,919
2019 - 2023		24,099	10,538	21,910	6,131	114,230	95,835
2024 - 2028		28,259	5,661	11,119	2,758	93,100	72,801
2029 - 2033		11,573	1,198	7,498	1,224	115,905	50,093
2034 - 2037		1,308	50	1,698	63	156,490	22,343
Total	$	85,560	31,402	62,499	19,398	591,490	366,056

Long-term liability activity for the year ended August 31, 2013, 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	$	49,340	7,900	(4,225)	53,015	4,240
Tax Allocation Bonds		10,358	103	(1,207)	9,254	1,278
Tax Supported Bonds		50,250	25,000	(2,085)	73,165	3,190
Special Assessment Debt with Government Commitment		4,010	-	(170)	3,840	175
West Haymarket Joint Public Agency Bonds		300,000	-	-	300,000	-
Tax Supported Antelope Valley Project Bonds		5,210	-	(740)	4,470	780
Capital Leases		33,371	10,000	(4,328)	39,043	4,812
Gross Bonds and Leases Payable		452,539	43,003	(12,755)	482,787	14,475
Deferred Amounts:						
For Issuance Premiums		11,448	1,531	(367)	12,612	-
For Issuance Discounts		(1,004)	-	2	(1,002)	-
Net Bonds and Leases Payable		462,983	44,534	(13,120)	494,397	14,475
Other Liabilities:						
Compensated Absences		15,161	10,128	(7,681)	17,608	8,163
Construction Contracts		4,492	-	(136)	4,356	-
Commissions Payable		-	2,466	-	2,466	106
Claims and Judgements		10,303	26,010	(26,533)	9,780	3,734
Net Pension Obligation		3,116	136	-	3,252	-
Net OPEB Obligation		5,444	1,998	-	7,442	-
Governmental Activities Long-Term Liabilities	$	501,499	85,272	(47,470)	539,301	26,478
Business-Type Activities:						
Bonds, Loans, Note, and Leases Payable:						
Wastewater Revenue Bonds	$	70,690	-	(3,120)	67,570	3,245
Wastewater Loan Payable		13,904	4,454	(368)	17,990	374
Water Revenue Bonds		57,525	28,595	(33,060)	53,060	3,685
Water Loan Payable		2,628	6,811	-	9,439	-
Electric System Revenue Bonds		547,550	277,315	(233,375)	591,490	19,865
Parking Revenue Bonds		22,995	12,080	(4,560)	30,515	1,310
Solid Waste Management Revenue Bonds		2,800	8,340	(3,275)	7,865	550
Pinnacle Bank Arena Note		-	1,575	-	1,575	158
Capital Leases		2,271	512	(394)	2,389	450
Gross Bonds, Loans, Note, and Leases Payable		720,363	339,682	(278,152)	781,893	29,637
Deferred Amounts:						
For Issuance Premiums		14,928	39,112	(4,737)	49,303	-
For Issuance Discounts		(65)	-	2	(63)	-
Net Bonds, Loans, Note, and Leases Payable		735,226	378,794	(282,887)	831,133	29,637
Other Liabilities:						
Compensated Absences		1,739	1,511	(1,080)	2,170	1,268
Construction Contracts		5,400	5,407	(5,092)	5,715	5,429
Claims and Judgements		941	5,385	(5,243)	1,083	700
Net OPEB Obligation		837	307	-	1,144	-
Accrued Landfill Closure/Postclosure Care Costs		15,436	636	(168)	15,904	-
Business-Type Activities Long-Term Liabilities	$	759,579	392,040	(294,470)	857,149	37,034

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 primarily with impact fee collections, and the West Haymarket JPA fund, financed with occupation tax collections. The claims and judgments 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, 2013, was as follows (in thousands of dollars):

		Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Lincoln Wastewater System:						
Bonds and Loans Payable:						
Wastwater Revenue Bonds	$	70,690	-	(3,120)	67,570	3,245
Wastewater Loans Payable		13,904	4,454	(368)	17,990	374
Deferred for Issuance Premiums		4,012	-	(253)	3,759	-
Deferred for Issuance Discounts		(10)	-	1	(9)	-
Net Bonds and Loans Payable		88,596	4,454	(3,740)	89,310	3,619
Other Liabilities:						
Compensated Absences		566	441	(354)	653	368
Construction Contracts		3,451	1,529	(3,333)	1,647	1,529
Net OPEB Obligation		162	59	-	221	-
Total Long-Term Liabilities	$	92,775	6,483	(7,427)	91,831	5,516
Lincoln Water System:						
Bonds and Loan Payable:						
Water Revenue Bonds	$	57,525	28,595	(33,060)	53,060	3,685
Water Loan Payable		2,628	6,811	-	9,439	-
Deferred for Issuance Premiums		2,105	2,719	(1,201)	3,623	
Deferred for Issuance Discounts		(33)	-	3	(30)	
Net Bonds and Loan Payable		62,225	38,125	(34,258)	66,092	3,685
Other Liabilities:						
Compensated Absences		800	579	(429)	950	465
Construction Contracts		1,949	3,878	(1,758)	4,069	3,900
Net OPEB Obligation		235	87	-	322	-
Total Long-Term Liabilities	$	65,209	42,669	(36,445)	71,433	8,050
Lincoln Electric System:						
Bonds Payable:						
Electric System Revenue Bonds	$	547,550	277,315	(233,375)	591,490	19,865
Deferred for Issuance Premiums		8,788	35,528	(3,225)	41,091	-
Net Bonds Payable		556,338	312,843	(236,600)	632,581	19,865
Other Liabilities:						
Claims and Judgements		941	5,385	(5,243)	1,083	700
Total Long-Term Liabilities	$	557,279	318,228	(241,843)	633,664	20,565

DEVELOPER PURCHASED TAX INCREMENT FINANCING NOTES AND BONDS

At August 31, 2013, $12,564,883 of developer purchased tax increment financing notes and bonds were outstanding. Developer purchased tax increment financing allows the City to create special districts to enable public/private improvements within those districts that will generate public/private-sector development. For a period of 15 years, the tax base is frozen at the predevelopment level, and taxes generated from the incremental increases in assessed value are remitted to the developer. The agreements between the City and developer expressly limit the City's commitment for debt repayment to the incremental tax collected during the 15-year period. At the end of the 15-year period, the tax jurisdiction collects on the increased property values. The related tax increment districts are not component units of the City, therefore, the City is not liable for the outstanding debt. The City's responsibility for this liability is limited only to remittance of paid taxes, thus these notes and bonds are not reflected in the City's financial statements.

CONDUIT DEBT

On January 26, 2012, the City issued $19,815,000 of Educational Facilities Revenue and Refunding Bonds for the purpose of paying the cost of acquiring, constructing, equipping and furnishing improvements to Nebraska Wesleyan University's (NWU) higher education facilities and refinancing certain outstanding indebtedness of NWU.

The Bonds are limited obligations of the City and are payable solely from payments to be made by NWU pursuant to a loan agreement dated January 1, 2012, by and between the City and NWU. The Bonds shall not be a charge against the City's general credit or taxing powers. The Bonds shall never constitute an indebtedness of the City within the meaning of any constitutional provision or statutory limitation and shall never constitute or give rise to a pecuniary liability of the City, thus these bonds are not reflected in the City's financial statements. At August 31, 2013, $19,155,000 of these bonds remain outstanding.

(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, funds for which budget and reporting structures differ, and funds for which legally adopted annual budgets are not established. A reconciliation for the year ended August 31, 2013, 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	$ 6,117,963	26,191,854
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.	(1,012,864)	(402,520)
Perspective differences occur when the structure used for budgeting differs from the fund structure used for financial reporting.	304,895	-
Amount budgeted on a project basis.	-	(1,629,821)
Balance on a budget basis	$ 5,409,994	24,159,513

(11) DEFICIT NET POSITION

The following funds had a net position or fund balance deficit as of August 31, 2013:

Special Revenue - Impact Fees Fund	$ (133,773)
Enterprise – Pinnacle Bank Arena Fund	(1,675,001)
Internal Service - Engineering Revolving Fund	(859,104)
Internal Service - Communication Services Fund	(15,703)

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

The Pinnacle Bank Arena Fund was recently created to manage the operation of a new Arena, which opened in August of 2013. The Fund has just begun receiving revenue.

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.

The Communication Service Fund is currently adjusting their billing process and when completed is expected to reduce the deficit.

(12) EXCESSES OF EXPENDITURES OVER APPROPRIATIONS

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

General Fund		
Street Lighting	$	973,965
Debt Service		48,524

(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, 2013, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	448
Terminated plan members entitled to but not yet receiving benefits	24
Active plan members (non-DROP)	573
DROP members	48
Total	1,093
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 2013 was 18.02% of annual covered payroll. Actual contributions by the City were 16.92% 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	$ 6,718
Interest on net pension obligation	234
Adjustment to annual required contribution	(369)
Annual pension cost	6,583
Contributions made	(6,447)
Increase in net pension obligation	136
Net pension obligation beginning	3,116
Net pension obligation ending	$ 3,252

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
2013	$ 6,583	$ 6,447	98 %	$ 3,252
2012	5,411	6,052	112	3,116
2011	4,495	4,334	96	3,757

Actuarial Methods and Assumptions – The annual required contribution for the current year was determined as part of the August 31, 2011, 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 five 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, 2013, the most recent actuarial valuation date, the plan was 75% funded. The actuarial accrued liability for benefits was $229,193,000, and the actuarial value of assets was $172,289,000, resulting in an unfunded actuarial accrued liability (UAAL) of $56,904,000. The covered payroll (annual payroll of active employees covered by the plan) was $38,108,000, and the ratio of the UAAL to the covered payroll was 149.3%.

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 created in accordance with Internal Revenue Code Section 401(K) covering all employees upon employment. The plan assets are held, managed and administered by a trustee. The plan was established under the authority of the administrative board and contributions are also established by the administrative board. LES' contribution is equal to 200% of the employees' contributions, up to 5% of gross wages for employees hired prior to 1/1/11. For employees hired after 1/1/11, LES’ contribution is equal to 100% of employee’s contributions up to 10% of gross wages. Vesting of LES contributions occurs over a three-year period. Employee forfeitures are used to reduce employer contributions. For the year ended December 31, 2012, LES incurred contribution expense of approximately $3,533,000 or 9.45% of covered payroll and its employees contributed approximately $2,490,000 or 6.66% 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 contributions determined by the employees’ date of hire. The City contributes 6% to 12% and the employee contributes 0% to 6% of earned income 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, 2012, was $1,702,521. City contributions totaled $190,517 or 11.19% of covered payroll and employee contributions totaled $8,306 or 5.75% of covered payroll. There were no voluntary employee contributions made for the year ended December 31, 2012.

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 at a rate determined by the employees’ bargaining unit and date of hire. The City contributes between $1.29 and $2.00 for every $1.00 contributed by employees. Employee forfeitures are used to reduce employer contributions. Employees covered by the Plan may also make voluntary contributions. During the year ended December 31, 2012, total payroll was approximately $79,118,000 and covered payroll was approximately $70,184,000. City contributions totaled $7,942,254 or 11.32% of covered payroll and employee contributions totaled $4,123,488 or 5.88% of covered payroll. Employees made $75,153 in voluntary contributions for the year ended December 31, 2012.

(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 following Net OPEB obligation balance includes amounts reported in governmental activities, business-type activities and the fiduciary trust fund.

The net OPEB obligation as of August 31, 2013, was calculated as follows:
(Dollar amounts in thousands)

Annual required contribution	$ 3,098
Interest on net OPEB obligation	282
Adjustment to annual required contribution	(369)
Annual OPEB cost	3,011
Contributions made	(705)
Increase in net OPEB obligation	2,306
Net OPEB obligation beginning	6,283
Net OPEB obligation ending	$ 8,589

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
2013	$ 3,011,000	23.4 %	$ 8,589,000
2012	3,033,000	23.2	6,283,000
2011	2,078,000	25.2	3,955,000

Funded Status and Funding Progress – As of September 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was $24,902,000 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $24,902,000. Annual covered payroll was approximately $118,498,000, and the ratio of the UAAL to the covered payroll was 21.0%.

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, 2011 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 9.0% initially, reduced by decrements to an ultimate rate of 5.8% for 2020 and beyond. The general inflation rate used for derivation of these calculations is 2.5%. 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 $1,251,000.

Long-Term Disability Plan

The City also provides employees with long-term disability benefits when they become disabled due to a non-work related accident or illness and are unable to perform their essential job functions. Results of an annual actuarial valuation have not been included here as they did not have a significant impact on the City's financial statements.

(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 2012 tax levy, for the 2012-2013 fiscal year, was $107,939,016 below the legal limit, with a tax rate per $100 valuation of $0.3158. The assessed value upon which the 2012 levy was based was $16,676,196,896.

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 2012-2013 are recorded as revenue in the fund financial statements when expected to be collected within 60 days after August 31, 2013. 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, 2013, the City had a self-insured retention for workers' compensation exposures up to $850,000 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 care benefits with $150,000 claim specific stop loss; self-insured 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 $850,000 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 stop loss coverage above $150,000 per claim with unlimited coverage. 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 $9,780,084 were recorded at August 31, 2013, which do not include claims relating to Lincoln Electric System’s self-funded health and dental insurance program. Excluding medical care claims approximating $1,485,000, 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 .35% discount rate. The City purchased an annuity contract in the amount of $36,972 in the current fiscal year to fund a Medicare set-aside on a Worker's Compensation claim.

The following is a summary of the changes in the estimated claims liability for the years ended August 31, 2013 and 2012:

2013		Worker's Compensation and Others	Long-Term Disability	Health and Dental	Total
Balance at September 1	$	7,729,000	886,204	1,687,834	10,303,038
Current year claims and changes in estimates		3,298,000	163,558	22,548,762	26,010,320
Claims payments		(3,673,000)	(108,558)	(22,751,716)	(26,533,274)
Balance at August 31	$	7,354,000	941,204	1,484,880	9,780,084

2012		Worker's Compensation and Others	Long-Term Disability	Health and Dental	Total
Balance at September 1	$	6,850,000	1,029,797	2,909,159	10,788,956
Current year claims and changes in estimates		4,162,000	(12,220)	22,310,855	26,460,635
Claims payments		(3,283,000)	(131,373)	(23,532,180)	(26,946,553)
Balance at August 31	$	7,729,000	886,204	1,687,834	10,303,038

LINCOLN ELECTRIC SYSTEM

LES has a self-funded health and dental insurance program with claims processed by a third party administrator on behalf of the utility. As part of the plan, a reinsurance policy has been purchased which covers claims in excess of $150,000 per individual. Total accrual and payment history is shown below:

		2012	2011
Balance beginning of year	$	941,000	604,000
Claims accrued		5,385,000	6,253,000
Claims paid/other		(5,243,000)	(5,916,000)
Balance end of year	$	1,083,000	941,000

As required by state statute, LES maintains an incurred but not reported claims reserve which is actuarially determined, the balance of which was $383,000 and $382,000 at December 31, 2012 and 2011, respectively. LES established two separate bank accounts for the self-funded employee health and dental insurance plan reserve to ensure compliance with statutory requirements. Although not required by the statute, LES maintains excess insurance which limits the total claims liability for each plan year to not more than 125% of the expected claims liability, up to an annual aggregate maximum of $1,000,000.

(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, 2013, approximately 96% of the full-time, regular City's employees are represented by a Union. Most existing union contracts expire in August 2014. All future labor contracts involving City employees will be negotiated to cover, at a minimum, a two-year period coinciding with the new biennial budget process.

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, unanticipated corrective action costs related to landfill gas migration or groundwater contamination, if identified through current monitoring procedures, may be recorded once these costs can be reasonably estimated.

The City has entered into various agreements with developers to build infrastructure for new developments. As of August 31, 2013, the City's commitment to developers is estimated to be approximately $31,500,000.

STREET CONSTRUCTION PROJECTS

The City's Street Construction Fund has commitments under major construction contracts in progress of approximately $4,400,000 as of August 31, 2013, which will be financed primarily through highway user fees, bond proceeds, federal and state grants, and developer contributions.

WEST HAYMARKET JOINT PUBLIC AGENCY

The West Haymarket JPA Fund has commitments under major construction contracts in progress of approximately $32,500,000 as of August 31, 2013.

PARKING FACILITIES

The Lincoln Parking System has commitments under major contracts in progress of approximately $2,700,000 as of August 31, 2013.

LINCOLN WASTEWATER SYSTEM

The Lincoln Wastewater System has commitments under major construction contracts in progress of approximately $3,400,000 as of August 31, 2013.

LINCOLN WATER SYSTEM

The Lincoln Water System has commitments under major construction contracts in progress of approximately $6,600,000 as of August 31, 2013.

LINCOLN ELECTRIC SYSTEM

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 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 GASB Statement No. 62. Fixed cost payments under the agreements are on a participation basis whether or not such plants are operating or operable.

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 $18,100,000, $18,500,000, $18,900,000, $19,300,000, and $19,800,000, respectively, in each of the five years subsequent to December 31, 2012.

(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 position date.

At August 31, 2013, the City had incurred a liability of approximately $11,120,000 for the municipal solid waste landfill which represents the amount of costs reported to date based on the approximately 52% 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, 2013, the City had incurred a liability of approximately $550,000 for the construction and demolition debris landfill which represents the amount of costs reported to date based on the approximately 55% of landfill capacity used to date. The remaining estimated liability for these costs is approximately $460,000, which will be recognized as the remaining capacity is used (estimated to be approximately 16 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, 2013, a liability for closure and postclosure care costs is recorded in the amount of approximately $4,234,000, which is based on appropriations identified in the City's capital improvement projects budgeting process. If any unanticipated corrective action costs related to landfill gas migration or groundwater contamination are identified through current monitoring procedures, then an additional accrued liability will be recorded once these costs can be reasonably estimated.

(19) SEGMENT INFORMATION

The City has issued revenue bonds and other debt instruments to finance capital construction and acquisitions for both the Urban Development and Public Works/Utilities Departments. The Parking Facilities Division of the Urban Development Department operates the City's downtown parking garages and is accounted for in the Parking System 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, 2013, is presented as follows:

		Parking Facilities	Solid Waste Management
CONDENSED STATEMENT OF NET POSITION			
Assets:			
Current Assets, excluding Due from Other Funds	$	1,514,831	3,288,827
Due from Other Funds		92,003	93,208
Other Assets		12,493,678	8,091,114
Capital Assets		60,491,857	20,883,167
Total Assets		74,592,369	32,356,316
Deferred Outflows of Resources		53,602	42,315
Liabilities:			
Current Liabilities, excluding Due to Other Funds		5,624,492	1,066,105
Due to Other Funds		12,195	6,464
Noncurrent Liabilities		29,514,475	23,824,791
Total Liabilities		35,151,162	24,897,360
Net Position:			
Net Investment in Capital Assets		32,982,736	18,974,328
Restricted		5,135,653	-
Unrestricted		1,376,420	(11,473,057)
Total Net Position	$	39,494,809	7,501,271
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION			
Operating Revenues	$	8,444,056	5,989,760
Depreciation Expense		(1,590,680)	(1,833,106)
Other Operating Expenses		(3,919,678)	(6,404,530)
Operating Income (Loss)		2,933,698	(2,247,876)
Nonoperating Revenues (Expenses):			
Investment Earnings (Loss)		(90,356)	(68,191)
Gain (Loss) on Disposal of Capital Assets		(627)	21,017
Insurance Recovery		-	449
Occupation Tax		-	2,011,468
Debt Issuance Expense		(176,770)	(138,540)
Interest Expense and Fiscal Charges		(1,040,036)	(116,871)
Capital Contributions		-	-
Transfers		(472,236)	(1,151,405)
Change in Net Position		1,153,673	(1,689,949)
Beginning Net Position		38,659,477	9,244,073
Adjustment for Implementation of GASB 65		(318,341)	(52,853)
Ending Net Position	$	39,494,809	7,501,271
CONDENSED STATEMENT OF CASH FLOWS			
Net Cash Provided (Used) by:			
Operating Activitites	$	4,758,385	188,120
Noncapital Financing Activities		(425,574)	828,967
Capital and Related Financing Activities		(119,924)	4,888,641
Investing Activities		(2,930,625)	(5,023,562)
Net Increase in Cash		1,282,262	882,166
Beginning Balance		3,034,791	305,702
Ending Balance	$	4,317,053	1,187,868

(20) 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 all outstanding wastewater revenue bonds and loans. Proceeds provided financing for improvements to the sanitary sewer system, as well as refunding prior year debt. The debt is payable solely from the net earnings of the Wastewater System and is payable through 2035. The total principal and interest remaining to be paid on the debt is $116,961,526, with annual payments expected to require 53% of net revenues. Principal and interest paid for the current year and net system revenues were $6,577,604 and $12,466,116, respectively.

The City has pledged future revenues derived from the operation of the Lincoln Water System, net of operating and maintenance expenses, to repay all outstanding water revenue bonds and loans. Proceeds from the debt provided financing for improvements to the water supply system, as well as refunding prior 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 debt is $81,897,361, with annual payments expected to require 23% of net revenues. Principal and interest paid for the current year and net system revenues were $4,195,562 and $18,128,425, 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 all outstanding 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 $957,546,000, with annual payments expected to require 51% of net revenues. Principal and interest paid for the current year and net system revenues were $46,264,000 and $90,212,000, 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 all outstanding parking revenue bonds. Proceeds from the bonds provided financing for construction and improvements to the parking system, as well as refunding prior revenue bonds. The bonds are payable solely from the net earnings of the Parking System and are payable through 2032. The total principal and interest remaining to be paid on the bonds is $44,519,784, with annual payments expected to require 46% of net revenues. Principal and interest paid for the current year and net system revenues were $2,423,949 and $4,524,377, 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 outstanding solid waste management revenue bonds. Proceeds from the bonds provided financing for improvements to the solid waste facilities and to refund prior revenue bonds. The bonds are payable solely from the net earnings of the Solid Waste System and are payable through 2029. The total principal and interest remaining to be paid on the bonds is $9,793,670, with annual payments expected to require 36% of net revenues. Principal and interest paid for the current year and net system revenues were $608,463 and $845,102 respectively.

(21) 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, 2013, the City made rental payments of approximately $2.9 million to the Commission.

As of August 31, 2013, the Commission has bonds outstanding of $35,970,000 attributable to several bond issues. Certain proceeds from the bonds totaling $28,945,000 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.

In 2012, the Commission recorded a note payable of $1,670,000. The note is secured through assignment of the lease on the building purchased with the proceeds. The City's proportionate share of the building 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.

(22) 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 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, 2013, total assets of JAVA reached approximately $200 million, an increase of $1 million from the prior year. The City's equity interest in the Project is approximately $165 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.

(23) JOINTLY OWNED FACILITIES

Laramie River Station (LRS)

LES is a 12.76% co-owner of the Missouri Basin Power Project, that includes LRS, a three-unit, 1,650 MW coal-fired generating station in eastern Wyoming and a related transmission system. LES has sold approximately 13% of its ownership in LRS to Municipal Energy Agency of Nebraska (MEAN). Costs, net of accumulated depreciation, and excluding costs allocated to MEAN for its ownership share, associated with LRS of approximately $16 million are reflected in utility plant at December 31, 2012.

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 eighteen-months notice to terminate the agreement. During 2012, LES billed the County approximately $3.4 million 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 million to LES, which has been escrowed pending an appeal filed by BNSF. A portion of these funds are due to MEAN and the County of Los Alamos.

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 - a 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% or 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 capacity and energy from Unit #3 and 55 MW of capacity and energy from Unit #4. This twenty year unit agreement 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.

(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 Lancaster 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 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 on an established rate schedule. The total amount of payments to LES for management, operations, and maintenance services was approximately $833,000 in 2012. The total amount of payments to LES for energy was approximately $225,000 in 2012.

Nebraska Utility Corporation

On May 17, 2001, LES, in conjunction with the University of Nebraska Lincoln (UNL), created the Nebraska Utility Corporation (NUCorp) to purchase, lease, construct, and finance facilities and acquire services to meet energy requirements of UNL. The Board of Directors of NUCorp is comprised of five members: three members appointed by UNL 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 services was approximately $89,000 in 2012. The total amount of payments to LES for energy was approximately $9.8 million in 2012.

(25) SUBSEQUENT EVENTS

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

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