

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

**NEW ISSUE –FULL BOOK ENTRY
NOT BANK QUALIFIED**

**RATINGS: Moody's: Aaa
S&P: AAA
See "RATINGS"**

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Bonds is excluded from gross income for federal and is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that, under existing laws of the State of Nebraska, such interest is exempt from Nebraska state income taxation. The Bonds are not "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code. See "TAX MATTERS" herein.

**\$7,900,000
THE CITY OF LINCOLN, NEBRASKA
GENERAL OBLIGATION STORMWATER BONDS
SERIES 2013**

Dated: Date of Delivery

Due: As shown on the inside cover

The City of Lincoln, Nebraska (the **City**) is issuing the above-captioned bonds (the **"Bonds"**) in fully registered form which, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (**"DTC"**), New York, New York. DTC is acting as securities depository for the Bonds. Purchases of the Bonds will be made initially in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC Participants. Beneficial owners of the Bonds will not receive physical delivery of bond certificates so long as DTC or a successor acts as securities depository with respect to the Bonds. BOKF, National Association, Lincoln, Nebraska, is bond registrar and paying agent for the Bonds (the **"Registrar"**). The Registrar will pay scheduled interest on June 1 and December 1 of each year, beginning December 1, 2013, until maturity or earlier redemption, and will pay scheduled principal on the dates and in the amounts set forth on the inside cover hereto. So long as DTC or its nominee is the registered owner of the Bonds, the Registrar will make all payments of the principal of and the interest on the Bonds directly to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of the DTC Participants. For terms relating to principal and interest payments made to DTC or its nominee or in the event that the use of book-entry form is discontinued, see **"THE BONDS - Book-Entry System"** herein.

The City is issuing the Bonds for the purpose of providing a portion of the funds necessary to pay (a) the costs of improving and extending the City's stormwater drainage and flood management system and undertaking measures to achieve federal and state water quality standards and (b) certain costs of issuing the Bonds. See **"AUTHORITY"**, **"THE PROJECT"** and **"ESTIMATED SOURCES AND USES OF FUNDS"** herein.

The Bonds are general obligations of the City, and the full faith and credit and the taxing power of the City are pledged to the prompt payment of the principal of, premium, if any, and interest on the Bonds. The City shall cause to be levied and collected annually ad valorem taxes, unlimited as to rate or amount, on all the taxable property in the City sufficient to pay the principal of, premium, if any, and interest on the Bonds when due. See **"SECURITY"** and **"NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION"** herein.

MATURITY SCHEDULE — SEE INSIDE COVER

The Bonds maturing on or after December 1, 2023 are subject to optional redemption prior to maturity at any time on or after June 1, 2023 as set forth herein. The Bonds maturing on December 1, 2032 are subject to mandatory sinking fund redemption on the dates and in the amounts described herein. See **"THE BONDS - Redemption Provisions"** herein.

The Bonds are offered in book-entry form, when, as and if issued and received by the Underwriter and subject to the approval of legality by Kutak Rock LLP, Omaha, Nebraska, Bond Counsel, and certain other conditions. It is expected that the Bonds will be available for delivery through DTC in New York, New York, on or about April 4, 2013.

JANNEY MONTGOMERY SCOTT LLC

AMERITAS INVESTMENT CORP.
has acted as Financial Advisor

The date of this Official Statement is March 20, 2013

MATURITY SCHEDULE

\$7,900,000

**THE CITY OF LINCOLN, NEBRASKA
GENERAL OBLIGATION STORMWATER BONDS
SERIES 2013**

<u>Type</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u>
Serial	December 1, 2014	\$ 350,000	2.000%	0.300%	102.809%	534239 AM0
Serial	December 1, 2015	\$ 355,000	3.000	0.450	106.730	534239 AN8
Serial	December 1, 2016	\$ 355,000	3.000	0.600	108.670	534239 AP3
Serial	December 1, 2017	\$ 360,000	3.000	0.800	110.039	534239 AQ1
Serial	December 1, 2018	\$ 365,000	4.000	1.050	116.163	534239 AR9
Serial	December 1, 2019	\$ 375,000	4.000	1.300	117.166	534239 AS7
Serial	December 1, 2020	\$ 380,000	2.375	1.570	105.786	534239 AT5
Serial	December 1, 2021	\$ 385,000	4.000	1.760	117.914	534239 AU2
Serial	December 1, 2022	\$ 395,000	4.000	2.000	117.484	534239 AV0
Serial	December 1, 2023	\$ 405,000	4.000	2.150	116.799	534239 AW8
Serial	December 1, 2024	\$ 415,000	2.125	2.300	98.218	534239 AX6
Serial	December 1, 2025	\$ 425,000	2.375	2.500	98.649	534239 AY4
Serial	December 1, 2026	\$ 435,000	2.625	2.750	98.582	534239 AZ1
Serial	December 1, 2027	\$ 450,000	3.000	2.850	101.312	534239 BA5
Serial	December 1, 2028	\$ 460,000	3.000	3.000	100.000	534239 BB3
Serial	December 1, 2029	\$ 475,000	3.000	3.050	99.348	534239 BC1
Term	December 1, 2032	\$1,515,000	3.125	3.300	97.480	534239 BD9

**THE CITY OF LINCOLN, NEBRASKA
CITY OFFICIALS**

Christopher J. Beutler, Mayor

City Council Members

Carl Eskridge (Chair)

Jon Camp
Jonathan Cook
Lloyd Hinkley

Eugene Carroll
Doug Emery
DiAnna Schimek

City Department Heads

Steve Hubka.....	Interim Finance Director
Rodney Confer.....	City Attorney
Marvin Krout.....	Planning Director
Lynn Johnson.....	Parks and Recreation Director
Kevin Wailes	LES Administrator and CEO
David Landis	Urban Development Director
Pat Leach	Library Director
Miki Esposito.....	Public Works and Utilities Director
Judith Halstead	Health Director
Tom Casady.....	Public Safety Director
Doug McDaniel	Personnel Director
Jim Peschong	Police Chief
John Huff	Fire Chief
Fred Hoke	Building and Safety Director

Peggy Tharnish, City Controller

Financial Advisor

Ameritas Investment Corp.
Lincoln, Nebraska

Bond Counsel

Kutak Rock LLP
Omaha, Nebraska

Paying Agent and Registrar

BOKF, National Association
Lincoln, Nebraska

Independent Auditors

BKD, LLP
Lincoln, Nebraska

No broker, dealer, sales representative or other person has been authorized by the City or the Underwriter to give any information or to make any representations with respect to the Bonds, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the City and other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstance, create any implication that there has been no change in the affairs of the City since the date hereof.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET, AND SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED OR UNDER ANY STATE SECURITIES OR BLUE SKY LAWS. THE BONDS ARE OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION.

OFFICIAL STATEMENT
\$7,900,000
THE CITY OF LINCOLN, NEBRASKA
GENERAL OBLIGATION STORMWATER BONDS
SERIES 2013

INTRODUCTION

This introduction is only a brief description and summary of certain information contained in this Official Statement, including the cover page and appendices hereto (the “**Official Statement**”), and is qualified in its entirety by reference to more complete and detailed information contained in the entire Official Statement, including the cover page and appendices thereto, and the documents summarized or described herein. A full review should be made of the Official Statement.

This Official Statement is furnished by the City of Lincoln, Nebraska (the “**City**”), a home rule city of the primary class and political subdivision of the State of Nebraska (the “**State**”), to provide information about the City, certain improvements to and extensions of the City’s stormwater system, and the City’s issuance of \$7,900,000 in aggregate principal amount of its General Obligation Stormwater Bonds, Series 2013 (the “**Bonds**”).

The City is issuing the Bonds for the purpose of providing a portion of the funds necessary to pay (a) the costs of improving and extending the City’s stormwater drainage and flood management system and undertaking measures to achieve federal and state water quality standards and (b) certain costs of issuing the Bonds. See “**AUTHORITY**”, “**THE PROJECT**” and “**ESTIMATED SOURCES AND USES OF FUNDS**” herein.

The Bonds are payable from and equally and ratably secured by ad valorem taxes collected from a levy on all the taxable property in the City sufficient in rate and amount to pay the principal of, premium, if any, and the interest on the Bonds when due. The full faith and credit and the taxing power of the City are pledged to the prompt payment of the Bonds. See the captions “**SECURITY**” and “**NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION**” herein. BOKF, National Association, Lincoln, Nebraska is bond registrar and paying agent for the Bonds (the “**Registrar**”).

Descriptions of and references to the Bonds, the Bond Ordinance (defined herein), related transaction documents and other matters do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the complete texts thereof. Copies of such documents are available for inspection at the office of Ameritas Investment Corp., Lincoln, Nebraska, as financial advisor to the City (the “**Financial Advisor**”).

AUTHORITY

The City is issuing the Bonds pursuant to its authority under Sections 15-244 and 18-506, Reissue Revised Statutes of Nebraska, as amended, Article IX, Sections 39 to 43, inclusive, of the Home Rule Charter of the City, and an ordinance passed by the City Council on March 4, 2013 and subsequently approved by the Mayor (the “**Bond Ordinance**”). A proposition authorizing the issuance of general obligation bonds of the City in an amount not to exceed \$7,900,000 for the purpose of paying the costs of the stormwater drainage and flood management system improvements was approved by a vote of 53,982 in favor of (approximately 56% approval) and 41,942 opposed to the question at an election held in the City on November 6, 2012.

SECURITY

The Bonds are general obligations of the City, and the full faith and credit and the taxing power of the City are pledged to the payment of the principal of, premium, if any, and interest on the Bonds. In the Bond Ordinance the City has covenanted to cause to be levied and collected annually ad valorem taxes, without limitation as to rate or amount, on all the taxable property in the City sufficient to pay the principal of, premium, if any, and interest on the Bonds, which taxes shall be in excess of and in addition to all other taxes now or hereafter authorized to be levied by the City. See “**NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION**” herein.

Among other factors affecting an investment in the Bonds, potential investors should be aware that the United States Bankruptcy Code enables debtors (including municipalities such as the City) that are insolvent to obtain relief through a petition and plan that may result in the modification or delay of payments to creditors, including registered owners of the Bonds. In the event the City becomes insolvent, the registered owners of the Bonds would be treated as general creditors of the City along with all other unsecured claimants. The extent to which the exception from limitations upon overall tax rates provided for in existing legislation might entitle registered owners of the Bonds to be treated as a separate class or otherwise given priority over other unsecured claimants is a matter that would be subject to future determinations of state and federal courts interpreting and applying both state law and the provisions of the United States Bankruptcy Code. Procedures under the United States Bankruptcy Code or other insolvency laws could result in delays in payment and modifications of payment rights. The State has authorized its political subdivisions to seek relief under the United States Bankruptcy Code.

NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION

One of City’s principal sources of revenue for its general fund is local property taxes. Local property taxes constitute the City’s second largest revenue source, but are subject to certain limitations as discussed below. The system of assessing and taxing personal property by the State for purposes of local ad valorem taxation for support of local political subdivisions, including the City, has from time to time been the object of controversy, legal challenges, constitutional initiative petitions and legislative action.

The Nebraska Legislature (the “**Legislature**”) has enacted legislation intended to reduce the level of expenditures and property taxes by political subdivisions in the State. Sections 13-518 to 13-522, inclusive, Reissue Revised Statutes of Nebraska, as amended, and related sections (collectively, the “**Budget Limitations**”), limit the increase of certain restricted funds that may be budgeted by governmental units such as the City. Such restricted funds include property taxes, sales taxes and other funding sources comprising approximately 75% of funding sources used to fund the City’s tax supported budget, but exclude restricted funds pledged to retire bonded indebtedness. The Budget Limitations currently provide for a base limitation of 2.5% or the increase in the tax base provided by new construction, improvements to existing property, annexations, and new personal property added to the property tax base, whichever is greater. The base limitation is subject to review by the Legislature from year to year and may be exceeded by an additional 1% upon an affirmative vote of at least 75% of the governing body. The Budget Limitations are enforced through the office of the Auditor of Public Accounts of the State and State aid may be withheld from governmental units that fail to comply. The Budget Limitations do not apply to the revenues of proprietary funds except to the extent such revenues are used for general fund purposes.

For the 2012-2013 fiscal year, the City was permitted to increase its appropriation of restricted funds under the Budget Limitations by 3.5%. Unused restricted fund authority from prior years can be carried over into future fiscal years to use in addition to the annual increases allowed. As of August 31, 2012, the City had accumulated \$9,362,458.32 of unused restricted funds authority which would be available for future fiscal years.

The Legislature has also enacted Section 77-3442, Reissue Revised Statutes of Nebraska, as amended, and related sections (collectively, the “**Levy Limitations**”), to provide overall limitations on the property tax levies of political subdivisions, including the City. The Levy Limitations expressly exclude any property taxes levied for bonded indebtedness. The maximum levy for the City is presently set at 45¢ per \$100 of taxable valuation with an additional 5¢ per \$100 of taxable valuation available to provide for the City’s share of revenue required under any agreement executed by the City with another governmental unit pursuant to the Interlocal Cooperation Act or the

Joint Public Agency Act. The City's current levy (excluding its bond levy) is 28.161¢ per \$100 of taxable valuation on all the taxable property within the City.

Ad valorem taxes levied to pay debt service on the Bonds are not subject to either the Budget Limitations or the Levy Limitations. The City is authorized to levy ad valorem taxes without limitation as to rate or amount upon all of the taxable property in the City sufficient to pay the principal or redemption price of and interest on the Bonds, which taxes may be in excess of and in addition to all other taxes now or hereafter authorized to be levied by the City. The authority of the City to levy such taxes with respect to the Bonds is not subject to any charter, statutory or constitutional limitations.

Future legislation, decisions of the Nebraska Supreme Court, or initiative petitions proposed and passed by qualified voters in the State may alter the Budget Limitations and the Levy Limitations, or may otherwise modify the sources of and limitations on the revenues used by governmental units in the State to finance their activities.

THE PROJECT

The City expects to use a portion of the Bond proceeds to pay the costs of constructing certain extensions of and improvements to the City's stormwater system, and taking measures to achieve federal and state water quality standards. Such improvements include, but are not necessarily limited to, some or all of the following:

- Design and construction of urban storm drainage projects.
- Design and/or construction for six project in master planned basins
- Engineering and projects for floodplain and flood prone areas
- Stream rehabilitation on City park property
- Water quality projects incorporating best management practices
- Preliminary engineering for urban drainage deficiencies for future project planning
- Preliminary engineering for watershed and basin management plan

ESTIMATED SOURCES AND USES OF FUNDS

SOURCES OF FUNDS:

Principal Amount of Bonds	\$7,900,000.00
Net Original Issue Premium	<u>397,386.45</u>
TOTAL SOURCES OF FUNDS:	<u>\$8,297,386.45</u>

USES OF FUNDS:

Project Costs	\$8,177,000.00
Costs of Issuance†	<u>120,386.45</u>
TOTAL USES OF FUNDS:	<u>\$8,297,386.45</u>

† Includes any underwriting discount, legal fees, printing expenses and other miscellaneous expenses.

THE BONDS

General

The City is issuing the Bonds in fully registered, book-entry form with a date of original issue (the "**Date of Original Issue**") of their date of delivery. The Bonds will be registered in the name of Cede & Co., as nominee of

The Depository Trust Company, New York, New York (“**DTC**”). DTC is acting as the initial securities depository for the Bonds. Purchases of Bonds are being made in book-entry-only form, in principal amounts of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC Participants (as defined herein). Beneficial owners of the Bonds will not receive physical delivery of bond certificates so long as DTC or a successor acts as the securities depository with respect to the Bonds. See “**THE BONDS—Book-Entry System**” herein.

The Bonds bear interest from the later of the Date of Original Issue or the most recent Interest Payment Date (as defined herein), which is payable on June 1 and December 1 of each year, commencing December 1, 2013 (each, an “**Interest Payment Date**”), until maturity or earlier redemption, mature on December 1 in the years and in the principal amounts, and bear interest at the rates (calculated on the basis of a 30-day month and a 360-day year) as set forth on the inside cover page of this Official Statement. The Registrar will pay each installment of interest by check or draft mailed on the due date thereof (or on the next business day if such due date falls on a Saturday, Sunday or bank holiday applicable to the Registrar) to the registered owner of a Bond as shown on the bond registration records of the City maintained by the Registrar as of the 15th day (whether a business day or not) next preceding such interest payment date (the “**Record Date**”). The principal of each Bond will be payable upon the surrender of such Bond to the Registrar.

The foregoing procedures and methods for payment will apply if the provisions for global book-entry bonds as described below cease to be in effect and will apply to the holding and transfer of Bonds by DTC subject to certain modifications provided for in a Letter of Representations between the City and DTC. **SO LONG AS DTC OR ITS NOMINEE IS THE REGISTERED OWNER OF THE BONDS, PAYMENT OF THE PRINCIPAL THEREOF AND THE INTEREST THEREON WILL BE MADE DIRECTLY TO DTC.** See “**THE BONDS—Book-Entry System**” herein.

Book-Entry System

General. DTC is acting as securities depository for the Bonds. The ownership of one fully registered Bond for each maturity, as set forth on the cover page of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as the nominee for DTC. Ownership interests in the Bonds will be available to purchasers only through a book-entry system maintained by DTC (the “**Book-Entry System**”). A description of DTC, the Book-Entry System and definitions of initially capitalized terms used herein are found in “**APPENDIX C - BOOK-ENTRY SYSTEM**” to this Official Statement.

Risk Factors. Beneficial Owners of the Bonds may experience some delay in their receipt of distributions of the principal or redemption price of and interest on the Bonds because such distributions will be forwarded by the Registrar to DTC, credited by DTC to its Direct Participants, and then credited to the accounts of the Beneficial Owners either directly or indirectly through Indirect Participants.

Because transactions in the Bonds can only be effected through DTC, DTC Participants and certain banks, the ability of a Beneficial Owner to pledge Bonds to persons or entities that do not participate in the Book-Entry System, or otherwise to take actions in respect of such Bonds, may be limited due to the lack of physical certificates. Beneficial Owners will not be recognized by the Registrar as registered owners for purposes of the Bond Ordinance, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and DTC Participants.

Interchangeability and Transfer

The Bonds, upon surrender thereof to the Registrar with a written instrument of transfer satisfactory to the Registrar duly executed by the registered owner or its duly authorized attorney, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of Bonds in registered form of the same series, rate of interest, maturity and of any authorized denomination.

In all cases in which the privilege of exchanging or transferring the Bonds is exercised, the City shall execute and the Registrar shall deliver the Bonds in accordance with the Bond Ordinance. For every such transfer or exchange

of Bonds, the Registrar shall require the payment by the registered owner requesting such transfer or exchange of any tax or other governmental charges payable with respect thereto, and may charge a sum not exceeding the actual cost for each new Bond.

Neither the City nor the Registrar is required to make any such exchange or registration of transfer of Bonds during the period between a Record Date and the next succeeding interest payment date or, in the case of any proposed redemption of Bonds, after notice of the redemption of such Bonds or any portion thereof shall have been given pursuant to the Bond Ordinance.

The foregoing procedures do not apply to Beneficial Owners, whose transfer and exchange privileges will be governed by the procedures described under “**THE BONDS - Book-Entry System**” so long as the Bonds are held in book-entry format.

Redemption Provisions

Mandatory Sinking Fund Redemption. The Bond maturing December 1, 2032 (the “**Term Bond**”) is subject to redemption prior to maturity in part by lot by operating a mandatory sinking fund on December 1 in each of the following years and the following amounts, upon payment by the principal amount thereof plus accrued interest to such date of redemption, but without premium. Selection of portions of Term Bond to be redeemed shall be in the sole discretion of the Registrar.

Term Bond Maturing December 1, 2032

Year (December 1)	Principal <u>Amount</u>
2030	\$490,000
2031	505,000
2032	520,000

Optional Redemption. Bonds maturing on or prior to December 1, 2022 are not subject to redemption prior to their stated maturities. Bonds maturing on or after December 1, 2023 are subject to redemption prior to maturity at the option of the City in whole or in part, at any time on or after June 1, 2023 in such principal amounts and from such maturity or maturities as the City shall specify and by lot in integral multiples of \$5,000 within a maturity at a redemption price equal to 100% of the principal amount then being redeemed, together with accrued interest on such principal amount to the date fixed for redemption.

Notice and Effect of Call for Redemption. In the event of any such redemption, the Registrar will give written notice of the City’s intention to redeem and pay such Bonds by first-class mail to the registered owner of each Bond to be redeemed, such notice to be mailed not less than 30 days prior to the redemption date. Notice of redemption having been given as stated above, the Bonds or portions of Bonds to be redeemed shall become due and payable on the redemption date, at the redemption price therein specified, and from and after the redemption date (unless the City defaults in the payment of the redemption price) such Bonds or portion of Bonds shall cease to bear interest. Failure to give notice to any particular registered owner or any defect in the notice given to such owner shall not affect the validity of the proceedings calling the Bonds or the redemption of any Bonds for which proper notice has been given. The City shall have the right to direct further notice of redemption for any Bond for which defective notice has been given. Notice of redemption may be waived in writing by the registered owner of any Bond.

So long as DTC is effecting book-entry transfers of the Bonds, the Registrar will provide the notices of Bonds to be redeemed to DTC. It is expected that DTC will, in turn, notify the DTC Participants and that the DTC Participants, in turn, will notify or cause to be notified the Beneficial Owners. Any failure on the part of DTC or a DTC Participant, or failure on the part of a nominee of a Beneficial Owner of a Bond (having been mailed notice from the Registrar, a DTC Participant or otherwise) to notify the Beneficial Owner of the Bond so affected, will not affect the validity of the redemption of such Bond.

RATINGS

Moody's Investors Service has assigned the Bonds the rating of "Aaa", and Standard & Poor's, a division of The McGraw-Hill Companies, has assigned the Bonds the rating of "AAA". Such ratings reflect only the views of such organizations, and explanations of the significance of such ratings may be obtained from Moody's Investors Service, 7 World Trade Center, 350 Greenwich Street, 23rd Floor, New York, New York 10007, telephone (212) 553-0300, and Standard & Poor's Ratings Services, 55 Water Street, New York, New York, 10041, telephone (212) 438-2124.

Generally, rating agencies base their ratings on such information and materials and investigations, studies and assumptions furnished to and obtained and made by the rating agencies. The debt ratings are not a recommendation to purchase, sell or hold a security, inasmuch as they do not comment as to market price or suitability for a particular investor. There is no assurance that the above ratings will remain for any given period of time or that they may not be lowered, suspended or withdrawn entirely by either or both rating services if they deem circumstances are appropriate. Any downward change in, suspension or withdrawal of either or both ratings may have an adverse effect on the market price of the Bonds.

TAX MATTERS

Tax Opinions of Bond Counsel

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Bonds is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinions described in the preceding sentence assume the accuracy of certain representations and compliance by the City with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Bonds. Failure to comply with such requirements could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City has covenanted to comply with such requirements.

Notwithstanding Bond Counsel's opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses). The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

In the further opinion of Bond Counsel, under the existing laws of the State of Nebraska, the interest on the Bonds is exempt from Nebraska state income taxation so long as it is exempt for purposes of the federal income tax.

Bond Counsel has expressed no opinion regarding other federal, State or local tax consequences arising with respect to the Bonds.

Original Issue Discount

The Bonds maturing on December 1 in the years 2024, 2025, 2026, 2029 and 2032 (collectively, the "**Discount Bonds**") are being sold at an original issue discount. The difference between the initial public offering prices of

such Discount Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated in the same manner for federal income tax purposes as interest, as described above.

The amount of original issue discount which is treated as having accrued with respect to such Discount Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption or payment at maturity). Amounts received upon disposition of such Discount Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days which are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such discount Bond for a particular semiannual accrual period is equal to the product of (i) the yield to maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond.

Original Issue Premium

The Bonds maturing on December 1 in the years 2014 through 2023 and 2027 (collectively referred to herein as the “**Premium Bonds**”) are being sold at a premium. An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond’s term using constant yield principles, based on the purchaser’s yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser’s yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser’s basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser’s basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Backup Withholding

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

CONTINUING DISCLOSURE

The City is executing a Continuing Disclosure Certificate (the “**Disclosure Certificate**”) for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with Rule 15c2-12 of the Securities and Exchange Commission (the “**Rule**”). The City is the only “obligated person” within the meaning of the Rule with responsibility for continuing disclosure.

The City is presently in compliance with each prior undertaking made pursuant to the Rule.

Annual Reports

Pursuant to the Disclosure Certificate, the City shall, not later than May 1 of each year, commencing May 1, 2014, provide to the Municipal Securities Rulemaking board (“**MSRB**”) the following financial information and operating data (the “**Annual Report**”):

- (a) The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted principles. If audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement relating to the Bonds, and the audited financial statements shall be filed in the same manner as the Annual Report promptly after they become available.
- (b) Updates of the end of the fiscal year of the financial information and operating data relating to the City contained in **APPENDIX A** of this Official Statement in substantially the same format contained in this Official Statement.

Listed Event Notices

Pursuant to the Disclosure Certificate, not later than 10 business days after the occurrence of any of the following events, the City shall also give, or cause a dissemination agent to give, notice of the occurrence of any of the following events with respect to the bonds (“**Listed Events**”):

- (1) principal and interest delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions; the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed issue (IRS Form 5701-TEB) or other material

- notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) modifications to rights of bondowners, if material;
 - (8) bond calls, if material, and tender offers;
 - (9) defeasances;
 - (10) release, substitution or sale of property security repayment of the Bonds, if material;
 - (11) rating changes;
 - (12) bankruptcy, insolvency, receivership or similar event of the City;
 - (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such action, other than pursuant to its terms, if material; and definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
 - (14) appointment of a successor or additional trustee or the change of name of the trustee, if material.

If a dissemination agent has been instructed by the City to report the occurrence of a Listed Event, the dissemination agent shall promptly file a notice of such occurrence with the MSRB, with a copy to the City.

The City may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such dissemination agent, with or without appointing a successor dissemination agent. The dissemination agent shall not be responsible in any manner for the content of any notice or report prepared by the Agency pursuant to the Disclosure Certificate.

Notwithstanding any other provision of the Disclosure Certificate, the City may amend the Disclosure Certificate and any provision of the Disclosure Certificate may be waived, provided Bond Counsel or other counsel experienced in federal securities law matters provides the City with its opinion that the undertaking of the City, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to the Disclosure Certificate.

In the event of a failure of the City, or any dissemination agent, to comply with any provision of the Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City, or any dissemination agent, to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an Event of Default under the Bond Ordinance, and the sole remedy under the Disclosure Certificate in the event of any failure of the City, or any dissemination agent, to comply with the Disclosure Certificate shall be an action to compel performance.

Electronic Municipal Market Access System (EMMA)

All Annual Reports and notices of Listed Events required to be filed by the City or the dissemination agent pursuant to the Disclosure Certificate must be submitted to the MSRB through the MSRB's Electronic Municipal Market Access system ("EMMA"). EMMA is an internet-based, online portal for free investor access to municipal bond information, including offering documents, listed event notices, real-time municipal securities trade prices and MSRB education resources, available at www.emma.msrb.org. Nothing contained on EMMA relating to the City or the Bonds is incorporated by reference in this Official Statement.

LITIGATION

As of the date of this Official Statement there is, and as of the date of delivery of the Bonds there will be, no litigation, suit or other proceeding of any kind pending, or to our knowledge threatened, (a) seeking to restrain or enjoin the issuance or delivery of the Bonds, or (b) contesting, disputing or affecting in any way (1) the legal organization of the City or its boundaries, (2) the right or title of any of its officers to their respective offices, (3) the legality of any of its official acts shown to have been done in the Transcript of Proceedings, (4) the constitutionality or validity of the Bonds or the indebtedness represented by the Bonds, or any of the proceedings had in relation to the authorization, issuance or sale thereof, (5) the legality, validity or enforceability of the Bond Ordinance or any

related documents, (6) the power and authority of the City to secure the Bonds in the manner provided for in the Bond Ordinance which will provide money sufficient in rate and amount to assure, together with any other funds of the City available for such purposes, the payment in full, and when due, of the principal of, premium, if any, and interest on the Bonds, or to utilize any other such money lawfully available to pay such debt service on the Bonds, when and as the same shall become due, or (7) the federal or State tax-exempt status of the interest on the Bonds, or (c) that could have a material adverse effect on the financial condition or operations of the City or its ability to make payments on the Bonds or to perform its agreements and obligations under the Bond Ordinance or any related documents.

LEGAL OPINION

The approving opinion of Kutak Rock LLP, Omaha, Nebraska, Bond Counsel will affirm, among other things, that the Bonds have been authorized and issued in accordance with the Constitution and statutes of the State and constitute valid and legally binding obligations of the City. The rights of the holders of the Bonds and the enforceability thereof may be subject to valid bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors.

INDEPENDENT AUDITORS

The financial statements and schedules of the City as of and for the year ended August 31, 2012, with summarized financial information as of and for the year ended August 31, 2011, included in “**APPENDIX B – THE CITY OF LINCOLN, NEBRASKA – ACCOUNTANTS REPORT AND AUDITED FINANCIAL STATEMENTS,**” have been audited by BKD LLP, independent auditors, as stated in their report appearing herein. The City did not request BKD LLP to perform any updating procedures subsequent to the date of its audit report on the August 31, 2012 financial statements.

MISCELLANEOUS

All estimates and assumptions herein have been made on the basis of the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates or assumptions are current or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

The information set forth in this Official Statement should not be construed as representing all of the conditions affecting the City or the Bonds.

This Official Statement is issued by the City.

THE CITY OF LINCOLN, NEBRASKA

By: _____
Title: Interim Finance Director

APPENDIX A

THE CITY OF LINCOLN, NEBRASKA

THE CITY OF LINCOLN, NEBRASKA

General

Lincoln, the capital of Nebraska, is located in southeastern Nebraska near the center of population of the state. The City was originally incorporated in 1869. It is approximately midway between Chicago and Denver. It has an area of 91.76 square miles, and in its growth and development has annexed five other municipalities so that the City includes most of the urban area of Lancaster County. It enjoys a unique position in Nebraska as the center of the state governmental and educational activities.

Population

The 1980 population of the City was 171,932; the 1990 population was 191,972; the 2000 population was 225,588; and the 2010 population was 258,379, a 14.5 percent increase over the 2000 count. The 2010 count represents 90.5 percent of the population of Lancaster County, the county in which the City is located. The estimated 2012 population is 262,341.

City Government

The City, operating under a home rule charter, has a mayor-council form of government with an elected full-time chief executive, the Mayor, and an elected legislative body, the Council, composed of seven members. Three are elected at large and four by district on a nonpartisan basis for a term of four years. The administration of City government is performed under the direction of the Mayor by administrative departments.

City government has a broad range of responsibilities, including electric, water, and sanitary sewer systems, and an impressive park and playground system of over 6,503 acres maintained for public use, nine public swimming pools, and five public golf courses. The City has cooperated actively with the county government in several joint governmental buildings, and in other specific areas of responsibility, including health, planning, civil defense, data processing, tax collection, parks, and jail facilities. There are cooperative agreements with the United States government on parks and flood control, with the University of Nebraska on planning and property transfer, with the area Watershed District on flood control, and with the Lincoln School District on recreation.

Transportation

The Lincoln metropolitan area is served by Interstate 80, and U.S. Highways 2, 6, 34, and 77.

Lincoln is served by two commercial airports with daily shuttle service available between locations. The Lincoln Municipal Airport is located less than 10 minutes from downtown and has daily departures to Atlanta, Chicago, Denver, Memphis, and Minneapolis. Eppley Airfield, located in east Omaha, is 65 minutes from downtown Lincoln and offers service from 22 airlines. Together the two airports offer more than 100 arrivals and departures daily. The Lincoln Municipal Airport also offers General Aviation services. The General Aviation runway is 8,649 feet long, and the runway is lit dusk to dawn.

Railroad transportation facilities include those of Burlington Northern/Santa Fe and Union Pacific, both maintaining yards in Lincoln. AMTRAK provides daily passenger and package express services. Ground transportation is furnished by Greyhound/Black Hills Stage Lines, multiple taxi companies and local StarTran bus services.

The average commute in Lincoln is 19 minutes and nearly 18 percent of area commuters spend less than 10 minutes on the road.

Government Center

The State Capitol, an architectural achievement located in Lincoln, is considered one of the most impressive in all the 50 states. Other state governmental facilities in the City include the Nebraska Educational Telecommunications facility, the Nebraska Game and Parks Commission headquarters, the Lincoln Regional Center (state hospital), and the Nebraska Penal Complex.

Federal agencies in Lincoln include regional offices of the U.S. Department of Agriculture (Mid-West Regional Technical Service Center), the Immigration & Naturalization Service and the Veterans Administration, as well as the state offices of other federal agencies. There is also a U.S. Veterans Medical Facility.

Lancaster County offices are also located in Lincoln, the county seat.

Education

The University of Nebraska, with approximately 24,610 students, Nebraska Wesleyan University, with approximately 2,138 students, Union College, with approximately 901 students, Kaplan University, with approximately 690 students and Southeast Community College, with approximately 12,242 students and with a number of facilities for both full-time and part-time occupational training, are located in the City of Lincoln. The City's modern and progressive school system, with an enrollment of over 36,902 is served by 6 high schools, 11 middle schools, and 37 elementary schools. Lincoln is home to nearly 30 private and parochial schools. Lincoln's private school offerings range from pre-K to high school institutions. Affiliations include Roman Catholic, Lutheran, SDA, and nondenominational Christians.

Building Permits and Property Values

LAST TEN YEARS							
FISCAL YEAR	COMMERCIAL 1 CONSTRUCTION		RESIDENTIAL 1 CONSTRUCTION		PROPERTY VALUE 2		TOTALS
	# PERMITS	VALUE	# PERMITS	VALUE	COMMERCIAL	RESIDENTIAL	
2012	1,372	\$ 338,918,061	2,319	\$ 186,712,560	\$ 4,476,953,562	\$ 10,745,000,908	\$ 15,221,954,470
2011	1,320	223,215,672	2,336	155,181,140	4,477,256,519	10,648,151,681	15,125,408,200
2010	1,234	241,509,266	2,225	116,914,465	4,438,463,100	10,546,474,527	14,984,937,627
2009	1,196	199,331,086	1,794	104,316,385	4,382,749,195	10,839,440,027	15,222,189,222
2008	1,064	274,267,477	2,261	149,678,215	4,246,365,596	10,723,170,809	14,969,536,405
2007	994	293,968,408	2,820	202,786,768	4,236,340,817	10,402,515,684	14,638,856,501
2006	1,088	263,006,153	3,150	195,885,622	3,814,534,869	9,083,290,211	12,897,825,080
2005	1,092	204,677,969	3,387	277,158,200	3,694,097,147	8,727,702,573	12,421,799,720
2004	1,061	258,670,339	3,846	321,126,701	3,598,787,015	8,402,403,364	12,001,190,379
2003	1,036	269,298,229	3,913	315,662,242	3,094,988,486	7,255,640,292	10,350,628,778

¹ City of Lincoln, Building and Safety Department.

² Lancaster County Assessor.

Police and Fire Protection

Lincoln has fourteen fire stations manned by 282 firefighters and three police stations with 319 police officers.

City Employee Information

For the 2012-2013 fiscal year, contracts have been signed with all but two of our unions. Unions include: the Lincoln Police Union (LPU) representing police officers; the International Association of Firefighters (IAF) representing firefighters, the Amalgamated Transit Union (ATU) representing transit workers, the Public Association of Government Employees (PAGE) representing labor, trades, and clerical personnel, the City Employees Association (CEA) representing supervisory, highly technical, and professional personnel, and the Lincoln M Class Employees Association (LMCEA) representing upper management, administration and professional personnel. The ATU and IAF contracts are awaiting City offers and expected to be finalized soon. The ATU contract will likely expire at the end of August, 2013. All other contracts will expire at the end of August, 2014.

Since the inception of labor contracts in 1970, the City of Lincoln has been able to handle its labor relations in such a manner as to avoid interruptions, although it has been necessary to use the facilities of the Nebraska Commission of Industrial Relations on issues involving the International Association of Firefighters, International Brotherhood of Police Officers, and the Public Association of Government Employees.

SELECTED ECONOMIC INDICATORS

LINCOLN SMSA (LANCASTER COUNTY) NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

	MAY 31, 2012		NOVEMBER 30, 2012	
	Number Employed	Percent of Total	Number Employed	Percent of Total
Industry Manufacturing:				
Durable Goods	7,797	4.4	8,218	4.6
Nondurable Goods	4,357	2.5	4,574	2.6
Total Industry Manufacturing	12,154	6.9	12,792	7.2
Nonmanufacturing:				
Natural Resource & Construction	6,982	4.0	7,156	4.0
Transportation, Communications & Utilities	10,456	5.9	10,395	5.8
Wholesale Trade	4,193	2.4	4,028	2.3
Retail Trade	19,076	10.8	19,278	10.8
Information	2,095	1.2	2,148	1.3
Finance, Insurance & Real Estate	13,627	7.7	13,651	7.6
Services (except domestic)	67,756	38.4	69,262	38.8
Government	39,936	22.7	40,037	22.4
Total Nonmanufacturing	164,121	93.1	165,955	93.0
TOTAL	176,275	100.0	178,747	100.0

Lincoln is proud to have some of the nation's leading industrial companies as local employers, including Goodyear Tire and Rubber Company, Burlington Northern Railroad, Archer-Daniels-Midlands Company, Kawasaki Motors Corporation USA, and Square D.

LINCOLN SMSA (LANCASTER COUNTY LABOR FORCE DATA 2011-2002) (For the Calendar Year Indicated)

	*2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Civilian Labor Force	163,270	159,872	159,387	160,357	157,841	156,204	156,033	156,100	154,720	151,775
Unemployment	6,516	6,792	6,937	4,839	4,365	4,308	5,603	5,470	5,686	4,934
Percent of Labor Force	4.0	4.2	4.4	3.0	2.8	2.8	3.6	3.5	3.7	3.3
Employment	156,755	153,080	152,450	155,518	153,476	151,896	150,430	150,630	149,034	146,841

STATE OF NEBRASKA

Percent of Labor Force										
Unemployment	4.4	4.7	4.7	3.3	3.0	3.0	3.9	3.9	4.0	3.7

Source: State of Nebraska, Department of Labor

* Labor Force Data for 2012 is unavailable at date of print

LINCOLN PRINCIPAL EMPLOYERS

CURRENT YEAR

Employer	Employees	Rank	Percentage of Total City Employment
State of Nebraska	8,894	1	5.00 %
Lincoln Public Schools	7,515	2	4.23
University of Nebraska-Lincoln	6,006	3	3.38
BryanLGH Medical Center	3,865	4	2.17
US Government	3,035	5	1.71
City of Lincoln	2,587	6	1.45
Saint Elizabeth Regional Medical Center	2,259	7	1.27
Burlington Northern Railroad	1,800	8	1.01
B&R Stores, Inc.	1,506	9	0.85
State Farm Insurance	1,382	10	0.78
Total	38,849		21.85 %

DEMOGRAPHIC STATISTICS LAST TEN YEARS

Year	Population 1	Per Capita Personal Income 2	School Enrollment 3
2012	262,341	\$	36,902
2011	258,379	39,018	36,530
2010	254,001	37,231	35,896
2009	251,624	36,653	34,973
2008	248,744	38,204	34,061
2007	241,167	36,624	33,466
2006	239,213	35,251	32,934
2005	238,625	33,644	32,505
2004	236,146	32,907	32,270
2003	235,565	32,009	31,889

Sources:

1 Lincoln/Lancaster Planning Department.

2 U.S. Dept. of Commerce Bureau of Economic Analysis.

Per Capital Income is based on Lincoln Metropolitan Statistical Area, which includes all of Lancaster and Seward Counties. Per Capita Income for 2012 is unavailable.

3 Lincoln Public Schools.

Median age from the 2010 census was 31.8. Education statistics per the 2010 Census indicate that 92.4% of the population 25 years and older has a high school degree or greater with 35.2% of the same population holding a Bachelor's degree or greater.

**LINCOLN UTILITY CUSTOMERS
LAST TEN YEARS**

<u>Year</u>	<u>Water Customers</u>	<u>Gas Customers</u>	<u>Electricity Customers</u>
2012	79,698	94,592	129,163
2011	79,184	94,231	128,373
2010	78,740	93,916	129,322
2009	77,973	93,679	128,115
2008	77,532	93,419	126,978
2007	76,816	93,301	124,878
2006	75,919	92,824	123,376
2005	74,649	92,152	121,508
2004	73,059	91,046	119,456
2003	72,260	89,642	116,974

Source: Indicated Utility Companies



SELECTED FINANCIAL STATISTICS

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION ¹ LAST TEN FISCAL YEARS

Fiscal Year	General Government	Public Safety	Streets And Highways	Culture And Recreation	Economic Opportunity	Health And Welfare	Mass Transit	Debt Service	Totals
2012	\$ 39,048,320	70,444,362	18,471,067	22,518,532	14,673,671	22,070,619	10,288,935	31,689,831	229,205,337
2011	36,622,362	69,537,057	18,335,078	21,794,585	15,811,914	21,993,415	15,088,883	26,439,462	225,622,756
2010	35,865,006	64,679,523	19,832,223	21,483,873	15,359,628	21,652,729	12,034,413	17,032,401	207,939,796
2009	34,428,477	63,984,484	16,445,304	22,449,569	11,321,242	20,349,757	9,575,670	16,990,105	195,544,608
2008	35,278,575	61,147,903	16,482,240	21,686,564	14,685,668	21,053,132	10,707,601	14,427,795	195,469,478
2007	33,946,258	60,953,651	17,430,452	21,719,544	11,670,315	20,378,863	14,877,357	11,589,720	192,566,160
2006	34,666,641	60,064,604	16,928,575	20,938,212	12,623,307	25,566,267	8,901,327	11,016,269	190,705,202
2005	32,532,685	58,669,932	17,064,845	21,669,847	14,870,592	19,126,931	8,306,921	10,562,993	182,804,746
2004	30,884,544	55,272,920	13,633,902	22,308,940	14,728,510	18,544,667	10,525,090	7,914,521	173,813,094
2003	28,938,852	50,933,285	12,317,663	19,935,823	16,469,645	17,614,751	7,996,019	8,507,223	162,713,261

¹ Includes General, Special Revenue, and Debt Service Funds.

GENERAL REVENUES BY SOURCE ¹ LAST TEN FISCAL YEARS

Fiscal Year	Taxes And Special Assessment	Inter-Governmental	Permits And Fees	Reimbursement For Services	Investment Earnings	Other	Totals
2012	\$ 161,333,989	68,267,660	20,239,031	7,850,732	4,744,887	20,209,185	282,645,484
2011	144,632,640	71,532,824	18,524,372	7,521,366	5,454,877	11,279,552	258,945,631
2010	131,562,303	61,640,301	16,432,219	7,004,334	5,197,259	6,467,138	228,303,554
2009	130,360,416	75,099,973	17,119,002	6,600,299	5,791,391	7,818,015	242,789,096
2008	130,094,818	73,830,720	18,013,104	6,511,457	6,806,258	7,667,778	242,924,135
2007	125,328,388	63,928,043	19,126,239	6,491,112	10,371,565	7,052,107	232,297,454
2006	121,857,986	60,757,501	18,423,079	7,063,192	4,082,196	7,886,377	220,070,331
2005	119,318,079	63,180,171	16,535,049	6,936,334	4,327,311	12,028,417	222,325,361
2004	114,756,962	58,619,699	15,593,326	6,322,870	5,207,711	10,188,520	210,689,088
2003	107,114,577	52,773,424	12,679,623	6,097,336	4,353,336	8,234,138	191,252,434

¹ Includes General, Special Revenue, and Debt Service Funds.

**SPECIAL ASSESSMENT COLLECTIONS
LAST TEN YEARS ¹**

Fiscal Year Ended <u>August 31</u>	Special Assessment Collections <u>Including Interest</u>
2012	\$ 1,151,931
2011	1,103,720
2010	1,136,150
2009	1,071,238
2008	1,418,936
2007	1,448,146
2006	1,667,037
2005	1,413,582
2004	2,104,925
2003	1,814,191

¹ Special assessment collections are not tracked by levy year, therefore the portion of collections during any year that apply to any particular levy cannot be determined.

Authority to Levy Taxes

Article IX, Section 3 of the Home Rule Charter of the City provides that the City shall have power to levy a tax each year for general revenue purposes upon all property subject to taxation; provided that the maximum amount of taxes that can be levied by the City in any one year for general revenue purposes shall not exceed an amount known as the City tax limit. The City tax limit is a tax ceiling 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 also has the power to levy taxes each year sufficient to pay any judgment existing against the City and the interest on bonded debt and the principal on any bonded debt maturing during the fiscal year or within six months thereafter, as well as taxes authorized by state law. The City is also authorized to receive all taxes collected and distributed pursuant to state law and in lieu of tax payments imposed by law. The 2012 tax levy for the 2012--2013 fiscal year is \$107,939,017 below the legal limit, a tax rate per \$100 valuation of .31580. The assessed value upon which the 2012 levy is based is \$16,676,196,896. By charter, only 90% of the property tax levy may be appropriated.

For the 2012-2013 fiscal year the City is subject to a state imposed lid on the appropriation of "restricted funds", that are revenues received from property tax, sales tax, state aid, in-lieu of tax and highway allocation fees. Bonded indebtedness, capital improvements, and costs associated with inter local agreements are exempt from the lid. For 2012-2013 the City can also use authority equal to the greater of 2.5% or the amount of real growth in the tax base that was 4.88%. An additional 1% can be authorized by a 75% vote of the City Council and was utilized for the 2012-2013 budget. The 2012-2013 budget is \$9,362,458 below the state imposed lid limit.

**PROPERTY TAX LEVIED AND COLLECTED
LAST TEN YEARS**

The fiscal year of the City begins September 1 and ends August 31. Taxes are levied in October. First installments of real estate taxes are delinquent the following April 1, second installments delinquent August 1; personal property taxes are delinquent April 1 and August 1. Delinquent taxes bear 14 percent interest. The figures below include interest and penalties. The figures below do not include motor vehicle in lieu of ad valorem taxes.

Tax Year	Taxes Levied	Collected As Of August 31 After Levy			Accumulated Collections As Of August 31, 2012	
		Amount	Percent		Amount	Percent
2012	\$ 50,214,817	\$ 48,788,943	97.16	%	\$ 48,788,943	97.16 %
2011	45,718,972	44,206,917	96.69		45,555,557	99.64
2010	45,197,040	43,791,366	96.89		45,185,352	99.97
2009	45,884,670	44,385,970	96.73		45,869,388	99.97
2008	45,052,028	43,526,689	96.61		45,040,680	99.97
2007	43,291,440	41,815,295	96.59		43,285,065	99.99
2006	40,930,818	39,549,553	96.63		40,927,608	99.99
2005	38,755,995	37,488,504	96.73		38,749,283	99.98
2004	36,994,112	35,696,288	96.49		36,902,819	99.75
2003	35,007,926	33,648,496	96.12		34,916,463	99.74

TEN LARGEST TAXPAYERS

Listed below are the ten largest taxpayers in the City of Lincoln as reported by the County Assessor. These taxpayers each pay less than five percent of the total taxes levied.

Taxpayers	Type of Business	2012 Assessed Valuations	Percentage Of Total Assessed Valuation
Burlington Northern	Railroad	\$ 82,347,921	0.52%
B & J Partnership Ltd.	Building Management	79,342,600	0.50%
Kawasaki	Manufacturing	72,189,027	0.45%
Ameritas Life Insurance Corp	Insurance	59,515,629	0.37%
WEA Gateway LLC	Retail Management	57,102,771	0.36%
Bryan LGH	Hospital	51,802,894	0.33%
Chateau Van Dorn LLC	Real Estate Development	49,141,073	0.31%
Pfizer	Animal Health	45,496,415	0.29%
Nebco	Construction/Development	44,869,204	0.28%
Windstream	Telecommunications	40,146,292	0.25%
		\$ 581,953,826	3.66%

CITY SALES TAX INFORMATION

The City had a one percent (1%) sales and use tax through June 30, 1985. Effective July 1, 1985 the sales and use tax was raised to one and one half percent (1.5%). These taxes are administered and collected for the City by the State of Nebraska. The State receives three percent (3%) for their service. The City has had a sales tax since 1969.

SALES AND USE TAX COLLECTIONS LAST TEN YEARS

Year Ended August 31	Amount
2012	\$ 61,472,342
2011	57,959,545
2010	54,925,013
2009	54,255,376
2008	55,733,297
2007	53,960,485
2006	54,270,346
2005	53,781,209
2004	51,869,477
2003	48,657,268

GENERAL FUND TAX COLLECTIONS LAST TEN YEARS

Fiscal Year	Property and Motor Vehicle Taxes	Sales and Use Taxes	Sundry Taxes	Taxes In Lieu	Occupation Taxes	Total
2012	\$ 33,574,992	\$ 61,472,342	\$ 31,610	\$ 1,936,396	\$ 12,583,795	\$ 109,599,135
2011	31,449,267	57,959,545	30,957	1,755,098	11,699,691	102,894,558
2010	31,486,553	54,925,013	11,895	1,620,431	10,467,534	98,511,426
2009	33,783,984	54,255,376	8,143	1,540,752	10,071,230	99,659,485
2008	32,181,660	55,733,297	18,600	1,511,404	9,670,060	99,115,021
2007	31,454,763	53,960,485	10,492	1,399,939	9,596,588	96,422,267
2006	28,366,526	54,270,346	9,526	1,315,038	8,936,502	92,897,938
2005	26,727,618	53,781,209	12,445	1,159,742	9,169,791	90,850,805
2004	24,546,532	51,869,477	9,263	1,144,747	9,037,781	86,607,800
2003	22,780,085	48,657,268	10,876	1,199,507	8,831,712	81,479,448

TAXABLE ASSESSED VALUATION
LAST TEN YEARS¹

Tax Year		Real Estate		All Other		Total
2013	\$	15,969,385,392	\$	706,811,504	\$	16,676,196,896
2012		15,221,954,470		678,874,343		15,900,828,813
2011		15,125,408,200		755,852,220		15,881,260,420
2010		14,984,937,627		761,515,955		15,746,453,582
2009		15,222,189,222		713,383,515		15,935,572,737
2008		14,969,536,405		684,390,085		15,653,926,490
2007		14,638,856,501		703,307,287		15,342,163,788
2006		12,897,825,080		685,425,215		13,583,250,295
2005		12,421,799,720		716,716,506		13,138,516,226
2004		12,001,190,379		742,915,013		12,744,105,392

¹ Property is assessed at actual value; therefore, the assessed values are equal to actual value.

TOTAL PROPERTY TAX LEVIES
ALL OVERLAPPING GOVERNMENTS
LAST TEN YEARS¹

	Tax Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
City of Lincoln	0.3158	0.2879	0.2879	0.2879	0.2879	0.2833	0.3009	0.2950	0.2903	0.3145
School District No. 1	1.2461	1.2462	1.2537	1.2668	1.2719	1.2764	1.3142	1.3141	1.3011	1.2830
Lancaster County	0.2683	0.2683	0.2683	0.2683	0.2755	0.2655	0.2841	0.2797	0.2683	0.2683
Educational Service Unit #18	0.0150	0.0145	0.0150	0.0150	0.0141	0.0141	0.0150	0.0150	0.0150	0.0150
Community Technical College	0.0627	0.0600	0.0676	0.0722	0.0689	0.0689	0.0696	0.0655	0.0655	0.0655
Lower Platte South Natural Res. Dist.	0.0398	0.0406	0.0410	0.0410	0.0418	0.0416	0.0422	0.0323	0.0323	0.0359
Railroad Transportation Safety Dist.	0.0260	0.0260	0.0260	0.0260	0.0260	0.0246	0.0260	0.0260	0.0248	0.0220
Lancaster County Correctional JPA City	0.0185	0.0189	0.0194	0.0195	-	-	-	-	-	-
Lancaster County Correctional JPA County	0.0105	0.0106	0.0107	0.0106	-	-	-	-	-	-
Agricultural Society of Lancaster County	0.0016	0.0017	0.0016	0.0015	0.0016	0.0016	0.0018	0.0020	0.0030	0.0012
Lancaster County Fairgrounds	0.0037	0.0038	0.0038	0.0038	0.0043	0.0037	0.0042	0.0042	0.0043	0.0050
Public Building Commission	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170
	<u>2.0250</u>	<u>1.9955</u>	<u>2.0120</u>	<u>2.0296</u>	<u>2.0090</u>	<u>1.9967</u>	<u>2.0750</u>	<u>2.0508</u>	<u>2.0216</u>	<u>2.0274</u>

¹ The assessment rate is 100% of market and the levy is expressed as the tax per \$100 of estimated market value.

DEBT MANAGEMENT

OUTSTANDING INDEBTEDNESS AS OF AUGUST 31, 2012

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

Original Amount	Issued	Issue	Interest Rate	When Due	Date Callable	Interest Date	Outstanding	The
General Obligation Bonds:								
General Bonds:								
9,950	06/15/05	Storm Sewer Construction	3.250 - 4.250	Serial 2006 to 2025	2015	Semiannually	7,235	
8,295	06/27/07	Stormwater Drainage and Flood Mgmt	4.625 - 5.000	Serial 2008 to 2027	2017	"	6,935	
8,200	02/10/11	Stormwater Bonds	2.000 - 4.500	Serial 2013 to 2030	2020	"	8,200	
19,290	06/21/11	Refunding	0.2000 - 5.000	Serial 2011 to 2022	2019	"	18,880	
8,090	06/26/12	Refunding	1.000 - 3.000	Serial 2013 to 2023	na	"	8,090	
Total General Bonds							<u>\$ 49,340</u>	
Tax Allocation Bonds:								
5,500	04/21/04	Tax Allocation Bonds	3.000 - 4.800	Serial 2004 to 2015	2010	"	2,415	
365	08/15/05	Tax Allocation Bonds	4.750	Serial 2006 to 2018	Anytime	"	187	
288	10/01/06	Tax Allocation Bonds	5.100	Serial 2008 to 2016	Anytime	"	157	
2,205	04/05/07	Tax Allocation Bonds	5.000 - 5.550	Serial 2009 to 2018	2012	"	1,655	
601	06/01/07	Tax Allocation Bonds	5.240	Serial 2008 to 2018	Anytime	"	550	
388	06/01/07	Tax Allocation Bonds	5.240	Serial 2007 to 2020	Anytime	"	275	
369	06/15/07	Tax Allocation Bonds	5.400	Serial 2007 to 2014	Anytime	"	140	
42	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2021	Anytime	"	33	
71	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2017	Anytime	"	58	
474	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2022	Anytime	"	280	
547	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	435	
200	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	157	
611	06/30/09	Tax Allocation Bonds	7.00	Serial 2011 to 2023	Anytime	"	597	
3,375	07/28/09	Tax Allocation Bonds	2.500 - 6.400	Serial 2011 to 2023	Anytime	"	3,175	
263	04/01/11	Tax Allocation Bonds	3.990	Serial 2011 to 2022	Anytime	"	244	
Total Tax Allocation Bonds							<u>\$ 10,358</u>	
Tax Supported Bonds:								
27,000	12/05/06	Highway Allocation Fund	4.000 - 5.000	Serial 2008 to 2027	2016	Semiannually	22,155	
28,095	06/06/12	Highway Allocation Fund	1.000 - 5.000	Serial 2012 to 2023	na	"	28,095	
Total Tax Supported Bonds							<u>\$ 50,250</u>	
Special Assessment Bonds:								
825	08/18/11	Special Assessment	0.400 - 3.700	Serial 2012 to 2026		Semiannually	775	
375	08/18/11	Special Assessment	4.200	Term 2031		"	375	
3,000	11/23/11	Special Assessment	2.000 - 3.500	Serial 2012 to 2031		"	2,860	
Total Special Assessment Bonds							<u>\$ 4,010</u>	
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							<u>\$ 300,000</u>	
TOTAL GENERAL OBLIGATION BONDS							<u>\$ 413,958</u>	
Tax Supported Bonds:								
11,080	3/13/02	Antelope Valley Project	1.500 - 5.000	Serial 2002 to 2016	2012	Semiannually	<u>\$ 5,210</u>	
Revenue Bonds:								
18,000	08/03/05	Wastewater Revenue	4.000 - 5.000	Serial 2006 to 2030	2015	Semiannually	\$ 14,460	
16,710	04/18/07	Wastewater Revenue	4.000 - 4.500	Serial 2008 to 2029	2017	"	14,190	
3,750	04/18/07	Wastewater Revenue	4.375	Term 2032	2017	"	3,750	
38,290	05/24/12	Wastewater Revenue	1.000 - 5.000	Serial 2013 to 2028	2023	"	38,290	
Total Wastewater Bonds							<u>\$ 70,690</u>	
40,000	11/16/04	Water Revenue	3.000 - 5.000	Serial 2005 to 2025	2014	Semiannually	31,210	
10,515	08/04/09	Water Revenue	2.000 - 4.125	Serial 2013 to 2029	2019	"	10,515	
4,905	08/04/09	Water Revenue	4.5000	Term 2034	2019	"	4,905	
10,895	06/21/12	Water Revenue	1.000 - 4.000	Serial 2013 to 2022	na	"	10,895	
Total Water Bonds							<u>\$ 57,525</u>	
4,360	12/18/01	Parking Revenue	3.750 - 5.000	Serial 2002 to 2017	2011	"	1,650	
1,640	12/18/01	Parking Revenue	5.125	Term 2021	2011	"	1,640	
2,065	12/29/10	Parking Revenue	1.250 - 2.850	Serial 2011 to 2014	N/A	"	1,185	
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	
Total Parking Bonds							<u>\$ 22,995</u>	
4,000	08/17/06	Solid Waste Management Revenue	4.000 - 4.250	Serial 2007 to 2021	2013	Semiannually	<u>\$ 2,800</u>	
148,190	10/01/02	Electric Revenue and Refunding Bonds	4.000 - 5.000	Serial 2004 to 2025	2012	"	70,040	
93,045	10/01/03	Electric Revenue and Refunding Bonds	3.000 - 5.000	Serial 2004 to 2026	2014	"	74,905	
33,265	10/01/03	Electric Revenue and Refunding Bonds	4.750	Term 2028	2014	"	33,265	
61,290	10/01/05	Electric Revenue Bonds	5.000	Serial 2029 to 2032	2015	"	61,290	
53,710	10/01/05	Electric Revenue Bonds	4.750	Term 2035	2015	"	53,710	
183,230	05/15/07	Electric Revenue and Refunding Bonds	4.000 - 5.000	Serial 2009 to 2035	2016	"	172,490	
81,850	05/15/07	Electric Revenue and Refunding Bonds	4.500 / 4.750	Term 2034 & 2037	2016	"	81,850	
Total Electric Bonds							<u>\$ 547,550</u>	
TOTAL REVENUE BONDS							<u>\$ 701,560</u>	

annual requirements to pay principal and interest on all outstanding debt are as follows (in thousands of dollars):

Fiscal Year Ended August 31	Governmental Activities						The
	General Obligation Bonds		Tax Supported Bonds		Capital Leases		
	Principal	Interest	Principal	Interest	Principal	Interest	
2013	\$	7,683	19,140	740	238	3,842	962
2014		8,876	19,022	780	200	3,983	878
2015		9,236	18,766	815	162	4,076	787
2016		9,606	18,433	855	122	4,165	680
2017		8,724	18,114	2,020	51	2,955	573
2018 - 2022		54,714	85,303	-	-	8,894	1,822
2023 - 2027		69,719	71,004	-	-	5,123	613
2028 - 2032		55,270	57,191	-	-	333	32
2033 - 2037		62,955	43,267	-	-	-	-
2038 - 2042		76,235	25,396	-	-	-	-
2043 - 2046		50,940	5,492	-	-	-	-
		413,958	381,128	5,210	773	33,371	6,347

Fiscal Year Ended August 31	Business-Type Activities						
	Revenue Bonds		Loans Payable		Capital Leases		
	Principal	Interest	Principal	Interest	Principal	Interest	
2013	\$	27,200	32,687	368	139	343	49
2014		28,440	31,411	527	259	350	41
2015		29,605	30,123	693	371	297	32
2016		30,920	28,746	709	355	243	27
2017		32,355	27,288	725	338	248	22
2018 - 2022		167,615	112,587	3,887	1,431	790	48
2023 - 2027		117,085	79,931	4,365	954	-	-
2028 - 2032		117,995	52,148	4,448	415	-	-
2033 - 2037		122,705	23,693	810	25	-	-
2038		27,640	1,244	-	-	-	-
	\$	701,560	419,858	16,532	4,287	2,271	219

Fiscal Year Ended August 31	Major Enterprise Funds					
	Wastewater System		Water System		Electric System	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 3,488	2,925	3,360	2,397	19,610	26,333
2014	3,724	2,858	3,498	2,323	20,595	25,353
2015	3,909	2,838	3,649	2,239	21,620	24,323
2016	4,047	2,665	3,752	2,107	22,675	23,271
2017	4,200	2,493	3,875	1,971	23,800	22,146
2018 - 2022	22,513	10,690	21,435	7,169	120,725	91,862
2023 - 2027	26,752	6,262	12,993	2,897	75,095	68,966
2028 - 2032	15,407	1,520	5,225	1,190	95,195	48,970
2033 - 2037	554	17	2,366	151	120,595	23,550
2038 - 2042	-	-	-	-	27,640	1,244
	\$ 84,594	32,268	60,153	22,444	547,550	356,018

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

Net assets of \$4,447,455, \$2,847,674, \$10,305,977, and \$363,083 are 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	19,307,004	-
Improvements	219,925	-
Infrastructure	15,475,023	-
Machinery and Equipment	4,699,356	3,122,785
Construction In Progress	672,247	160,297
Less Accumulated Depreciation, (where applicable)	(6,939,014)	(2,219,160)
Total	\$ 35,208,991	\$ 1,273,922

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 coverage.

The general obligation debt of all local governmental units which provide services within the City's boundaries and which debt must be borne by properties in the City (commonly called overlapping debt) as of August 31, 2012, is summarized below (unaudited):

<u>Governmental Units</u>	Debt Outstanding	Estimated Percentage Applicable	Direct And Overlapping Debt To The City
Direct:			
City	\$ 413,958,000	100.0 %	\$ 413,958,000
Overlapping:			
School District #1	351,443,000	99.5	349,686,000
Lower Platte South N.R.D.	-	75.4	-
Lancaster County	1,070,000	85.4	914,000
Public Building Commission	39,270,000	85.4	33,537,000
Lancaster County Correctional Facility	57,130,000	85.4	48,789,000
Lancaster County Fairgrounds	8,115,000	85.4	6,930,000
	457,028,000		439,856,000
Total	\$ 870,986,000		\$ 853,814,000

The City has no direct liability for the School District, Lower Platte South N.R.D., Lancaster County, Public Building Commission, Lancaster County Fairgrounds or Lancaster County Correctional Facility debt summarized above. This results in a per capita direct City debt of \$1,577.94; a per capita direct and overlapping debt of \$3,254.60; a ratio of direct City debt to 2012 actual valuation of 2.60 percent; and a ratio of direct and overlapping debt to 2012 actual valuation of 5.37 percent.

In addition to the governmental units listed above, the Airport Authority of the City of Lincoln, Nebraska (the "Airport Authority"), a body politic and corporate separate and distinct from the City of Lincoln, provides services within the City's boundaries and has overlapping general obligation indebtedness. As of June 30, 2012, the Airport Authority had outstanding \$9,540,000 in aggregate principal amount of its general obligation airport bonds. The Airport Authority anticipates that such bonds will be paid from revenues derived from its operations of the Lincoln Municipal Airport, but the Airport Authority is authorized to levy a property tax, at a rate not to exceed three and five-tenths cents (\$.035) on each \$100 of taxable valuation, on all the taxable property in the City. The Airport Authority has not levied a property tax since 1985 for any purpose, including airport operating expenses or debt service on its bonds.

Debt Payment Record

The City of Lincoln has never defaulted on its obligation to pay principal or interest on its indebtedness.

Contingencies

The City is a defendant in a number of lawsuits in its normal course of operations and management is of the opinion that ultimate settlement of such lawsuits will not have a materially adverse effect on the financial statements.

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES LAST TEN FISCAL YEARS

Fiscal Year	Principal	Interest ²	Total Debt Service	Total General Governmental Expenditures ¹	Ratio Of Debt Service To Total General Expenditures
2012	\$ 7,485,645	\$ 5,123,060	\$ 12,608,705	\$ 229,205,337	5.50 %
2011	6,857,978	5,147,840	12,005,818	225,622,756	5.32
2010	7,457,532	5,676,933	13,134,465	207,939,796	6.32
2009	8,036,544	5,814,071	13,850,615	195,544,608	7.08
2008	6,824,828	5,979,172	12,804,000	195,469,478	6.55
2007	5,617,536	4,986,687	10,604,223	192,566,160	5.51
2006	5,770,794	4,670,734	10,441,528	190,705,202	5.48
2005	5,421,699	4,860,926	10,282,625	182,804,746	5.62
2004	4,934,224	2,893,437	7,827,661	173,813,094	4.50
2003	5,435,370	2,986,634	8,422,004	162,713,261	5.18

¹ Includes: General, Special Revenue, and Debt Service Funds.

² Does not include fiscal and miscellaneous charges.

SCHEDULE OF GENERAL OBLIGATION DEBT IN RELATION TO POPULATION, ASSESSED VALUATION, AND REAL PROPERTY VALUATION LAST TEN FISCAL YEARS

Fiscal Year	General Obligation Bonded Debt	Sinking Funds	Net General Obligation Bonded Debt	Population ¹	Net G.O. Bonded Debt Per Capita	Assessed Valuation Real And Personal	Ratio of Net Debt To Assessed Valuation Real & Personal ²	Assessed Valuation Of Taxable Real Property ²	Ratio of Net Debt To Estimated Valuation Of Taxable Real Property
2012	\$ 113,958,000	\$ 15,142,000	\$ 98,816,000	262,341	\$ 376.67	\$ 15,900,828,813	0.62%	\$ 15,221,954,470	0.65%
2011	119,663,000	13,305,000	106,358,000	258,379	411.64	15,881,260,420	0.67%	15,125,408,200	0.70%
2010	118,383,000	13,480,000	104,903,000	254,001	413.00	15,746,453,582	0.67%	14,984,937,627	0.70%
2009	125,181,000	13,604,000	111,577,000	251,624	443.43	15,935,572,737	0.70%	15,222,189,222	0.73%
2008	128,581,000	12,962,000	115,619,000	248,744	464.81	15,653,926,490	0.74%	14,969,536,405	0.77%
2007	133,413,000	11,574,000	121,839,000	241,167	505.21	15,342,163,788	0.79%	14,638,856,501	0.83%
2006	99,347,000	9,733,000	89,614,000	239,213	374.62	13,583,250,295	0.66%	12,897,825,080	0.69%
2005	104,538,000	13,364,000	91,174,000	238,625	382.08	13,138,516,226	0.69%	12,421,799,720	0.73%
2004	98,915,000	20,509,000	78,406,000	236,146	332.02	12,744,105,392	0.62%	12,001,190,379	0.65%
2003	61,759,000	17,083,000	44,676,000	235,565	189.65	11,130,588,167	0.40%	10,350,628,778	0.43%

¹ Source: Lincoln/Lancaster Planning Department.

² Assessed valuation is 100% of actual

**REVENUE BOND COVERAGE
LAST TEN FISCAL YEAR**

		Gross	Direct	Net	Debt Service Requirements			
		Revenue	Operating	Available				
			Expenses	Revenue	Principal	Interest	Total	Coverage
<u>Wastewater System</u>								
2012	\$	24,763,975	12,378,673	12,385,302	3,137,858	3,655,156	6,793,014	1.82
2011		23,546,370	12,543,964	11,002,406	2,865,000	3,647,609	6,512,609	1.69
2010		22,472,095	11,664,593	10,807,502	2,695,000	3,731,444	6,426,444	1.68
2009		22,643,270	11,771,291	10,871,979	2,620,000	3,820,044	6,440,044	1.69
2008		22,347,867	11,393,624	10,954,243	2,415,000	4,030,454	6,445,454	1.70
2007		21,158,743	11,462,964	9,695,779	2,005,000	3,081,481	5,086,481	1.91
2006		19,827,194	11,125,819	8,701,375	2,065,000	3,043,500	5,108,500	1.70
2005		18,248,683	10,482,955	7,765,728	1,500,000	2,403,519	3,903,519	1.99
2004		18,092,619	10,042,919	8,049,700	1,750,000	2,133,704	3,883,704	2.07
2003		15,607,743	9,086,469	6,521,274	1,032,500	266,722	1,299,222	5.02
<u>Water System</u>								
2012	\$	35,984,891	15,636,494	20,348,397	5,380,000	2,955,202	8,335,202	2.44
2011		30,629,506	15,455,027	15,174,479	6,310,000	3,191,857	9,501,857	1.60
2010		26,515,467	14,091,292	12,424,175	6,050,000	3,458,097	9,508,097	1.31
2009		27,838,187	14,995,077	12,843,110	5,795,000	3,128,414	8,923,414	1.44
2008		27,257,184	14,425,521	12,831,663	5,555,000	3,376,201	8,931,201	1.44
2007		29,386,495	14,351,136	15,035,359	5,340,000	3,612,001	8,952,001	1.68
2006		29,014,999	13,808,214	15,206,785	5,130,000	3,834,301	8,964,301	1.70
2005		27,153,937	13,145,665	14,008,272	4,895,000	3,517,932	8,412,932	1.67
2004		24,557,918	12,477,486	12,080,432	3,115,000	2,411,632	5,526,632	2.19
2003		22,094,721	11,631,496	10,463,225	3,010,000	2,898,489	5,908,489	1.77
<u>Parking Facilities</u> ¹								
2012	\$	7,382,101	3,823,131	3,558,970	860,000	1,078,688	1,938,688	1.84
2011		7,698,018	3,606,008	4,092,010	580,000	689,717	1,269,717	3.22
2010		6,869,392	3,340,601	3,528,791	1,435,000	558,519	1,993,519	1.77
2009		7,014,250	2,874,768	4,139,482	1,360,000	624,394	1,984,394	2.09
2008		7,134,709	2,912,511	4,222,198	1,305,000	687,194	1,992,194	2.12
2007		6,645,013	2,781,952	3,863,061	1,240,000	746,374	1,986,374	1.94
2006		6,785,593	2,775,122	4,010,471	1,185,000	799,931	1,984,931	2.02
2005		6,219,935	2,972,709	3,247,226	1,140,000	850,501	1,990,501	1.63
2004		6,299,598	2,733,492	3,566,106	1,145,000	908,456	2,053,456	1.74
2003		5,988,240	2,304,632	3,683,608	1,085,000	962,829	2,047,829	1.80
<u>Solid Waste Management</u>								
2012	\$	7,745,565	6,376,120	1,369,445	220,000	124,025	344,025	3.98
2011		7,615,130	6,253,133	1,361,997	210,000	132,425	342,425	3.98
2010		7,377,385	5,768,077	1,609,308	200,000	140,425	340,425	4.73
2009		7,664,336	5,491,789	2,172,547	195,000	148,225	343,225	6.33
2008		8,537,520	5,540,292	2,997,228	190,000	155,825	345,825	8.67
2007		8,020,390	5,290,802	2,729,588	185,000	160,825	345,825	7.89

1 Information in this table does not agree with information in the transmittal letter of the City's Comprehensive Annual Financial Report because that information is calculated in accordance with specific requirements of the bond covenants.

CITY OF LINCOLN, NEBRASKA
GENERAL FUND
SUMMARY CASH FLOW STATEMENT - CASH BASIS
FOR LAST TEN FISCAL YEARS

	<u>F.Y. 2012</u>	<u>F.Y. 2011</u>	<u>F.Y. 2010</u>	<u>F.Y. 2009</u>	<u>F.Y. 2008</u>	<u>F.Y. 2007</u>	<u>F.Y. 2006</u>	<u>F.Y. 2005</u>	<u>F.Y. 2004</u>	<u>F.Y. 2003</u>
Cash & Investment Balance - September 1 of Year Indicated	16,942,409	14,597,487	16,286,626	15,738,481	14,632,274	13,475,643	18,948,253	23,521,130	26,784,845	26,589,993
Receipts:										
Property Tax	33,574,992	31,449,267	31,486,553	33,783,984	32,181,660	31,454,763	28,366,526	26,727,618	24,546,532	22,780,085
City Sales & Use Tax	61,472,342	57,959,545	54,925,013	54,255,376	55,733,297	53,960,485	54,270,346	53,781,209	51,869,477	48,657,268
Other Income	<u>36,542,477</u>	<u>33,232,580</u>	<u>27,906,103</u>	<u>27,389,492</u>	<u>26,270,119</u>	<u>27,663,641</u>	<u>25,390,112</u>	<u>25,620,145</u>	<u>23,615,320</u>	<u>24,933,838</u>
Total Receipts	131,589,811	122,641,392	114,317,669	115,428,852	114,185,076	113,078,889	108,026,984	106,128,972	100,031,329	96,371,191
Less Disbursements	<u>125,742,998</u>	<u>120,296,470</u>	<u>116,006,808</u>	<u>114,880,707</u>	<u>113,078,869</u>	<u>111,922,258</u>	<u>113,499,594</u>	<u>110,701,849</u>	<u>103,295,044</u>	<u>96,176,339</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>22,789,222</u>	<u>16,942,409</u>	<u>14,597,487</u>	<u>16,286,626</u>	<u>15,738,481</u>	<u>14,632,274</u>	<u>13,475,643</u>	<u>18,948,253</u>	<u>23,521,130</u>	<u>26,784,845</u>

CITY OF LINCOLN, NEBRASKA
GENERAL BONDED INDEBTEDNESS AND DEBT SERVICE FUND
SUMMARY CASH FLOW STATEMENT - CASH BASIS
FOR LAST TEN FISCAL YEARS

	<u>F.Y. 2012</u>	<u>F.Y. 2011</u>	<u>F.Y. 2010</u>	<u>F.Y. 2009</u>	<u>F.Y. 2008</u>	<u>F.Y. 2007</u>	<u>F.Y. 2006</u>	<u>F.Y. 2005</u>	<u>F.Y. 2004</u>	<u>F.Y. 2003</u>
Cash Balance - September 1 of Year Indicated	2,234,981	2,941,245	3,533,968	4,201,889	4,057,088	2,761,491	3,364,608	3,570,557	2,935,997	3,440,537
Receipts:										
Property Tax	5,773,392	5,337,610	5,517,878	5,689,007	5,709,454	5,460,690	2,973,410	5,607,615	5,387,468	5,883,592
Interest Income	13,723	28,331	60,063	131,475	153,977	84,935	86,812	83,286	48,595	32,298
Bond Proceeds	8,369,497	20,236,484						6,597,635		9,436,083
Other Income	<u>110,962</u>	<u>116,758</u>	<u>124,279</u>	<u>173,446</u>	<u>1,003,173</u>	<u>1,927,112</u>	<u>2,935,603</u>	<u>149,038</u>	<u>691,340</u>	<u>240,110</u>
Total Receipts	<u>14,267,574</u>	<u>25,719,183</u>	<u>5,702,220</u>	<u>5,993,928</u>	<u>6,866,604</u>	<u>7,472,737</u>	<u>5,995,825</u>	<u>12,437,574</u>	<u>6,127,403</u>	<u>15,592,083</u>
Disbursements:										
Bonds Paid	2,390,000	2,720,000	4,110,000	4,320,000	4,260,000	3,950,000	4,250,000	3,850,000	3,215,000	4,177,765
Bonds Defeased										9,609,774
Interest Paid	1,822,197	1,753,957	2,178,545	2,335,411	2,456,373	2,217,610	2,342,582	2,197,207	2,271,548	2,309,084
Transfer to Trustee	8,242,367	21,746,822						6,504,876		
Other Disbursements	<u>118,023</u>	<u>204,668</u>	<u>6,398</u>	<u>6,438</u>	<u>5,430</u>	<u>9,530</u>	<u>6,360</u>	<u>91,440</u>	<u>6,295</u>	
Total Disbursements	<u>12,572,587</u>	<u>26,425,447</u>	<u>6,294,943</u>	<u>6,661,849</u>	<u>6,721,803</u>	<u>6,177,140</u>	<u>6,598,942</u>	<u>12,643,523</u>	<u>5,492,843</u>	<u>16,096,623</u>
Equity Transfer										
Cash Balance - August 31 of Year Indicated	<u><u>3,929,968</u></u>	<u><u>2,234,981</u></u>	<u><u>2,941,245</u></u>	<u><u>3,533,968</u></u>	<u><u>4,201,889</u></u>	<u><u>4,057,088</u></u>	<u><u>2,761,491</u></u>	<u><u>3,364,608</u></u>	<u><u>3,570,557</u></u>	<u><u>2,935,997</u></u>

CITY OF LINCOLN, NEBRASKA
SPECIAL ASSESSMENT REVOLVING FUND
SUMMARY CASH FLOW STATEMENT - CASH BASIS
FOR LAST TEN FISCAL YEARS

	F.Y. 2012	F.Y. 2011	F.Y. 2010	F.Y. 2009	F.Y. 2008	F.Y. 2007	F.Y. 2006	F.Y. 2005	F.Y. 2004	F.Y. 2003
Cash & Investment Balance - September 1 of Year Indicated	759,180	4,302,257	4,161,711	11,148,146	9,991,053	8,846,000	7,583,251	7,830,502	6,910,967	6,586,633
Receipts:										
Special Assessment Collections	1,049,570	996,209	984,301	954,672	1,235,621	1,257,112	1,476,284	1,208,686	1,654,695	1,271,575
Interest on Special Assessments	98,844	106,379	148,383	112,749	179,258	188,349	189,927	204,108	267,298	346,725
City's Share of Costs	621,898	233,615	292,420	34,802		187,957	723,038	578,992	116,009	97,107
Developers' Share of Costs										
Bond Proceeds	3,036,003	1,200,000								
Interest on Investments	47,349	60,248	135,149	335,273	453,282	340,274	254,809	217,996	140,289	130,555
Miscellaneous		38,456			33,964	49,403	74,657	30,687	288,482	195,535
Total Receipts	<u>4,853,664</u>	<u>2,634,907</u>	<u>1,560,253</u>	<u>1,437,496</u>	<u>1,902,125</u>	<u>2,023,095</u>	<u>2,718,715</u>	<u>2,240,469</u>	<u>2,466,773</u>	<u>2,041,497</u>
Disbursements:										
Construction Costs	2,359,096	2,081,765	1,113,691	861,203	742,698	766,768	1,066,513	1,796,239	1,399,323	1,560,456
Bonds Paid	190,000					55,000		100,000	105,000	105,000
Equity Transfer				7,554,009						
Interest Paid on Bonds & Notes	94,911	3,758,342				37,581		3,425	10,420	17,534
Other Refunds & Expenses	<u>620,064</u>	<u>337,877</u>	<u>306,016</u>	<u>8,719</u>	<u>2,334</u>	<u>18,693</u>	<u>389,453</u>	<u>588,056</u>	<u>32,495</u>	<u>34,173</u>
Total Disbursements	<u>3,264,071</u>	<u>6,177,984</u>	<u>1,419,707</u>	<u>8,423,931</u>	<u>745,032</u>	<u>878,042</u>	<u>1,455,966</u>	<u>2,487,720</u>	<u>1,547,238</u>	<u>1,717,163</u>
Cash & Investment Balance - August 31 of Year Indicated	<u><u>2,348,773</u></u>	<u><u>759,180</u></u>	<u><u>4,302,257</u></u>	<u><u>4,161,711</u></u>	<u><u>11,148,146</u></u>	<u><u>9,991,053</u></u>	<u><u>8,846,000</u></u>	<u><u>7,583,251</u></u>	<u><u>7,830,502</u></u>	<u><u>6,910,967</u></u>

APPENDIX B

**FINANCIAL STATEMENTS OF
THE CITY OF LINCOLN**

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Comprehensive **ANNUAL**



FINANCIAL REPORT

Fiscal Year Ended August 31, 2012



On the cover:

Top photo: Inside the new Pinnacle Bank Arena, set to open in fall 2013.

Middle photo: Children enjoy the Dean and Pat Muhleisen Memorial Fountain in Union Plaza.

Bottom photo: The Colossus, a sculpture by James Tyler in Union Plaza.

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

OF THE
CITY OF LINCOLN, NEBRASKA

FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

Prepared by:

The Accounting Division of the Finance Department

INTRODUCTORY SECTION

OFFICIALS OF THE CITY OF LINCOLN

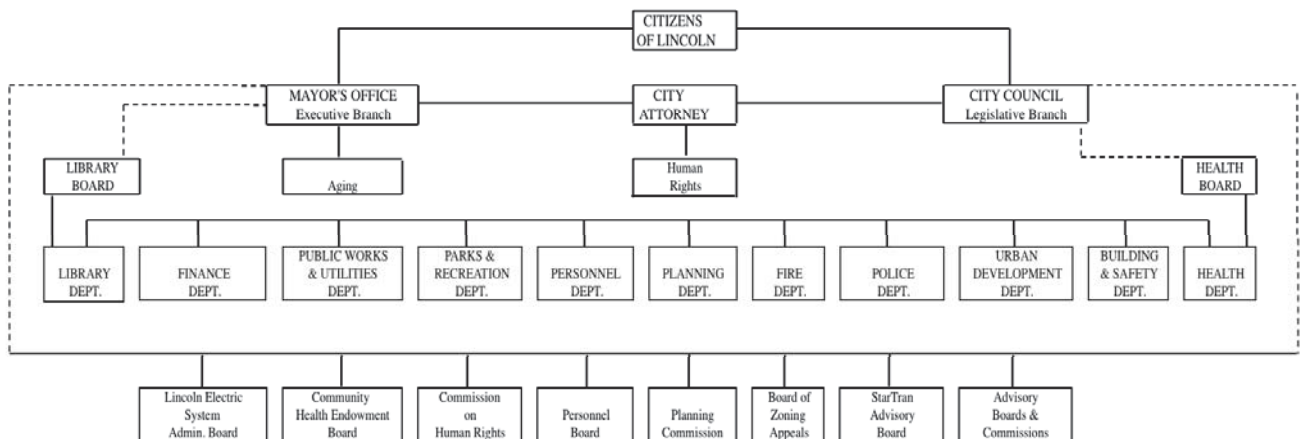
Chris Beutler	Mayor
Carl Eskridge	Chair, City Council
Jon Camp	Vice Chair, City Council
Eugene Carroll	Council Member
Jonathan Cook	Council Member
Doug Emery	Council Member
Lloyd Hinkley	Council Member
DiAnna Schimek	Council Member

* * * * *

Steve Hubka	Interim Finance Director
Marvin Krout	Planning Director
Lynn Johnson	Parks and Recreation Director
Kevin Wailes	Lincoln Electric System Administrator
David Landis	Urban Development Director
Pat Leach	Library Director
Miki Esposito	Public Works/Utilities Director
Fred Hoke	Building and Safety Director
Judith Halstead	Health Director
Douglas McDaniel	Personnel Director
Rodney Confer	City Attorney
Tom Casady	Public Safety Director
Jim Peschong	Police Chief
John Huff	Fire Chief

* * * * *

CITY OF LINCOLN ORGANIZATION CHART



**CITY OF LINCOLN, NEBRASKA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2012
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MAYOR CHRIS BEUTLER

555 South 10th Street Suite 301 Lincoln, NE 68508
402-441-7511

lincoln.ne.gov

February 25, 2013

Dear Citizens and Public Officials:

It is my pleasure to submit the City of Lincoln's Comprehensive Annual Financial Report for the fiscal year ended August 31, 2012.

Ensuring both fiscal and operational accountability in our use of public resources is a priority for my Administration, and this report is essential to that effort. This report provides a complete and accurate picture of the City's financial status and fulfills our continuing disclosure responsibilities in accordance with governmental reporting standards.

Our ability to manage the City's fiscal affairs and provide a full disclosure of the City's fiscal condition is exhibited by the unqualified audit opinion that follows. I am proud to report that the 2011 report submitted to the Government Finance Officers Association was recognized with the prestigious Certificate of Achievement for Excellence in Financial Reporting for the 29th consecutive year. This recognition is a credit to the City and a compliment to our dedicated Finance Department.

I would like to thank the Finance Department employees for their commitment in dealing with these complex accounting issues and to all City departments for their cooperation in the preparation of this document.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Beutler". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Chris Beutler
Mayor of Lincoln



FINANCE DEPARTMENT

555 South 10th Street Suite 103 Lincoln, NE 68508
402-441-7411 fax: 402-441-8325 lincoln.ne.gov

February 25, 2013

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Lincoln:

Both the City Charter and State law require an annual audit of the City's funds and accounts be made by a recognized independent and qualified accountant covering all financial transactions, affairs, and financial condition of the City, with the audit report published within six months after the close of the fiscal year. Pursuant to this requirement, the Comprehensive Annual Financial Report (CAFR) of the City of Lincoln, Nebraska for the fiscal year ended August 31, 2012, is hereby submitted.

Responsibility for both the accuracy of the data found in this report, and the completeness and fairness of the presentation, including all disclosures, rests with management. In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss, theft, or misuse, and to ensure the reliability of financial records for preparing financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state and local financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. The federal government, under the revised OMB Circular A-133, requires local governments that expend \$500,000 or more in federal funds in any fiscal year to have a financial and compliance audit performed. As part of the City's Single Audit, tests were made of the City's internal control structure over compliance and its compliance with applicable laws and regulations, including those related to major federal financial assistance programs. The Single Audit for the year ended August 31, 2012, disclosed no material internal control weaknesses. The independent accountants' reports are included in the Single Audit section found at the end of the CAFR.

To the best of management's knowledge and belief, the enclosed data are accurate in all material respects and reported in a manner designed to present fairly the financial position and financial activities of the City. All disclosures necessary to enable the reader to gain an understanding of the government's financial activities as specified by all currently effective statements of the Governmental Accounting Standards Board have been included.

A firm of licensed certified public accountants has audited the City's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City are free of material misstatement. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent accountants concluded, based upon the audit, that there was a reasonable basis for rendering unqualified opinions that the City's financial statements for the fiscal year ended August 31, 2012, are fairly presented in conformity with GAAP.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found in the Financial Section immediately following the report of the independent accountants.

Profile of the City

The City of Lincoln, capital city of Nebraska, was originally incorporated on April 7, 1869. Lincoln is located in the southeastern corner of the state, is midway between Chicago and Denver, and is currently one of the fastest growing metro areas in the Midwest. It occupies a land area of approximately 90 square miles, serves a population of over 262,000, and in its growth and development has annexed five other municipalities so that the City includes most of the urban area of Lancaster County. It enjoys a unique position in Nebraska as the center of the state's governmental and educational activities.

The City operates under a Home Rule Charter and has a Mayor-Council form of government with an elected full-time chief executive, the Mayor, and an elected legislative body, the Council, composed of seven members. Three Council members are elected at large and four by district on a nonpartisan basis for a term of four years. All legislative powers of the City are exclusively vested in the Council, as well as the power to adopt the budget, set the tax levy, and equalize taxes and assessments. The Mayor is responsible for the proper conduct of the affairs of the City, with the administration of City government performed under the direction of the Mayor through administrative departments.

The City of Lincoln provides a full range of services, including public safety (police and fire); the construction and maintenance of highways, streets, and other infrastructure; health; planning and zoning; golf courses, parks and recreation; urban development; mass transportation; ambulance transport; electric, water, and wastewater utilities; solid waste management; auditorium; parking facilities; and general administrative services.

The City Council exercises budgetary and/or rate setting authority over the City Library and Lincoln Electric System (LES), neither of which are legally separate from the City and are thus included as part of the primary government. The Lincoln Water System, Lincoln Wastewater System, Emergency Medical Services, Solid Waste Management, Parking Facilities and Lots, Golf Courses, Pershing Municipal Auditorium, and Community Health Endowment are all part of administrative departments under the direction of the Mayor and are included as part of the primary government. The City is considered to be financially accountable for the West Haymarket Joint Public Agency, and has included the Agency as part of the primary government as a blended component unit. Separately audited financial statements are available for LES, Lincoln Water System, Lincoln Wastewater System, Emergency Medical Services, Solid Waste Management, Parking System, Community Health Permanent Endowment Trust, and West Haymarket Joint Public Agency.

Beginning with the fiscal year 2012/2013, the City of Lincoln converted to adopting a biennial budget. The biennial budget serves as the basis for the City of Lincoln's financial planning and control. Following public hearings and not later than five days prior to the beginning of the biennium, the budget is legally adopted by resolution of the City Council. Appropriation controls are required at the department 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. The Mayor has the authority to transfer balances within a department as well as lower appropriations in any fund where actual revenues are less than appropriated in order to avoid incurring a budget deficit for the year. Appropriation transfers between departments 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 in the event of an emergency threatening serious loss of life, health, or property in the community.

Economic Condition and Outlook

Population growth is one of the best indicators of a community's economic well-being. As such, the Lincoln metropolitan area's population growth during the past several years reflects a community that is economically viable and is strongly positioned to meet future challenges.

The Lincoln metropolitan area population base (Lancaster County) continues to demonstrate a pattern of sustained growth. According to the U. S. Census figures, the Lincoln metropolitan area population grew by 83.80 percent since 1960. Lancaster County's rate of growth between 2000 and 2010 has been 14.0 percent or approximately 1.28 percent per year. The 2011 population of Lancaster County has been estimated to be in excess of 289,000 persons.

While such a growth rate may be modest by some standards, this healthy pace of expansion places Lincoln as one of the fastest growing communities in this region. Recent projections envision Lincoln to continue to grow at a rate of over 1% per year. As importantly, the City of Lincoln continues to absorb about 90% of all growth in Lancaster County.

Lincoln's unemployment rate at August 31, 2012, was 3.4%, well below the national average of 8.95%, with employment strongest in the categories of government, educational & health services, and retail trade. While Lincoln's current number of construction permits is down 3% when compared to levels 5 years ago, there is an increase in the value of construction permits of over \$29 million.

To more aggressively pursue economic opportunities, the City, Lancaster County, and LES have partnered to hire an economic development coordinator to facilitate job creation in the private sector. In addition, the Mayor's Technology Council completed its technology audit, which led to a new strategic plan for economic development.

Net sales and use tax revenue increased \$4,392,451 or 7.6% from the previous fiscal year. In relation to this primary revenue source, the City is seeing signs of recovery from the negative economic factors that have affected the local and national economies.

Long-Term Planning and Major Initiatives

Urban Development

The City anticipates approximately \$21 million of public expenditures funded through various urban development projects and programs over the next three years. These projects are varied in type and size and are located in the Downtown and Haymarket areas, North 27th Street and Havelock business areas, Focus Area neighborhoods, the South Capitol blight area, the Antelope Valley project area, West O, and in low-moderate income neighborhoods throughout the City.

Financing will be provided by a variety of sources, including Tax Increment Financing (TIF), Parking Revenues, CDBG, HOME, Neighborhood Stabilization Program (NSP) grants, Advanced Land Acquisition funds, Special Assessments, and General Fund. Funding is often combined with developer, grant or other private sector funds.

The City's involvement will vary depending upon the project and could likely include property acquisition, relocation and demolition; housing rehabilitation and development; commercial development; and construction of public improvements including parking, sidewalks, infrastructure and streetscapes.

Ongoing and anticipated future projects include:

- Downtown Redevelopment Projects:
 - 1) Civic Plaza 13th & P Street project.
 - 2) West Haymarket Residential/Retail/Hotel project.
 - 3) West Haymarket Office/Retail project.
 - 4) Construction of Lumberworks parking garage.
 - 5) Telesis/Meadow Gold project.
 - 6) Haymarket Hotel and Tool House.
 - 7) N Street bikeway project.
 - 8) P Street Retail Corridor & Streetscape.
 - 9) Centennial Mall project.
 - 10) 17th & Q/Credit Union project.
 - 11) Replace downtown meters with advanced technology.
 - 12) Landmark III project.
 - 13) Lumberworks liner development project.
 - 14) 18th & Q mixed use development project.
 - 15) Pershing redevelopment project.
- North 27th Street redevelopment efforts are focusing on the acquisition of blighted properties and assembly for redevelopment and new housing construction.
- Antelope Valley Redevelopment Projects:
 - 1) Antelope Creek Village.
 - 2) 21st & N redevelopment project.
- Havelock Redevelopment on-going projects include streetscape improvements, commercial building facade improvements, and park improvements.
- University Place redevelopment of the former Green's Plumbing site.
- West O Street redevelopment projects and historic DLD marker project.
- NW Corridor redevelopment (West Cornhusker Highway).
- Innovation Campus redevelopment.
- 84th and Havelock redevelopment.
- South Capitol redevelopment.
- 56th and Arbor Road redevelopment.
- Focus area projects in South Capitol.
- 11th Street streetscape.
- Prescott Street streetscape, 47th to 48th.
- 1st & Cornhusker Hwy redevelopment.
- Surplus property issues/resolution.
- Housing rehabilitation programs for quality, affordable housing and home ownership:
 - 1) Continuation of First-time Homebuyer and Owner-Occupied Housing Rehabilitation Loan programs.
 - 2) Partner with NeighborWorks-Lincoln for their Home Ownership Zone in Antelope Valley.
 - 3) Partner with other non-profit and for-profit housing organizations for affordable housing projects in low-to-moderate income neighborhoods under the Mayor's Stronger Safer Neighborhoods Program.
 - 4) Manage the local affordable housing effort made possible by Federal Economic Stimulus Programs.
- Real estate major acquisition, negotiation and relocation projects:
 - 1) For effective transportation:
 - ✓ West Haymarket projects.
 - ✓ Yankee Hill Roadway, 70th to 84th Street.
 - ✓ SW 40th Street overpass.
 - ✓ 14th Street, Superior to Alvo Road.
 - ✓ 56th Street, Old Cheney to Shadow Pines.
 - ✓ Coddington & West Van Dorn intersection improvements.
 - ✓ Old Cheney Road, 70th to 84th Street.
 - ✓ Pine Lake Road, 59th to Hwy 2.
 - ✓ 14th & Cornhusker Hwy safety project.
 - ✓ 33rd & Cornhusker Hwy RTSD project.
 - ✓ 14th/Old Cheney/Warlick intersection.
 - ✓ Arterial/residential rehabs, executive order, traffic signal, and Federal Infrastructure Stimulus funded projects.

- ✓ N 33rd, P to Holdrege.
 - ✓ East Beltway preliminary acquisitions.
 - ✓ South Beltway preliminary acquisitions.
- 2) For environmental quality:
- ✓ Park sites citywide.
 - ✓ Stevens Creek sanitary sewer Phase III, IV & V.
 - ✓ Yankee Hill water main, 56th to 84th Street.
 - ✓ 98th Street water main, Holdrege to Alvo.
 - ✓ West O sanitary sewer lift station.
 - ✓ 6th & Old Cheney Road drainage project.
 - ✓ Storm water bond projects.
 - ✓ Miscellaneous sanitary sewer upgrade projects.
 - ✓ Conservation easements and wetlands acquisitions.
 - ✓ Additional projects made possible by Federal Infrastructure Stimulus funds.
- 3) Relocation activities:
- ✓ North 27th Street projects.
 - ✓ West Haymarket projects.
 - ✓ 1st & Cornhusker Hwy project.
 - ✓ 14th/Old Cheney/Warlick intersection project.
- Workforce Investment Act funds received by the City provide employment skills to low-income adults and youth and also to individuals laid-off from area employers. Funding is provided for GED, Adult Education and Literacy Activities, secondary and post-secondary education, and placement in work experience and On-the-Job Training (OJT) with an emphasis on high wage and high demand occupations.

Services are provided from the Career Center located in the Gold's Building. Partner agencies co-located at the Center include Goodwill Industries, Vocational Rehabilitation, Nebraska Department of Labor, and Experience Works. Annually over 30,000 job seeker customer visits are made to the Center and over 500 employers use the Center services.

Examples of specialized projects this year include:

- 1) "The Metro SyNErgy" project in Lincoln and Omaha providing training in green building technology to unemployed and incumbent workers.
- 2) A specialized work readiness class for youth, which combines literacy and numeracy training, GED preparation and work readiness curriculum done in collaboration with Southeast Community College.
- 3) Project Everlast – building a system to support youth transitioning from foster care by addressing employment, housing, education and health care needs.
- 4) Regional Innovation Network fostering collaboration of education, economic development and workforce development leaders in a twelve county southeast Nebraska area focusing training and job placement efforts to the target industries of:
 - ✓ Agriculture & Life Sciences.
 - ✓ Advanced Manufacturing.
 - ✓ Transportation & Logistics.
 - ✓ Health Services, and Business Services & Information Technology.

West Haymarket Project

The West Haymarket Redevelopment Project is a multi-faceted endeavor to revitalize underutilized property that lies on the western edge of Lincoln's downtown and Haymarket district. On May 11, 2010, the citizens of Lincoln voted to approve the issuance of arena bonds, which signaled approval for the project to proceed. The project involves the relocation and elimination of existing railroad tracks and completion of other site preparation activities, the construction of a 15,223 seat civic arena, a community ice center, private retail and office space, a new Amtrak Station, residential units, surface and decked parking, public gathering areas,

street and utility improvements, landscaping, trails and walkways, pedestrian bridges, and environmental enhancements. The public portion of the project cost is estimated to be approximately \$346 million.

The West Haymarket Joint Public Agency (WHJPA) is the governmental agency responsible for oversight of the project, for issuing bonds, collecting revenue, and making bond payments over the course of the Project. Participants in the agency are the City and the Board of Regents of the University of Nebraska.

Beginning January 1, 2011, an occupation tax was imposed on car rental, hotel, restaurant and bar charges within the City of Lincoln. This revenue has been pledged to repayment of any outstanding WHJPA bonds.

Antelope Valley Project

The City of Lincoln, Lower Platte South Natural Resource District and the University of Nebraska-Lincoln have joined together through an interlocal agreement to form the Joint Antelope Valley Authority (JAVA). JAVA is in the process of implementing the Antelope Valley project, which consists of storm water, transportation and community revitalization strategies.

The project has been successful in removing about 1,000 structures from the floodplain by creating an open waterway from Salt Creek Roadway to J Street. Traffic improvements include 12 new or replacement bridges, the elimination of railroad crossings, and 6.2 miles of new roadway including the Big X elevated intersection near the Devaney Sports Center. In addition to the new Union Plaza Park and new trails, revitalization efforts include the Assurity headquarters, Turbine Flats, several housing developments, the Jayne Snyder Trails Center, Fleming Fields and infrastructure improvements. Other redevelopment projects will progress as a result of the re-mapping of the floodplain.

The last remaining JAVA project, which is landscaping of Antelope Valley Parkway between K and P streets as well as landscaping of O Street between 17th and 21st streets, will be completed in 2013.

The entire project is projected to cost \$246 million, which includes all components of the Antelope Valley project: community revitalization, flood control, and transportation.

Wastewater System

The Lincoln Wastewater System is projecting a capital improvements program in the amount of approximately \$53,836,000 over the 6-year period of fiscal year 2012-13 through fiscal year 2017-18. Of that total, approximately \$28,160,000 will be financed by revenue bonds, approximately \$3,170,000 will be financed by impact fees, with the remaining \$22,506,000 to come from utility revenue fees. The majority of these dollars are needed for replacement and maintenance of existing infrastructure, new infrastructure to serve development in various basins throughout the City, and improvements to both the Theresa Street and Northeast treatment plants.

Water System

The Lincoln Water System is projecting a capital improvements program in the amount of approximately \$76,600,000 over the 6-year period of fiscal year 2012-13 through 2017-18. Of these dollars, approximately \$8,800,000 will be financed through revenue bonds, approximately \$4,800,000 will be financed from TIF funding, approximately \$5,700,000 will be financed through impact fees, with the balance of \$57,300,000 coming from utility revenue fees. The major projects contributing to these total dollars include the installation of transmission lines, replacement mains, replacement and new wells, and additional storage reservoirs.

Streets and Highways

The 2013-2018 Streets and Highways capital improvements program and Transportation improvement program identify average annual expenditures of \$28 million for the next six years. Funding for these projects includes \$130 million in City revenues, \$33 million in federal aid, and \$3 million in other funds.

Infrastructure Impact Fees

The City's growth in both population and employment have created demands for new residential and nonresidential development, which in turn creates the need for additional public facilities, including water and wastewater systems, arterial streets, and neighborhood parks and trails. The City's laws, taxes, fees, utility charges, and other forms of revenue generated from new development do not provide sufficient funds to finance these new facilities.

In response to these funding needs the City of Lincoln passed an ordinance to provide for the imposition of impact fees to ensure that facilities are available to serve new growth and that new development bears its proportionate share of the cost of improvements to the City's facilities. Impact fees for all types of new construction have been set and adopted by the City Council and began June, 2003.

Pension Costs

The City currently contributes \$2 for every \$1 contributed by employees in the civilian retirement plans. In an effort to control this significant budget item, the City and the civilian unions, as well as non-union employees, have agreed to change these plans to a \$1.29 to \$1 match for new employees hired after a union specific effective date. Newly hired Department Directors and Mayoral Aides will receive a \$1 to \$1 match. The City is unable to legally change the match for current employees. The City anticipates saving 20 to 25 percent in retirement costs for each employee hired under this new arrangement.

Property Tax Collections

As of August 31, 2012, current tax collections by the County Treasurer were 97.16% of the tax levy, an increase of .47% from last year. Allocations of property tax levy by purpose are as follows:

<u>City Tax Levy by Purpose</u>	<u>2011-2012</u>	<u>2010-2011</u>	<u>2009-2010</u>
General Fund	.1876	.1739	.1772
Library	.0400	.0398	.0398
Social Security	.0163	.0141	.0097
Police and Fire Pension	.0348	.0261	.0251
General Obligation Debt	.0371	.0340	.0361
Total	<u>.3158</u>	<u>.2879</u>	<u>.2879</u>

Parking Facilities

The City of Lincoln operates the following parking garages:

<u>Facility</u>	<u>Number of Stalls</u>	<u>Date Opened</u>
Center Park	1,048	November, 1978
Cornhusker Square	405	December, 1983
University Square	436	April, 1990
Que Place	773	October, 1994
Carriage Park	710	February, 1995
Market Place	433	August, 2000
Haymarket	409	August, 2002
Larson Building	647	July, 2012

The City's parking garages have been built to promote downtown redevelopment efforts by working with private industry in providing necessary parking to various businesses in the downtown area.

Revenue generated by the parking facilities and on-street parking meters, as well as undesignated street construction funds, are pledged for debt service of the 2001 Parking Revenue Bonds, the 2010B Parking Revenue Bonds, and the 2011 Parking Revenue and Refunding Bonds. Comparative data for the past two fiscal years are presented in the following table:

	<u>2011-2012</u>	<u>2010-2011</u>
Operating Revenues	\$ 7,353,847	7,124,602
Operating Income Before Depreciation	3,503,716	3,518,594
Debt Service	1,944,138	1,944,138
Debt Service Coverage Ratio	1.80	1.81

Solid Waste Management

The City of Lincoln owns and operates a municipal solid waste landfill and a construction and demolition debris landfill that are subject to the U.S. Environmental Protection Agency rule *Solid Waste Disposal Facility Criteria*, which establishes closure and postclosure care requirements. As of August 31, 2012, the City estimates that it will incur costs approximating \$22 million to adhere to such requirements (see Note 18 of Notes to the Financial Statements).

Water and Wastewater System

The City's Wastewater Utility System showed an increase in operating revenues and an increase in operating income. Comparative data for the past two fiscal years is presented in the following table:

<u>Wastewater System</u>	<u>2011-2012</u>	<u>2010-2011</u>
Operating Revenues	\$24,097,998	22,973,653
Operating Income	4,404,875	3,301,436
Revenue Available For Debt Service	12,385,302	11,022,406
Debt Service	6,793,014	6,512,609
Debt Service Coverage Ratio	1.82	1.69

The City's Water Utility System showed an increase in operating revenues and an increase in operating income. Comparative data for the past two fiscal years is presented in the following table:

<u>Water System</u>	<u>2011-2012</u>	<u>2010-2011</u>
Operating Revenues	\$34,150,292	28,559,484
Operating Income	10,984,826	5,459,411
Revenue Available For Debt Service	20,348,397	15,174,479
Debt Service	8,335,202	9,501,857
Debt Service Coverage Ratio	2.44	1.60

Lincoln Electric System (LES)

The City owns and operates its own electric utility system that is managed by an administrative board. Actions of the board with regard to rates, budgets, and long-term financing are subject to final review and approval by the City Council. In accordance with Section 4.24.090 of the Lincoln Municipal Code, LES operates on a January 1 - December 31, fiscal year. Audited financial information as of and for LES' fiscal year ended December 31, 2011, is included in the City's August 31, 2012, financial statements.

Certificate of Achievement

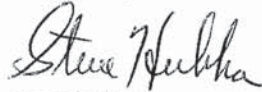
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lincoln, Nebraska, for its comprehensive annual financial report for the fiscal year ended August 31, 2011. This was the twenty-ninth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. I would like to express my appreciation to all members of the department who assisted and contributed to its preparation. I would also like to thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steve Hubka". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Steve Hubka
Interim Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lincoln
Nebraska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Moynell

President

Jeffrey R. Emer

Executive Director



FINANCIAL SECTION

Independent Accountants' Report on Financial Statements and Supplementary Information

The Honorable Mayor
and Members of the City Council
City of Lincoln, Nebraska

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Nebraska (the City) as of and for the year ended August 31, 2012, which collectively comprise the City of Lincoln's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lincoln Electric System which represent 58%, 35% and 75%, respectively, of the total assets, net assets and revenues of the business-type activities. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Lincoln Electric System, is based solely on the report of the other accountants. The prior-year summarized comparative financial information in these statements has been derived from the City's basic financial statements as of and for the year ended August 31, 2011, and in our report dated February 17, 2012, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other accountants provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other accountants, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Nebraska as of August 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and street construction fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section as listed in the table of contents is presented for purposes of additional analysis and is not part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

February 25, 2013



MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Lincoln, Nebraska (the City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended August 31, 2012. Please consider this discussion in conjunction with the additional information provided in the Letter of Transmittal (beginning on page vii) and the transactions, events and conditions reflected in the City's financial statements (beginning on page 16).

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at August 31, 2012, by \$1,673,248,992 (net assets). Of this amount, \$381,489,582 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$73,357,160. Of this amount, \$41,781,745, or 57 percent, was an increase in governmental activities and \$31,575,415, or 43 percent, related to business-type activities.
- As of August 31, 2012, the City's governmental funds reported combined ending fund balances of \$353,770,357, a decrease of \$72,725,985 in comparison with the prior year, as the West Haymarket JPA Fund continues to spend bond proceeds on redevelopment projects. Of this total fund balance, 7 percent, or \$25,439,612, is available for spending at the City's discretion (unassigned fund balance).
- As of August 31, 2012, unrestricted fund balance (the total of committed, assigned, and unassigned fund balance) for the general fund was \$38,990,723, or 34 percent of total general fund expenditures. Due to the implementation of GASB Statement No. 54, reference must be made to page 76 of this report for an accurate comparison of the City's General funds based on the structure used for budgeting.
- The City's total bonded debt decreased by \$37,505,000 (3 percent) during the current fiscal year. The city issued \$85,370,000 in refunding bonds in the current year for a net present value savings of \$10,789,855.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

The statement of activities presents information showing how the City's net assets changed during the year ended August 31, 2012. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general administrative services, public safety, streets and highways, health, planning and zoning, parks and recreation, libraries, aging services, job

programs, urban development, mass transportation, engineering, self-insurance, and fleet management. The business-type activities of the City include water, wastewater and electric utilities; ambulance transport; solid waste management; golf courses; auditorium; and parking.

The government-wide financial statements can be found on pages 16-17 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City maintains thirty-one individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, the Street Construction fund, and the West Haymarket JPA fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and most other governmental funds. A budgetary comparison statement has been provided for the General and Street Construction major funds to demonstrate compliance with this budget. The West Haymarket JPA major fund is not required to adopt an annual budget so a budgetary comparison has not been provided.

The basic governmental fund financial statements can be found on pages 18-23 of this report.

Proprietary funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its parking facilities and lots; golf courses; auditorium; solid waste management; ambulance services; and wastewater, water, and electric systems. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its data processing, engineering, insurance, fleet management, municipal services center operations, telecommunications, and copy services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater and Electric Systems, all of which are considered to be major funds of the City. Data from the other enterprise funds are combined into a single, aggregated presentation. Internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for these funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 24-26 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 27-28 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-71 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City’s progress in funding its obligation to provide pension benefits to its police and fire employees, and to provide other postemployment benefits. Required supplementary information can be found on page 72 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$1,673,248,992 at August 31, 2012.

By far the largest portion of the City’s net assets (60 percent) reflects its investment in capital assets (e.g., land, buildings, improvements, utility plant, infrastructure, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City Of Lincoln
Condensed Statements of Net Assets
August 31, 2012 and 2011**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 596,213,973	651,101,529	288,936,045	247,265,929	885,150,018	898,367,458
Capital Assets	821,891,490	713,530,269	1,449,783,695	1,437,335,316	2,271,675,185	2,150,865,585
Total Assets	<u>1,418,105,463</u>	<u>1,364,631,798</u>	<u>1,738,719,740</u>	<u>1,684,601,245</u>	<u>3,156,825,203</u>	<u>3,049,233,043</u>
Long-Term Liabilities Outstanding	500,195,032	504,062,995	750,069,512	766,638,529	1,250,264,544	1,270,701,524
Other Liabilities	37,731,545	22,171,662	195,580,122	156,468,025	233,311,667	178,639,687
Total Liabilities	<u>537,926,577</u>	<u>526,234,657</u>	<u>945,649,634</u>	<u>923,106,554</u>	<u>1,483,576,211</u>	<u>1,449,341,211</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	405,635,743	386,451,715	608,119,231	622,950,944	1,013,754,974	1,009,402,659
Restricted	246,533,919	235,695,091	31,470,517	31,480,358	278,004,436	267,175,449
Unrestricted	228,009,224	216,250,335	153,480,358	107,063,389	381,489,582	323,313,724
Total Net Assets	<u>\$ 880,178,886</u>	<u>838,397,141</u>	<u>793,070,106</u>	<u>761,494,691</u>	<u>1,673,248,992</u>	<u>1,599,891,832</u>

An additional portion of the City’s net assets (17 percent) represents resources that are subject to external restrictions on their use. The remaining balance of unrestricted net assets (23 percent) may be used to meet the government’s ongoing obligations to citizens and creditors.

At August 31, 2012, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City Of Lincoln
Condensed Statements of Activities
For the Years Ended August 31, 2012 and 2011

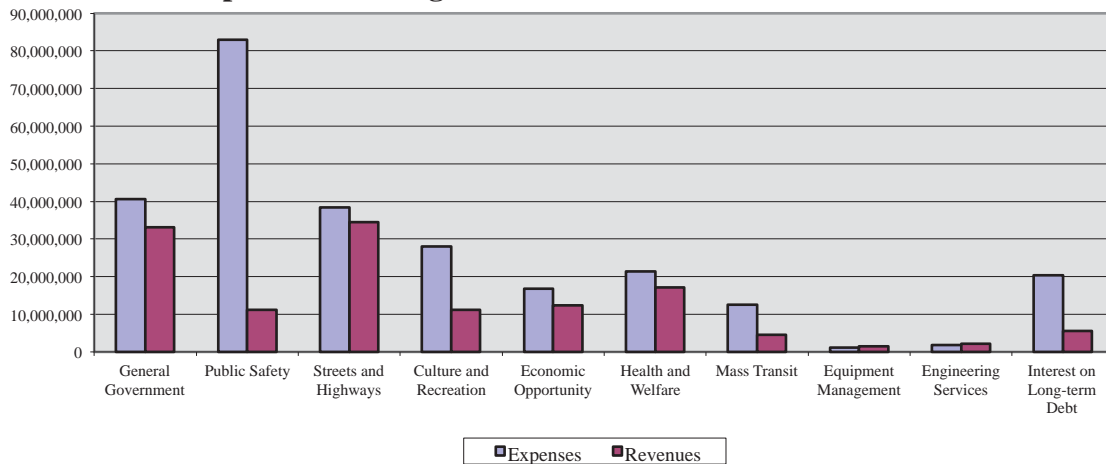
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 49,728,220	46,426,307	350,507,113	335,205,232	400,235,333	381,631,539
Operating Grants and Contributions	51,263,862	73,594,748	-	-	51,263,862	73,594,748
Capital Grants and Contributions	32,043,686	7,982,667	6,731,837	4,645,062	38,775,523	12,627,729
General Revenues:						
Property Tax	53,302,884	48,621,668	-	-	53,302,884	48,621,668
Sales and Use Tax	62,388,551	57,996,100	-	-	62,388,551	57,996,100
Occupation Tax	25,732,963	20,403,399	2,048,615	2,059,361	27,781,578	22,462,760
Other Taxes	18,455,537	16,378,863	-	-	18,455,537	16,378,863
Unrestricted Grants and Contributions	93,633	1,927,588	-	-	93,633	1,927,588
Unrestricted Investment Earnings	1,014,773	1,370,358	983,824	1,564,708	1,998,597	2,935,066
Other	2,623,024	2,309,497	380,531	343,835	3,003,555	2,653,332
Total Revenues	296,647,133	277,011,195	360,651,920	343,818,198	657,299,053	620,829,393
Expenses:						
General Government	40,635,824	40,059,839	-	-	40,635,824	40,059,839
Public Safety	82,915,183	81,218,142	-	-	82,915,183	81,218,142
Streets and Highways	38,319,958	39,840,551	-	-	38,319,958	39,840,551
Culture and Recreation	28,049,044	26,578,448	-	-	28,049,044	26,578,448
Economic Opportunity	16,840,478	16,336,855	-	-	16,840,478	16,336,855
Health and Welfare	21,414,951	21,153,869	-	-	21,414,951	21,153,869
Mass Transit	12,463,592	12,007,410	-	-	12,463,592	12,007,410
Equipment Management	1,162,325	1,882,136	-	-	1,162,325	1,882,136
Engineering Services	1,900,278	1,219,084	-	-	1,900,278	1,219,084
Interest on Long-Term Debt	20,417,899	11,568,353	-	-	20,417,899	11,568,353
Parking	-	-	5,933,848	5,632,973	5,933,848	5,632,973
Golf Courses	-	-	3,762,650	3,414,074	3,762,650	3,414,074
Entertainment Facilities	-	-	2,487,417	2,202,234	2,487,417	2,202,234
Solid Waste Management	-	-	8,080,971	8,490,392	8,080,971	8,490,392
Ambulance Transport	-	-	4,148,850	3,940,669	4,148,850	3,940,669
Wastewater	-	-	23,017,798	23,135,157	23,017,798	23,135,157
Water	-	-	25,908,587	26,084,158	25,908,587	26,084,158
Electric	-	-	250,676,000	242,743,000	250,676,000	242,743,000
Total Expenses	264,119,532	251,864,687	324,016,121	315,642,657	588,135,653	567,507,344
Increase in Net Assets Before Transfers	32,527,601	25,146,508	36,635,799	28,175,541	69,163,400	53,322,049
Transfers	9,254,144	2,678,029	(5,060,384)	(2,678,029)	4,193,760	-
Increase in Net Assets	41,781,745	27,824,537	31,575,415	25,497,512	73,357,160	53,322,049
Net Assets - Beginning	838,397,141	810,572,604	761,494,691	735,997,179	1,599,891,832	1,546,569,783
Net Assets - Ending	\$ 880,178,886	838,397,141	793,070,106	761,494,691	1,673,248,992	1,599,891,832

GOVERNMENTAL ACTIVITIES

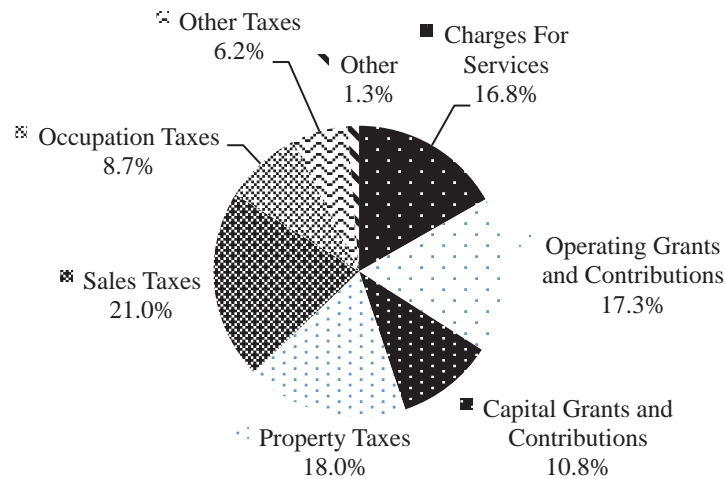
Governmental activities increased the City's net assets by \$41,781,745, accounting for 57 percent of the total growth in the net assets of the City of Lincoln. Key elements of this increase are as follows:

- The City's current year contribution to the Joint Antelope Valley Authority amounted to \$9,729,227, of which a significant portion is federally funded.
- Sales taxes increased by approximately \$4.4 million (7.6 percent) during 2012 after showing an increase of 4.8 percent in the prior year.
- Occupation taxes increased by approximately \$5.3 million (26 percent) in the current year. In January, 2011, the City imposed a 2 percent tax on bar and restaurant revenues and a 4 percent tax on car rental and hotel revenues, to be used to finance the JPA activities and repayment of the Agency's outstanding debt.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



BUSINESS-TYPE ACTIVITIES

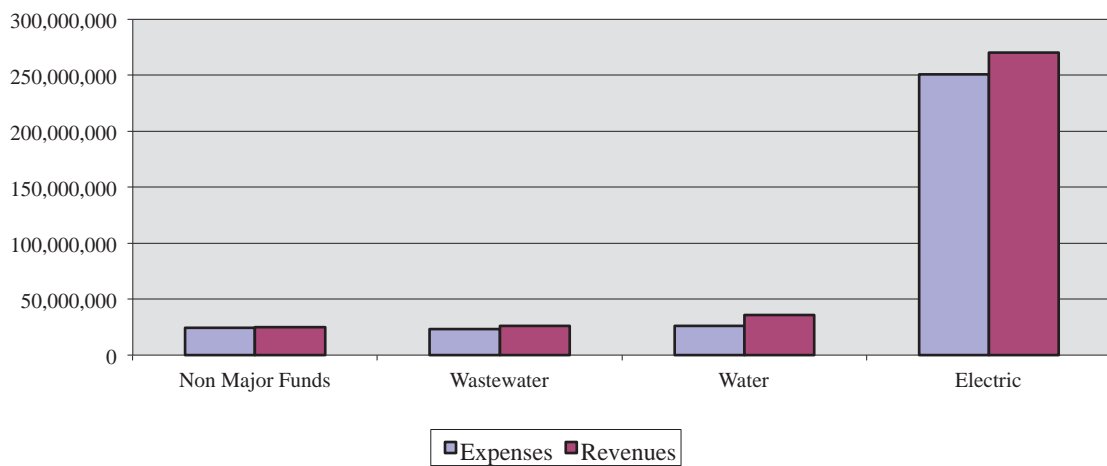
Business-type activities increased the City's net assets by \$31,575,415, accounting for 43 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

- Water System operating revenues increased by \$5,590,808 (19.6 percent) from 2011. Water pumpage was up 20 percent due to the severe drought conditions experienced this past year. Operating expense increased marginally by \$65,393 (.28 percent) due to cost cutting efforts made by the system.
- Wastewater System operating revenues increased \$1,124,345 (4.9 percent) primarily due to a 5% user fee increase implemented with the billings starting in February, 2012. Sanitary sewer bills for residential customers are based on water usage during a two-month period during the winter and remain

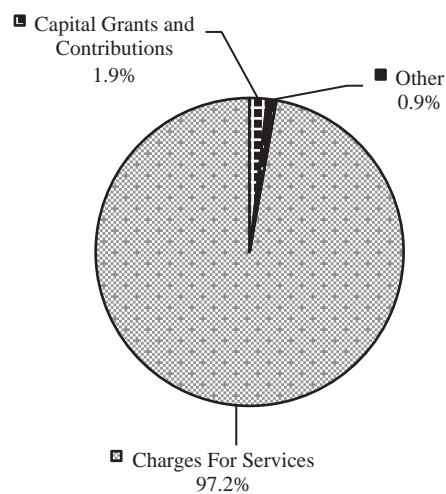
the same over the balance of the following ten-month period. Non-residential customers are billed for sanitary sewer based on their monthly water usage.

- Lincoln Electric System operating revenue in 2011 was 3 percent higher than 2010. Retail revenue was 2 percent higher due to the impact of a 2.5 percent increase on January 1, 2011. Wholesale revenue increased 5 percent with an energy sales increase of 11 percent. The new city dividend for utility ownership, which started September 2011, added \$2.0 million to operating revenue.
- LES recorded capital contributions of approximately \$1.1 million.
- Lincoln Water and Wastewater Systems reported capital contributions of approximately \$1.8 million and \$2.1 million, respectively.

Expenses And Program Revenues - Business-type Activities



Revenues By Source - Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary spending at the end of the fiscal year.

As of August 31, 2012, the City's governmental funds reported combined ending fund balances of \$353,770,357, a decrease of \$72,725,985 in comparison with the prior year. Of this total amount, 7 percent constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is not in spendable form (\$5,785,566), legally required to be maintained intact (\$37,160,000), restricted for particular purposes (\$249,625,706), committed for particular purposes (\$805,612), or assigned for particular purposes (\$34,953,861).

The General Fund is the chief operating fund of the City. At August 31, 2012, the unrestricted fund balance of the General Fund was \$38,990,723, while total fund balance reached \$49,101,273. As a measure of the General Fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Unrestricted fund balance represents 34 percent of total general fund expenditures, while total fund balance represents 43 percent of that same amount.

The fund balance of the City's General Fund increased by \$7,347,437 during 2012. For the 2013 fiscal year, appropriated General Fund balance, used as a funding source for the budget, decreased by 40.6 percent over 2012. It is expected to increase for the 2014 fiscal year. The City has converted to a biennial budget and allocation of balances is spread over a two-year budget cycle.

The Street Construction Fund had a total fund balance of \$31,824,184, which is to be used in the construction and maintenance of streets and highways. The net decrease in fund balance during 2012 in the Street Construction Fund was \$(4,654,384), the result of ongoing projects expenditure of available bond proceeds.

The West Haymarket JPA Fund had a fund balance of \$147,191,453, which is to be used for funding improvements of the West Haymarket Redevelopment Project. The current year change in fund balance of \$(78,241,451) was expected as bond proceeds are spent on the redevelopment projects.

PROPRIETARY FUNDS

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Wastewater System, Water System, Electric System, and other enterprise funds amounted to \$22,234,152, \$25,728,471, \$109,762,000 and \$(4,244,265), respectively, at August 31, 2012 (December 31, 2011 for LES). Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were relatively minor (increase of \$207,042) and can be briefly summarized as follows:

- \$35,000 reduction in intergovernmental revenue.
- Expenditure appropriations:
 - \$(558,255) in miscellaneous changes in general government activities.
 - \$497,418 in increases allocated to public safety.
 - \$(33,018) in decreases to streets & highways.
 - \$(46,632) in decreases allocated to parks and recreation.
 - \$312,529 in increases allocated for General Fund transfers to other City funds.

Variances between actual General Fund revenues and expenditures and the final amended budget include the following:

- \$2,300,100 positive variance in real estate and personal property tax. Actual property collections were 97.16 percent of the 2011 levy, while estimated tax revenue is based on 90 percent collections as provided by the City Charter.
- \$2,817,168 positive variance in sales tax receipts. Collections exceeded projections that were based on prior years activity.
- \$1,550,260 positive variance in occupation taxes as receipts exceeded conservative projections.
- \$1,900,708 positive variance in miscellaneous general government expenditures. Significant savings were realized in several service line items that are reappropriated to cover ongoing future expenditures.
- \$1,943,785 positive variance in police expenditures. Remaining balances are reappropriated to the next year to assist with one-time expenditures that are not ongoing operating expenditures.
- \$(2,048,947) negative variance in street lighting function expenditures. This variance was the result of capital additions related to both normal construction as well as Antelope Valley Project construction.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of August 31, 2012, amounts to \$2,271,675,185 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, streets, bridges, storm sewers, electric plant, and water and sewer plant. The total increase in the City's investment in capital assets for 2012 was 5.62 percent (a 15.19 percent increase for governmental activities and a .87 percent increase for business-type activities).

Major capital asset events during 2012 included the following:

- The City increased its investment in infrastructure, including streets, bridges, drainage and traffic systems, in excess of \$34 million.
- The West Haymarket Joint Public Agency (JPA) increased its investment in capital assets by approximately \$87 million, which includes roads and utility work, arena design and construction, site preparation, land purchases, and environmental remediation.
- The City parking system's investment in the Larson Building and Parking Garage increased by approximately \$8.7 million.

City Of Lincoln
Capital Assets (net of depreciation)
August 31, 2012 and 2011

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 138,768,877	69,850,907	24,232,300	24,144,286	163,001,177	93,995,193
Buildings	53,817,461	49,744,391	140,391,808	122,650,291	194,209,269	172,394,682
Improvements Other Than Buildings	40,360,129	37,876,916	450,950,888	445,301,114	491,311,017	483,178,030
Machinery and Equipment	35,302,361	35,685,017	12,765,467	11,894,995	48,067,828	47,580,012
Utility Plant	-	-	761,574,000	753,770,000	761,574,000	753,770,000
Infrastructure	394,256,079	352,448,061	-	-	394,256,079	352,448,061
Construction-in-progress	159,386,583	167,924,977	59,869,232	79,574,630	219,255,815	247,499,607
Total	\$ 821,891,490	713,530,269	1,449,783,695	1,437,335,316	2,271,675,185	2,150,865,585

Additional information on the City's capital assets can be found in Note 7 of the notes to the financial statements on pages 46-48 of this report.

LONG-TERM DEBT

At August 31, 2012, the City of Lincoln had total bonded debt outstanding of \$1,120,728,000. Of this amount, \$413,958,000 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City Of Lincoln
Outstanding Bonded Debt
August 31, 2012 and 2011
(dollar amounts in thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$ 413,958	419,663	-	-	413,958	419,663
Tax Supported Bonds	5,210	5,920	-	-	5,210	5,920
Revenue Bonds	-	-	701,560	732,650	701,560	732,650
Total	\$ 419,168	425,583	701,560	732,650	1,120,728	1,158,233

The City's total bonded debt decreased by \$37,505,000 (3 percent) in the current fiscal year. Refunding bonds were issued in the amount of \$85,370,000 to refund \$91,300,000 of outstanding bonds.

The City maintains the following credit ratings:

	Moody's Investors Service	Standard And Poor's	Fitch Investors Service
General Obligation Bonds	Aaa	AAA	-
West Haymarket JPA Bonds	Aa1	AAA	-
Antelope Valley Project Bonds	Aa2	AA	-
Water Revenue Bonds	Aa2	AA	-
Wastewater Revenue Bonds			
MBIA insured	Aaa	AAA	-
Underlying	Aa2	AA+	-
Parking Revenue Bonds	A1	A	-
Lincoln Electric System			
Revenue Bonds	Aa2	AA	AA
Commercial Paper – tax exempt	-	A1+	F1+

Under the City's Home Rule Charter, there is no legal debt limit.

Additional information on the City's long-term debt can be found in Note 9 of the notes to the financial statements on pages 50-56 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The budget for 2012-2014 is the first biennial budget proposed for the City of Lincoln, and it is expected that the biennial budget process will save several thousand hours of staff time over the two-year period.

- Property tax revenue required to fund the 2012-2014 budget increased \$1,581,766 or 3.5 percent in the first year from the prior year, and \$467,751 or 1 percent for the second year of the biennium. Total change in the tax base is estimated at 4.88 percent, with the tax rate of .31580 expected to remain the same for both years.
- The adequacy of fees charged for City service cost recovery is examined each year and some fee increases are included in each budget. Without periodic increases in fees, amounts collected, or other revenue adjustments, inflationary and other cost increases would need to be covered by additional property tax revenue or the levels of service provided would need to be reduced. Anticipated revenue adjustments in 2013 include an increase in parking meter rates, \$750,000; increased Parks and Recreation program fees, \$328,150; and additional alarm registration fees, "lift assist" charges, and hazardous material abatement fees, \$387,500.
- Utility rates are increased by an average of 5 percent in both budget years; resulting in additional revenue of \$1,400,000 in 2013 and \$2,900,00 in 2014 for Water, and \$1,100,000 in 2013 and \$2,300,000 in 2014 for Wastewater.
- Sales tax collections for 2012 finished 4.80 percent ahead of projections. 2013 projections reflect a 3.82 percent increase over 2012 actual collections, with an additional 4 percent increase projected for 2014.
- Staffing changes included in the 2012-2014 budget result in a decrease for all funds of 6.81 full-time equivalents.

All of these factors were considered in preparing the City's budget for the 2012-2014 fiscal years.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF LINCOLN, NEBRASKA

STATEMENT OF NET ASSETS

AUGUST 31, 2012

With Summarized Financial Information as of August 31, 2011

	Governmental Activities	Business-Type Activities	Totals	
			2012	2011
ASSETS				
Cash and Cash Equivalents	\$ 15,255,221	13,690,243	28,945,464	170,971,351
Investments	308,232,833	126,370,200	434,603,033	297,199,357
Receivables, (Net of Allowance for Uncollectibles)	32,364,575	48,280,298	80,644,873	79,347,506
Internal Balances	(531,347)	531,347	-	-
Due from Other Governments	25,779,133	2,709,883	28,489,016	30,079,460
Inventories	1,932,902	15,696,937	17,629,839	17,812,923
Plant Operation Assets	-	11,549,000	11,549,000	13,070,000
Prepaid Items	656,274	1,779,605	2,435,879	1,832,355
Deferred Charges and Other Assets	6,352,097	9,642,903	15,995,000	18,907,740
Restricted Assets:				
Cash and Cash Equivalents	228,814	11,492,573	11,721,387	16,959,585
Investments	37,160,000	47,149,794	84,309,794	93,125,323
Receivables	-	43,262	43,262	7,614
Investment in Joint Venture	168,783,471	-	168,783,471	159,054,244
Capital Assets:				
Non-depreciable	298,155,460	84,101,532	382,256,992	341,494,800
Depreciable (Net)	523,736,030	1,365,682,163	1,889,418,193	1,809,370,785
Total Assets	1,418,105,463	1,738,719,740	3,156,825,203	3,049,233,043
LIABILITIES				
Accounts Payable and Other Current Liabilities	23,933,272	42,283,042	66,216,314	54,468,504
Accrued Liabilities	6,100,856	13,585,840	19,686,696	17,881,088
Due to Other Governments	408,949	209,767	618,716	764,765
Unearned Revenue	2,722,965	1,367,145	4,090,110	1,431,953
Notes Payable	-	128,500,000	128,500,000	90,000,000
Accrued Interest Payable	4,565,503	9,634,328	14,199,831	14,093,377
Noncurrent Liabilities:				
Payable within One Year	25,117,496	34,640,775	59,758,271	58,906,731
Payable in More Than One Year	475,077,536	715,428,737	1,190,506,273	1,211,794,793
Total Liabilities	537,926,577	945,649,634	1,483,576,211	1,449,341,211
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	405,635,743	608,119,231	1,013,754,974	1,009,402,659
Restricted for:				
Debt Service, Net of Related Debt	10,250,088	28,416,930	38,667,018	37,984,887
Capital Projects	144,100,195	3,031,376	147,131,571	129,248,175
Grantor Loan Programs	19,582,000	-	19,582,000	19,837,000
Other	12,966,904	22,211	12,989,115	22,214,110
Trust Donations:				
Expendable	1,672,102	-	1,672,102	1,653,945
Nonexpendable	160,000	-	160,000	160,000
Health Care:				
Expendable	20,802,630	-	20,802,630	19,077,332
Nonexpendable	37,000,000	-	37,000,000	37,000,000
Unrestricted	228,009,224	153,480,358	381,489,582	323,313,724
Total Net Assets	\$ 880,178,886	793,070,106	1,673,248,992	1,599,891,832

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012
With Summarized Financial Information for the Year Ended August 31, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals	
							2012	2011
Governmental Activities:								
General Government	\$ (40,635,824)	22,686,194	2,470,510	7,928,577	(7,550,543)	-	(7,550,543)	(14,384,375)
Public Safety	(82,915,183)	6,150,370	4,266,129	714,814	(71,783,870)	-	(71,783,870)	(70,522,526)
Streets and Highways	(38,319,958)	3,489,348	12,099,851	18,919,955	(3,810,804)	-	(3,810,804)	(6,955,653)
Culture and Recreation	(28,049,044)	4,473,514	2,269,016	4,416,143	(16,890,371)	-	(16,890,371)	(17,638,543)
Economic Opportunity	(16,840,478)	2,346,582	10,067,225	-	(4,426,671)	-	(4,426,671)	(1,695,809)
Health and Welfare	(21,414,951)	4,773,397	12,335,789	-	(4,305,765)	-	(4,305,765)	(1,902,876)
Mass Transit	(12,463,592)	1,652,783	2,855,065	-	(7,955,744)	-	(7,955,744)	(3,119,327)
Equipment Management	(1,162,325)	1,476,677	-	-	314,352	-	314,352	(251,005)
Engineering Services	(1,900,278)	2,103,018	-	11,740	214,480	-	214,480	(218,861)
Interest on Long-Term Debt	(20,417,899)	576,337	4,900,277	52,457	(14,888,828)	-	(14,888,828)	(7,171,990)
Total Governmental Activities	(264,119,532)	49,728,220	51,263,862	32,043,686	(131,083,764)	-	(131,083,764)	(123,860,965)
Business-Type Activities:								
Parking Lots	(322,612)	453,326	-	-	-	130,714	130,714	49,192
Golf	(3,762,650)	3,314,506	-	-	-	(448,144)	(448,144)	(654,264)
Parking Facilities	(5,611,236)	7,348,783	-	1,722,988	-	3,460,535	3,460,535	2,259,225
Municipal Auditorium	(2,468,566)	1,762,136	-	-	-	(706,430)	(706,430)	(596,035)
Municipal Arena	(18,851)	-	-	-	-	(18,851)	(18,851)	-
Solid Waste Management	(8,080,971)	5,652,758	-	-	-	(2,428,213)	(2,428,213)	(2,935,257)
Emergency Medical Services	(4,148,850)	4,870,608	-	-	-	721,758	721,758	624,418
Wastewater System	(23,017,798)	24,040,603	-	2,143,397	-	3,166,202	3,166,202	877,522
Water System	(25,908,587)	34,021,393	-	1,791,452	-	9,904,258	9,904,258	4,295,836
Electric System	(250,676,000)	269,043,000	-	1,074,000	-	19,441,000	19,441,000	20,287,000
Total Business-Type Activities	(324,016,121)	350,507,113	-	6,731,837	-	33,222,829	33,222,829	24,207,637
Total	\$ (588,135,653)	400,235,333	51,263,862	38,775,523	(131,083,764)	33,222,829	(97,860,935)	(99,653,328)
General Revenues:								
Property Tax					53,302,884	-	53,302,884	48,621,668
Motor Vehicle Tax					4,331,331	-	4,331,331	4,284,369
Wheel Tax					14,055,801	-	14,055,801	12,031,376
Sales and Use Tax					62,388,551	-	62,388,551	57,996,100
Sundry and In Lieu Tax					68,405	-	68,405	63,118
Occupation Tax					25,732,963	2,048,615	27,781,578	22,462,760
Unrestricted Grants and Contributions					93,633	-	93,633	1,927,588
Unrestricted Investment Earnings					1,014,773	983,824	1,998,597	2,935,066
Miscellaneous General Revenues					2,623,024	380,531	3,003,555	2,653,332
Transfers					9,254,144	(5,060,384)	4,193,760	-
Total General Revenues and Transfers					172,865,509	(1,647,414)	171,218,095	152,975,377
Change in Net Assets					41,781,745	31,575,415	73,357,160	53,322,049
Net Assets - Beginning					838,397,141	761,494,691	1,599,891,832	1,546,569,783
Net Assets - Ending					\$ 880,178,886	793,070,106	1,673,248,992	1,599,891,832

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2012

	General Fund	Street Construction Fund	West Haymarket JPA Fund	Other Governmental Funds	Total
ASSETS					
Cash and Cash Equivalents	\$ 2,426,153	1,442,289	2,282,720	7,587,931	13,739,093
Investments	32,247,854	22,685,071	162,443,808	103,028,660	320,405,393
Receivables, (Net of Allowance for Uncollectibles)	6,551,428	394,466	1,591,546	23,474,580	32,012,020
Due from Other Funds	1,626,898	6,214,964	1,044,032	2,853,692	11,739,586
Due from Other Governments	11,233,624	9,433,341	893,503	3,939,503	25,499,971
Inventories	379,402	264,323	-	485,996	1,129,721
Prepaid Items	4,454,094	172,937	28,814	-	4,655,845
Total Assets	<u>58,919,453</u>	<u>40,607,391</u>	<u>168,284,423</u>	<u>141,370,362</u>	<u>409,181,629</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	779,047	2,288,012	17,695,072	1,699,402	22,461,533
Contracts Payable	-	-	-	749,016	749,016
Accrued Liabilities	3,100,074	192,632	165,000	2,052,611	5,510,317
Due to Other Funds	4,462,887	240,195	12,987	8,343,637	13,059,706
Due to Other Governments	103,749	2,440	-	192,102	298,291
Unearned Revenue	-	-	2,326,408	228,113	2,554,521
Deferred Revenue	1,372,423	6,059,928	893,503	2,452,034	10,777,888
Total Liabilities	<u>9,818,180</u>	<u>8,783,207</u>	<u>21,092,970</u>	<u>15,716,915</u>	<u>55,411,272</u>
Fund Balances:					
Nonspendable	4,833,496	437,260	28,814	37,645,996	42,945,566
Restricted	5,277,054	18,172,109	147,162,639	79,013,904	249,625,706
Committed	-	-	-	805,612	805,612
Assigned	13,359,297	13,214,815	-	8,379,749	34,953,861
Unassigned	25,631,426	-	-	(191,814)	25,439,612
Total Fund Balances	<u>49,101,273</u>	<u>31,824,184</u>	<u>147,191,453</u>	<u>125,653,447</u>	<u>353,770,357</u>
Total Liabilities and Fund Balances	<u>\$ 58,919,453</u>	<u>40,607,391</u>	<u>168,284,423</u>	<u>141,370,362</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	799,404,404
Investment in joint venture is not a financial resource and, therefore, is not reported in the funds.	168,783,471
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	10,777,888
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	25,286,923
Accrued pension contribution, long-term construction contracts and other liabilities require the use of unavailable financial resources and, therefore, are not reported in the funds.	(4,688,580)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(473,155,577)
Net assets of governmental activities	<u>\$ 880,178,886</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

	General Fund	Street Construction Fund	West Haymarket JPA Fund	Other Governmental Funds	Total
REVENUES					
Taxes:					
Property	\$ 30,845,470	-	-	22,697,060	53,542,530
Motor Vehicle	4,331,331	-	-	-	4,331,331
Wheel	-	92,475	-	13,963,326	14,055,801
Sales and Use	62,388,551	-	-	-	62,388,551
Sundry and In Lieu	52,614	-	-	16,231	68,845
Occupation	12,819,569	-	12,913,394	-	25,732,963
Special Assessment	1,580	2,911	-	1,209,477	1,213,968
Intergovernmental	3,122,981	31,428,745	3,900,278	29,815,656	68,267,660
Permits and Fees	5,420,495	3,022,847	-	11,795,689	20,239,031
Reimbursement for Services	6,689,414	56,836	14,225	1,090,257	7,850,732
Court Settlements	1,931,804	-	-	-	1,931,804
Program Income	-	-	-	122,767	122,767
Investment Earnings	154,395	(1,056)	573,396	4,018,152	4,744,887
Donations	939,159	-	6,000,000	2,571,113	9,510,272
Keno Proceeds	-	-	-	3,639,819	3,639,819
Miscellaneous	557,036	1,448,181	-	2,999,306	5,004,523
Total Revenues	<u>129,254,399</u>	<u>36,050,939</u>	<u>23,401,293</u>	<u>93,938,853</u>	<u>282,645,484</u>
EXPENDITURES					
Current:					
General Government	27,786,449	-	623,302	10,638,569	39,048,320
Public Safety	60,701,737	-	-	9,742,625	70,444,362
Streets and Highways	8,090,630	10,379,964	-	473	18,471,067
Culture and Recreation	12,071,114	-	-	10,447,418	22,518,532
Economic Opportunity	5,076,683	-	-	9,596,988	14,673,671
Health and Welfare	279,193	-	-	21,791,426	22,070,619
Mass Transit	-	-	-	10,288,935	10,288,935
Debt Service	52,667	-	14,239,736	17,397,428	31,689,831
Capital Outlay	-	39,768,666	87,087,134	15,404,915	142,260,715
Total Expenditures	<u>114,058,473</u>	<u>50,148,630</u>	<u>101,950,172</u>	<u>105,308,777</u>	<u>371,466,052</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>15,195,926</u>	<u>(14,097,691)</u>	<u>(78,548,879)</u>	<u>(11,369,924)</u>	<u>(88,820,568)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	9,545,361	15,552,592	307,428	27,954,379	53,359,760
Transfers Out	(20,525,981)	(6,113,306)	-	(17,518,037)	(44,157,324)
Issuance of Debt	3,080,000	-	-	3,000,000	6,080,000
Issuance of Refunding Debt	-	-	-	36,185,000	36,185,000
Premium on Debt Issued	42,246	-	-	4,139,803	4,182,049
Transfer To Bond Refunding Agent	-	-	-	(39,840,997)	(39,840,997)
Sale of Capital Assets	9,885	4,021	-	272,189	286,095
Total Other Financing Sources (Uses)	<u>(7,848,489)</u>	<u>9,443,307</u>	<u>307,428</u>	<u>14,192,337</u>	<u>16,094,583</u>
Net Change in Fund Balances	<u>7,347,437</u>	<u>(4,654,384)</u>	<u>(78,241,451)</u>	<u>2,822,413</u>	<u>(72,725,985)</u>
Fund Balances - Beginning	<u>41,753,836</u>	<u>36,478,568</u>	<u>225,432,904</u>	<u>122,831,034</u>	<u>426,496,342</u>
Fund Balances - Ending	<u>\$ 49,101,273</u>	<u>31,824,184</u>	<u>147,191,453</u>	<u>125,653,447</u>	<u>353,770,357</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

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

Net change in fund balances - total governmental funds	\$ (72,725,985)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	104,674,946
The net effect of various miscellaneous transactions involving capital contributions is to increase net assets.	3,712,226
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds: change in revenues in fund statements previously recognized in the statement of activities.	(5,155,892)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	5,996,535
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.	(1,589,757)
Changes in the net pension obligation and the net OPEB obligation do not represent financial activity in governmental funds.	(1,365,802)
Changes in the interest in the underlying net assets of the joint venture do not represent financial activity in governmental funds.	9,729,227
Internal service funds are used by management to charge the costs of certain services to individual funds. The net expense of the internal service funds is reported within governmental activities.	<u>(1,493,753)</u>
Change in net assets of governmental activities	<u><u>\$ 41,781,745</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues:				
Real Estate and Personal Property Tax	\$ 32,446,710	32,446,710	34,746,810	2,300,100
Taxes Collected by Others	58,655,174	58,655,174	61,472,342	2,817,168
Sundry Taxes and In Lieu	48,949	48,949	53,006	4,057
Occupation Taxes	11,327,520	11,327,520	12,877,780	1,550,260
Intergovernmental	1,820,820	1,785,820	1,611,918	(173,902)
Permits and Fees	3,138,633	3,138,633	3,289,220	150,587
Reimbursement for Services	2,784,337	2,784,337	3,198,457	414,120
Court Fees	660,000	660,000	816,080	156,080
Court Settlements	1,400,000	1,400,000	1,400,050	50
Recreation Receipts	2,266,276	2,266,276	2,335,226	68,950
Investment Earnings	141,314	141,314	159,741	18,427
Donations	933,210	933,210	933,210	-
Rental Income	549,166	549,166	504,907	(44,259)
Miscellaneous	384,863	384,863	605,702	220,839
Total Revenues	116,556,972	116,521,972	124,004,449	7,482,477
Expenditures:				
General Government:				
Legislative	282,571	282,571	239,982	42,589
Executive	1,265,091	1,263,101	1,211,332	51,769
Financial Administration	2,625,699	2,636,068	2,416,727	219,341
Law	2,562,388	2,577,250	2,518,965	58,285
Personnel Administration	975,193	1,030,618	1,030,588	30
Planning and Zoning	1,707,273	1,709,480	1,633,970	75,510
Urban Development	1,052,198	1,055,201	869,619	185,582
Miscellaneous	20,475,922	19,833,791	17,933,083	1,900,708
Total General Government	30,946,335	30,388,080	27,854,266	2,533,814
Public Safety:				
Police	33,727,986	33,923,642	31,979,857	1,943,785
Fire	23,169,360	23,471,122	23,423,139	47,983
Building and Safety	10,806	10,806	10,806	-
Traffic Engineering	1,483,660	1,483,660	1,285,507	198,153
Total Public Safety	58,391,812	58,889,230	56,699,309	2,189,921
Streets and Highways:				
Street Maintenance	2,722,473	2,689,455	2,146,295	543,160
Street Lighting	3,937,143	3,937,143	5,986,090	(2,048,947)
Total Streets and Highways	6,659,616	6,626,598	8,132,385	(1,505,787)
Culture and Recreation:				
Parks and Recreation	11,883,995	11,837,363	11,557,323	280,040
Libraries	321,269	321,269	321,269	-
Total Culture and Recreation	12,205,264	12,158,632	11,878,592	280,040
Economic Opportunity:				
Lincoln Area Agency on Aging	229,064	229,064	229,064	-
Health and Welfare:				
Lincoln/Lancaster County Health	276,944	276,944	276,944	-
Debt Service:				
Issuance and Management Costs	-	-	52,667	(52,667)
Total Expenditures	108,709,035	108,568,548	105,123,227	3,445,321
Excess of Revenues Over Expenditures	7,847,937	7,953,424	18,881,222	10,927,798
Other Financing Sources (Uses):				
Transfers In	9,543,932	9,543,932	9,603,148	59,216
Transfers Out	(25,242,193)	(25,554,722)	(24,419,713)	1,135,009
Proceeds from Issuance of Debt	2,080,000	2,080,000	2,080,000	-
Premium on Debt Issued	-	-	20,606	20,606
Sale of Capital Assets	21,000	21,000	9,884	(11,116)
Total Other Financing Sources (Uses)	(13,597,261)	(13,909,790)	(12,706,075)	1,203,715
Net Change in Fund Balances	(5,749,324)	(5,956,366)	6,175,147	12,131,513
Fund Balances - Beginning	22,954,832	22,954,832	22,954,832	-
Fund Balances - Ending	\$ 17,205,508	16,998,466	29,129,979	12,131,513

The notes to the financial statements are an integral part of this statement.



CITY OF LINCOLN, NEBRASKA
STREET CONSTRUCTION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues:				
Wheel Tax	\$ -	-	199,794	199,794
Special Assessment	-	-	2,093	2,093
Intergovernmental	8,936,537	8,936,537	19,456,863	10,520,326
Permits and Fees	-	-	330,583	330,583
Reimbursement for Services	400,000	400,000	9,911	(390,089)
Investment Earnings	50,000	50,000	82,037	32,037
Miscellaneous	-	-	3,944	3,944
Total Revenues	<u>9,386,537</u>	<u>9,386,537</u>	<u>20,085,225</u>	<u>10,698,688</u>
Expenditures -- Streets and Highways:				
Personal Services	5,920,183	5,920,183	5,799,519	120,664
Materials and Supplies	1,025,791	1,025,791	645,845	379,946
Other Services and Charges	4,195,530	4,195,530	3,316,068	879,462
Capital Outlay	265,998	265,998	182,845	83,153
Total Expenditures	<u>11,407,502</u>	<u>11,407,502</u>	<u>9,944,277</u>	<u>1,463,225</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(2,020,965)</u>	<u>(2,020,965)</u>	<u>10,140,948</u>	<u>12,161,913</u>
Other Financing Sources (Uses):				
Transfers In	15,552,592	15,552,592	15,552,592	-
Transfers Out	(6,113,306)	(6,113,306)	(6,113,306)	-
Sale of Capital Assets	-	-	4,021	4,021
Total Other Financing Sources (Uses)	<u>9,439,286</u>	<u>9,439,286</u>	<u>9,443,307</u>	<u>4,021</u>
Net Change in Fund Balances	7,418,321	7,418,321	19,584,255	12,165,934
Amount Budgeted on Project Basis	(24,290,239)	(24,290,239)	(24,290,239)	-
Fund Balances - Beginning	<u>33,077,663</u>	<u>33,077,663</u>	<u>33,077,663</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 16,205,745</u>	<u>16,205,745</u>	<u>28,371,679</u>	<u>12,165,934</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2012

	Business-Type Activities -- Enterprise Funds					Governmental Activities -- Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds	Total	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 1,097,428	968,646	9,953,000	1,671,169	13,690,243	1,516,128
Investments	8,389,869	7,237,173	85,704,000	5,186,111	106,517,153	12,918,786
Receivables, (Net of Allowance for Uncollectibles)	1,996,412	4,159,867	22,033,000	2,567,632	30,756,911	352,555
Accrued Interest Receivable	-	-	234,000	-	234,000	-
Unbilled Revenues	2,459,540	5,038,847	9,791,000	-	17,289,387	-
Due from Other Funds	712,049	372,746	-	227,717	1,312,512	1,585,066
Due from Other Governments	1,085,874	1,500,956	-	123,053	2,709,883	279,162
Inventories	74,306	942,651	14,468,000	211,980	15,696,937	803,181
Plant Operation Assets	-	-	11,549,000	-	11,549,000	-
Prepaid Expenses	-	-	1,776,000	3,605	1,779,605	222,865
Total Current Assets	15,815,478	20,220,886	155,508,000	9,991,267	201,535,631	17,677,743
Noncurrent Assets:						
Investments	7,208,921	7,141,068	-	5,503,058	19,853,047	12,068,654
Restricted Assets:						
Cash and Cash Equivalents	-	-	7,502,000	3,990,573	11,492,573	228,814
Investments	7,457,932	7,262,975	29,887,000	2,541,887	47,149,794	-
Receivables	-	-	-	43,262	43,262	-
Due from Other Funds	-	-	-	148,413	148,413	-
Total Restricted Assets	7,457,932	7,262,975	37,389,000	6,724,135	58,834,042	228,814
Deferred Charges	707,001	539,125	7,989,000	407,777	9,642,903	135,576
Capital Assets:						
Land	5,996,823	5,449,698	-	12,785,779	24,232,300	1,306,950
Buildings	79,839,389	67,727,299	-	68,153,381	215,720,069	6,774,812
Improvements Other Than Buildings	265,147,852	327,271,789	-	41,148,424	633,568,065	465,692
Machinery and Equipment	8,793,982	8,616,076	-	13,593,699	31,003,757	29,574,209
Utility Plant	-	-	1,267,997,000	-	1,267,997,000	-
Construction in Progress	1,767,162	4,400,696	52,684,000	1,017,374	59,869,232	1,366,431
Less Accumulated Depreciation	(104,679,735)	(116,671,087)	(506,423,000)	(54,832,906)	(782,606,728)	(21,223,444)
Total Capital Assets, Net	256,865,473	296,794,471	814,258,000	81,865,751	1,449,783,695	18,264,650
Total Noncurrent Assets	272,239,327	311,737,639	859,636,000	94,500,721	1,538,113,687	30,697,694
Total Assets	288,054,805	331,958,525	1,015,144,000	104,491,988	1,739,649,318	48,375,437
LIABILITIES						
Current Liabilities:						
Accounts Payable	211,842	816,353	14,102,000	1,634,847	16,765,042	722,723
Construction Contracts	3,333,269	1,758,562	-	-	5,091,831	-
Accrued Liabilities	530,841	1,055,782	11,651,000	348,217	13,585,840	492,898
Accrued Compensated Absences	354,384	428,112	-	297,116	1,079,612	789,522
Due to Other Funds	-	-	-	929,578	929,578	796,293
Due to Other Governments	-	-	-	209,767	209,767	12,368
Unearned Revenue	-	-	-	1,367,145	1,367,145	168,444
Claims	-	-	559,000	-	559,000	5,170,834
Accrued Interest	666,249	109,999	8,783,000	75,080	9,634,328	86,600
Commercial Paper Notes Payable	-	-	128,500,000	-	128,500,000	-
Current Portion of Capital Lease	-	-	-	342,426	342,426	708,625
Current Portion of Long-Term Debt	3,487,906	3,360,000	19,610,000	1,110,000	27,567,906	-
Other	-	-	25,518,000	-	25,518,000	-
Total Current Liabilities	8,584,491	7,528,808	208,723,000	6,314,176	231,150,475	8,948,307
Noncurrent Liabilities:						
Accrued Compensated Absences	211,522	371,425	-	76,159	659,106	717,518
Construction Contracts	117,454	190,638	-	-	308,092	-
Claims	-	-	382,000	-	382,000	5,132,204
Long-Term Debt, Net	84,123,313	58,887,377	528,282,000	24,570,506	695,863,196	-
Capital Lease Payable	-	-	-	1,943,584	1,943,584	7,990,897
Accrued Liabilities	162,000	235,233	-	439,526	836,759	299,588
Accrued Landfill Closure/Postclosure Care Costs	-	-	-	15,436,000	15,436,000	-
Total Noncurrent Liabilities	84,614,289	59,684,673	528,664,000	42,465,775	715,428,737	14,140,207
Total Liabilities	93,198,780	67,213,481	737,387,000	48,779,951	946,579,212	23,088,514
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	171,553,512	238,567,894	140,572,000	57,425,825	608,119,231	9,793,942
Restricted for:						
Debt Service	703,650	149,097	27,423,000	141,183	28,416,930	-
Capital Projects	364,711	299,582	-	2,367,083	3,031,376	-
Other	-	-	-	22,211	22,211	-
Unrestricted	22,234,152	25,728,471	109,762,000	(4,244,265)	153,480,358	15,492,981
Total Net Assets	\$ 194,856,025	264,745,044	277,757,000	55,712,037	793,070,106	25,286,923

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

	Business-Type Activities -- Enterprise Funds					Governmental Activities -- Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds	Total	
Operating Revenues						
Charges for Services	\$ 24,097,998	34,150,292	269,043,000	4,870,608	332,161,898	54,547,088
Fees	-	-	-	8,385,364	8,385,364	-
Parking Revenue	-	-	-	7,800,953	7,800,953	-
Performance Revenue	-	-	-	1,704,701	1,704,701	-
Other Operating Revenue	-	-	-	693,268	693,268	-
Total Operating Revenues	<u>24,097,998</u>	<u>34,150,292</u>	<u>269,043,000</u>	<u>23,454,894</u>	<u>350,746,184</u>	<u>54,547,088</u>
Operating Expenses						
Personal Services	-	-	-	8,321,222	8,321,222	14,028,196
Contractual Services	-	-	-	4,940,966	4,940,966	-
Operation and Maintenance	10,828,643	13,624,591	19,218,000	6,505,023	50,176,257	39,835,839
Purchased Power	-	-	119,594,000	-	119,594,000	-
Depreciation	7,314,450	7,528,972	41,002,000	3,951,727	59,797,149	2,582,592
Administrative Costs	1,550,030	2,011,903	33,481,000	-	37,042,933	-
Total Operating Expenses	<u>19,693,123</u>	<u>23,165,466</u>	<u>213,295,000</u>	<u>23,718,938</u>	<u>279,872,527</u>	<u>56,446,627</u>
Operating Income (Loss)	<u>4,404,875</u>	<u>10,984,826</u>	<u>55,748,000</u>	<u>(264,044)</u>	<u>70,873,657</u>	<u>(1,899,539)</u>
Nonoperating Revenues (Expenses)						
Investment Earnings	204,843	530,761	213,000	35,220	983,824	104,245
Gain on Disposal of Capital Assets	-	-	-	24,613	24,613	91,279
Insurance Recovery	135,873	-	-	5,587	141,460	-
Occupation Tax	-	-	-	2,048,615	2,048,615	-
Payments in Lieu of Taxes	-	-	(9,384,000)	-	(9,384,000)	-
Amortization of Deferred Charges	(39,608)	(76,955)	(871,000)	(18,687)	(1,006,250)	-
Interest Expense and Fiscal Charges	(3,285,067)	(2,666,166)	(27,126,000)	(700,724)	(33,777,957)	(228,762)
Total Nonoperating Revenues (Expenses)	<u>(2,983,959)</u>	<u>(2,212,360)</u>	<u>(37,168,000)</u>	<u>1,394,624</u>	<u>(40,969,695)</u>	<u>(33,238)</u>
Income (Loss) Before Contributions and Transfers	1,420,916	8,772,466	18,580,000	1,130,580	29,903,962	(1,932,777)
Capital Contributions	2,143,397	1,791,452	1,074,000	1,722,988	6,731,837	387,316
Transfers In	3,660	20,605	-	740,596	764,861	103,240
Transfers Out	-	-	(4,012,000)	(1,813,245)	(5,825,245)	(51,532)
Change in Net Assets	<u>3,567,973</u>	<u>10,584,523</u>	<u>15,642,000</u>	<u>1,780,919</u>	<u>31,575,415</u>	<u>(1,493,753)</u>
Net Assets - Beginning	<u>191,288,052</u>	<u>254,160,521</u>	<u>262,115,000</u>	<u>53,931,118</u>	<u>761,494,691</u>	<u>26,780,676</u>
Net Assets - Ending	<u>\$ 194,856,025</u>	<u>264,745,044</u>	<u>277,757,000</u>	<u>55,712,037</u>	<u>793,070,106</u>	<u>25,286,923</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

	Business-Type Activities -- Enterprise Funds					Governmental Activities -- Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds	Total	
Cash Flows from Operating Activities						
Receipts from Customers and Users	\$ 24,619,241	30,619,833	282,476,000	22,743,311	360,458,385	13,142,517
Receipts from Interfund Services Provided	274,484	921,658	5,501,000	184,726	6,881,868	41,103,030
Payments to Suppliers for Goods and Services	(3,433,598)	(3,761,088)	(160,919,000)	(8,210,940)	(176,324,626)	(37,558,194)
Payments to Employees	(6,944,605)	(8,147,810)	(25,275,000)	(8,081,573)	(48,448,988)	(13,914,816)
Payments for Interfund Services Provided	(2,029,820)	(3,093,736)	(1,710,000)	(2,251,401)	(9,084,957)	(3,096,972)
Other Receipts	-	-	223,000	693,268	916,268	-
Net Cash Provided (Used) by Operating Activities	<u>12,485,702</u>	<u>16,538,857</u>	<u>100,296,000</u>	<u>5,077,391</u>	<u>134,397,950</u>	<u>(324,435)</u>
Cash Flows from Noncapital Financing Activities						
Occupation Tax	-	-	-	2,124,861	2,124,861	-
Payments in Lieu of Taxes	-	-	(9,388,000)	-	(9,388,000)	-
Transfers from Other Funds	-	-	-	714,089	714,089	103,240
Transfers to Other Funds	-	-	(1,730,000)	(1,813,245)	(3,543,245)	(51,532)
Advances from General Fund	-	-	-	1,745,878	1,745,878	1,423,220
Repayment of Advances from General Fund	-	-	-	(1,880,656)	(1,880,656)	(1,618,266)
Advances to Other Funds	-	(25,289)	-	(7,094)	(32,383)	(709)
Repayments from Other Funds	180,077	-	-	510,177	690,254	516,476
Net Cash Provided (Used) by Noncapital Financing Activities	<u>180,077</u>	<u>(25,289)</u>	<u>(11,118,000)</u>	<u>1,394,010</u>	<u>(9,569,202)</u>	<u>372,429</u>
Cash Flows from Capital and Related Financing Activities						
Additions to Capital Assets	(10,283,899)	(6,226,515)	(41,761,000)	(13,336,746)	(71,608,160)	(4,517,921)
Capital Contributions	461,134	1,303,838	1,074,000	1,722,988	4,561,960	-
Federal Grant Proceeds	680,526	-	-	-	680,526	-
Proceeds from Sale of Capital Assets	-	-	-	49,319	49,319	228,909
Insurance Recovery	135,873	-	-	5,587	141,460	-
Proceeds from Long-Term Debt	6,203,748	1,127,435	38,500,000	1,534,948	47,366,131	575,412
Cost of Debt Issuance	(560,300)	(74,312)	(243,000)	(30,415)	(908,027)	-
Net Cost of Retiring Plant	-	-	(1,057,000)	-	(1,057,000)	-
Principal Payments of Capital Lease	-	-	-	(258,306)	(258,306)	(239,512)
Principal Payments of Long-Term Debt	(3,137,858)	(5,380,000)	(18,680,000)	(1,080,000)	(28,277,858)	-
Interest and Fiscal Charges Paid	(3,492,563)	(2,898,314)	(27,583,000)	(1,240,695)	(35,214,572)	(214,097)
Net Cash Used by Capital and Related Financing Activities	<u>(9,993,339)</u>	<u>(12,147,868)</u>	<u>(49,750,000)</u>	<u>(12,633,320)</u>	<u>(84,524,527)</u>	<u>(4,167,209)</u>
Cash Flows from Investing Activities						
Proceeds from Sale and Maturities of Investments	28,776,654	20,631,982	114,106,000	27,369,645	190,884,281	40,188,913
Purchases of Investments	(33,070,291)	(25,752,723)	(167,134,000)	(22,261,619)	(248,218,633)	(40,164,442)
Interest and Other Receipts	317,414	452,942	422,000	125,816	1,318,172	248,574
Net Cash Provided (Used) by Investing Activities	<u>(3,976,223)</u>	<u>(4,667,799)</u>	<u>(52,606,000)</u>	<u>5,233,842</u>	<u>(56,016,180)</u>	<u>273,045</u>
Net Decrease in Cash and Cash Equivalents	(1,303,783)	(302,099)	(13,178,000)	(928,077)	(15,711,959)	(3,846,170)
Cash and Cash Equivalents - Beginning	2,401,211	1,270,745	30,633,000	6,589,819	40,894,775	5,591,112
Cash and Cash Equivalents - Ending	<u>\$ 1,097,428</u>	<u>968,646</u>	<u>17,455,000</u>	<u>5,661,742</u>	<u>25,182,816</u>	<u>1,744,942</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities						
Operating Income (Loss)	\$ 4,404,875	10,984,826	55,748,000	(264,044)	70,873,657	(1,899,539)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	7,314,450	7,528,972	41,002,000	3,951,727	59,797,149	2,582,592
Changes in Assets and Liabilities:						
Accounts Receivable and Unbilled Revenues	795,801	(2,638,307)	(897,000)	(81,635)	(2,821,141)	(104,974)
Due from Other Funds	-	-	-	(65,077)	(65,077)	(165,693)
Due from Other Governments	-	-	-	(118,748)	(118,748)	(20,399)
Inventories	(8,802)	(10,018)	(83,000)	(3,602)	(105,422)	7,205
Plant Operation Assets	-	-	1,521,000	-	1,521,000	-
Prepaid Expenses	-	-	(704,000)	56,380	(647,620)	162,542
Other Assets	-	-	2,753,000	-	2,753,000	-
Accounts Payable	(108,059)	366,504	302,000	31,073	591,518	(540,022)
Accrued Liabilities	80,635	330,999	-	208,993	620,627	133,128
Accrued Compensated Absences	6,802	(24,119)	-	(29,011)	(46,328)	(19,748)
Due to Other Funds	-	-	-	99,638	99,638	25,066
Due to Other Governments	-	-	-	55,826	55,826	11,798
Unearned Revenue	-	-	-	431,871	431,871	(10,473)
Claims	-	-	497,000	-	497,000	(485,918)
Deferred Credits and Other Liabilities	-	-	157,000	-	157,000	-
Accrued Landfill Closure/Postclosure Care Costs	-	-	-	804,000	804,000	-
Total Adjustments	<u>8,080,827</u>	<u>5,554,031</u>	<u>44,548,000</u>	<u>5,341,435</u>	<u>63,524,293</u>	<u>1,575,104</u>
Net Cash Provided by Operating Activities	<u>\$ 12,485,702</u>	<u>16,538,857</u>	<u>100,296,000</u>	<u>5,077,391</u>	<u>134,397,950</u>	<u>(324,435)</u>
Supplemental Disclosure of Noncash Investing, Capital, and Financing Activities:						
Contribution of Capital Assets	\$ 883,120	487,614	-	-	1,370,734	387,316
Capital Asset Trade-Ins	-	-	-	87,582	87,582	-
Purchase of Capital Assets on Account	3,450,723	1,949,200	-	619,376	6,019,299	324,819
Change in Fair Value of Investments	77,644	(112,212)	50,000	(69,545)	(54,113)	(113,463)
Recognition of Sales Tax Settlement Payment	-	-	22,000	-	22,000	-
Allowance for Funds in Construction and Amortization	-	-	104,000	-	104,000	-

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2012

	Police & Fire Pension Trust Fund	Agency Funds
	<u>Trust Fund</u>	<u>Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 1,465,894	4,011,529
Investments:		
Pooled Investment Funds	4,198,097	-
Collateralized Investment Agreement	-	1,910,000
Corporate Bonds	805,800	-
Mutual Funds	147,725,024	-
Private Equity	561,029	-
Real Estate Limited Partnerships	13,095,044	-
Total Investments	<u>166,384,994</u>	<u>1,910,000</u>
Receivables:		
Contributions	570,438	-
Accrued Interest	527,397	38,128
Other	-	44,274
Due from Other Governments	432	2,664
Contractor Retainage	<u>-</u>	<u>770,662</u>
Total Assets	<u>168,949,155</u>	<u><u>6,777,257</u></u>
LIABILITIES		
Warrants Payable	-	1,110,868
Accounts Payable	16,000	248,292
Accrued Liabilities	7,456	-
Accrued Compensated Absences	14,729	-
Due to Other Governments	-	3,765,444
Due to Homeowners	-	17,641
Due to Contractors	-	1,249,837
Due to Joint Venture	-	206,548
Due to Plan Members	-	60,701
Due to Bondholders	<u>-</u>	<u>117,926</u>
Total Liabilities	<u>38,185</u>	<u><u>6,777,257</u></u>
NET ASSETS		
Held in Trust for Pension Benefits and Other Purposes	\$ <u><u>168,910,970</u></u>	

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED AUGUST 31, 2012

	<u>Police & Fire Pension Trust Fund</u>
Additions:	
Contributions:	
Employer	\$ 5,837,676
Employee	2,418,690
Total Contributions	<u>8,256,366</u>
Investment Earnings:	
Interest	219,271
Dividends	2,872,884
Net Increase in Fair Value of Investments	5,686,090
Net Investment Earnings	<u>8,778,245</u>
Total Additions	<u>17,034,611</u>
Deductions:	
Benefit Payments	10,923,121
Refunds of Contributions	645,182
Administrative Costs	<u>369,764</u>
Total Deductions	<u>11,938,067</u>
Change in Net Assets	5,096,544
Net Assets Held in Trust for Pension Benefits and Other Purposes - Beginning	<u>163,814,426</u>
Net Assets Held in Trust for Pension Benefits and Other Purposes - Ending	<u>\$ 168,910,970</u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

FISCAL YEAR-END

All funds of the City, with the exception of Lincoln Electric System (LES), are reported as of and for the year ended August 31, 2012. 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, 2011. The amounts included in the City's 2012 financial statements for LES are amounts as of and for the year ended December 31, 2011.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Functional expenses may also include an element of indirect cost, designed to recover administrative (overhead) costs. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2012

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

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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.

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

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes, 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.

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.

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 assets 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.

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ASSETS, LIABILITIES, AND NET ASSETS OR FUND EQUITY

Deposits and Investments

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

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

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

Receivables and Payables

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

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

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

Inventories and Prepaid Items

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 assets to indicate that they do not represent "available spendable resources".

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

Deferred Charges

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

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Investment in Joint Venture

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, drainage systems, 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:

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

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

Compensated Absences

City employees generally earn vacation days at a variable rate based on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation, which is in no case longer than 37 days.

Employees earn sick leave at the rate of one day per month with total accumulation limits established by the employees' bargaining unit. Upon retirement, an employee is reimbursed for accumulated sick leave with maximums depending on the employees' bargaining unit contract. 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.

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

Long-Term Obligations

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

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Fund Equity

Fund balances reflect assets minus liabilities 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 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 may only be reported in the General Fund.

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 \$26,393,981 of the General Fund's spendable and unrestricted fund balance meets the requirements of this policy.

Net Assets Classification

Net assets are assets minus liabilities and are shown in the entity-wide, proprietary, and fiduciary fund financial statements. Net assets are required to be classified into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt.

Restricted – This component of net assets consists of restrictions placed on net assets use through external constraints imposed by creditors (such as debt covenants), grantors, contributors, or law or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

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The government-wide statement of net assets reports \$278,004,436 of restricted net assets, of which enabling legislation restricts \$16,863,650.

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

BUDGETARY DATA

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

- 1) At least 40 days prior to the end of the budget and fiscal year, the Mayor submits to the City Council a proposed annual budget for the ensuing year. The annual budget is a complete financial plan for the ensuing budget year and consists of an operating budget and a capital budget.
- 2) Public hearing on the proposed budget is scheduled for not later than 10 days prior to the budget adoption date.
- 3) Not later than 5 days prior to the end of the fiscal year, the budget is legally adopted by resolution of the City Council.
- 4) The Mayor is authorized to transfer unencumbered balances between appropriations of the same department or agency. The Mayor also has authority to lower appropriations in any fund where actual revenues are less than appropriated in order to avoid incurring a budget deficit for the year.

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

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

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

- 6) Appropriation controls are required at the departmental level. However, as a matter of policy and practice, appropriations generally are controlled at the next level of organization (division) or by fund within a department.
- 7) Operating appropriations lapse at the end of the fiscal year except for 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 an annual basis.

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The City began utilizing a biennial budget process for the fiscal year beginning September 1, 2012. The biennial budget will be a complete financial plan for the biennial period and will consist of an operating budget and a capital budget.

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 \$19,937,630, which is reported as expendable health care restricted net assets in the statement of net assets. The initial endowment principal is reported as nonexpendable health care restricted net assets in the statement of net assets.

PRIOR-YEAR SUMMARIZED FINANCIAL INFORMATION

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's basic financial statements as of and for the year ended August 31, 2011, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ materially from those estimates.

IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

In 2012, the City implemented the provisions of GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, which clarifies the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB 64 did not have a material impact on the financial statements.

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

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

The governmental funds balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of the \$473,155,577 difference are as follows:

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Bonds Payable	\$ 419,167,849
Less deferred charge for issuance costs	(6,216,521)
Less issuance discounts	(1,004,028)
Plus issuance premiums	11,425,596
Less deferred charge on refunding	(1,303,610)
Capital Leases Payable	24,693,594
Accrued Interest Payable	4,478,903
Net Pension Obligation	3,115,746
Net OPEB Obligation	5,144,167
Compensated Absences	13,653,881
Net difference	<u>\$ 473,155,577</u>

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

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances – total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$104,674,946 difference are as follows:

Capital outlay	\$ 130,907,234
Depreciation expense	<u>(26,232,288)</u>
Net difference	<u>\$ 104,674,946</u>

Another element of that reconciliation states, “The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$5,996,535 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation refunding bonds	\$ (8,090,000)
Issuance of general obligation highway allocation fund refunding bonds	(28,095,000)
Issuance of special assessment revolving fund bonds	(3,000,000)
Issuance of certificates of participation	(3,080,000)
Deferred charge for issuance costs	543,425
Issuance premiums	(4,182,049)
Amortization of deferred items	53,372
Principal repayments and transfers to bond refunding agent	<u>51,846,787</u>
Net difference	<u>\$ 5,996,535</u>

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 \$(1,589,757) difference are as follows:

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Loss on disposal of capital assets	\$ (462,220)
Construction contracts	313,784
Other	94,060
Accrued interest	(538,653)
Compensated absences	(996,728)
Net difference	<u>\$ (1,589,757)</u>

(3) RESTRICTED ASSETS

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

A recap of restrictions and related balances at August 31, 2012, are as follows:

Fund Account	Golf	Parking Facilities	Pershing Municipal Auditorium	Solid Waste Management	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Fleet Services	Total
Principal and Interest	\$ -	190,974	-	-	942,457	239,893	15,278,000	-	16,651,324
Reserve	-	2,338,575	-	400,000	5,998,092	6,948,305	21,310,000	-	36,994,972
Depreciation and Replacement	-	930,475	-	-	-	-	-	-	930,475
Capital Construction and Equipment	1,383,607	1,412,554	2,497	15,232	517,383	74,777	-	228,814	3,634,864
Claims	-	-	-	-	-	-	801,000	-	801,000
Marketing	-	-	50,221	-	-	-	-	-	50,221
Total	<u>\$ 1,383,607</u>	<u>4,872,578</u>	<u>52,718</u>	<u>415,232</u>	<u>7,457,932</u>	<u>7,262,975</u>	<u>37,389,000</u>	<u>228,814</u>	<u>59,062,856</u>

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 assets.

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).

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One or more of the financial institutions holding the City's cash accounts are participating in the FDIC Transaction Account Guarantee Program. Under the program, through December 31, 2012, all noninterest-bearing transaction accounts at these institutions are fully guaranteed by the FDIC for the entire amount in the account. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

For interest-bearing cash accounts, the City's cash deposits, including certificates of deposit, are insured up to \$250,000 by the FDIC. Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits are covered by collateral held in a Federal Reserve pledge account or by an agent for the City and thus no custodial risk exists.

INVESTMENTS

At August 31, 2012, the City had the following investments, maturities and credit ratings:

	August 31, 2012						
	Maturities in Years						
Type	Carrying Value	Less than 1	1-5	6-10	More than 10	Credit Rating Moody's	S&P
General City:							
U.S. Treasury Obligations	\$ 30,917,490	19,869,780	11,047,710	-	-	N/A	N/A
U.S. Sponsored Agency Obligations	430,215,166	309,837,305	56,195,869	57,691,586	6,490,406	Aaa	AA+
Collateralized Repurchase Agreements	663,899	663,899	-	-	-	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	3,615,761	3,615,761	-	-	-	Aaa	AAAm
Money Market Funds - U.S. Agencies	24,532,810	24,532,810	-	-	-	Aaa	AAAm
External Investment Trust	6,650,000	6,650,000	-	-	-	Not rated	Not rated
Tax Increment Financing Investments	2,515,766	-	576,619	1,939,147	-	Not rated	Not rated
Fixed Income Mutual Funds	147,277	147,277	-	-	-	Not rated	Not rated
Equities	636,733	636,733	-	-	-	Not rated	Not rated
Complementary Strategies	67,603	67,603	-	-	-	Not rated	Not rated
Real Assets	81,363	81,363	-	-	-	Not rated	Not rated
Total General City	504,303,849	366,102,531	68,940,198	59,630,733	9,630,387		
Community Health Endowment:							
Money Market Mutual Funds	1,082,887	1,082,887	-	-	-	Not rated	Not rated
Mutual Funds							
Convertible Bonds	4,590,295	4,590,295	-	-	-	Not rated	Not rated
Institutional Funds							
Fixed Income	13,186,066	13,186,066	-	-	-	Not rated	Not rated
Intermediate Term Credit	6,542,449	6,542,449	-	-	-	Not rated	Not rated
Large Cap Equity	8,062,683	8,062,683	-	-	-	Not rated	Not rated
International Equity	5,805,243	5,805,243	-	-	-	Not rated	Not rated
High-Yield Bonds	2,811,901	2,811,901	-	-	-	Not rated	Not rated
Emerging Markets Equity	2,743,177	2,743,177	-	-	-	Not rated	Not rated
Hedge Funds	2,701,547	2,701,547	-	-	-	Not rated	Not rated
Mid Cap Equity	1,128,006	1,128,006	-	-	-	Not rated	Not rated
U.S. Treasuries	1,662,767	1,662,767	-	-	-	Not rated	Not rated
Small Cap Equity	1,686,586	1,686,586	-	-	-	Not rated	Not rated
Commodities	1,976,895	1,976,895	-	-	-	Not rated	Not rated
Real Estate	1,990,860	1,990,860	-	-	-	Not rated	Not rated
Limited Partnership	1,038,222	-	1,038,222	-	-	Not rated	Not rated
Other	67,865	67,865	-	-	-	Not rated	Not rated
Total Community Health Endowment	57,077,449	56,039,227	1,038,222	-	-		
Police & Fire Pension Trust:							
Corporate Bonds	805,800	-	-	-	805,800	B (Fitch)	BB+
Mutual Funds	147,725,024						
Private Equity	561,029						
Real Estate Limited Partnerships	13,095,044						
Total Police & Fire Pension Trust	162,186,897						
Total Primary Government	\$ 723,568,195						

CITY OF LINCOLN, NEBRASKA
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INVESTMENT POLICIES

General City Policy

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

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

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits current operating funds to be invested with maturities of not longer than twenty-four months. Fixed income investments held in construction funds, operating funds, and other nonoperating funds are limited to ten-year maturities. Investment agreements are not subject to interest rate risk, as the issuer guarantees the interest rate. Money market mutual funds and external investment funds are presented as investments with a maturity of less than one year because they are redeemable in full immediately. Tax Increment Financing investments are allowed to exceed 10 years as the interest rates are guaranteed by the fund and the investment is made within the City's funds.

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

	<u>S&P</u>	<u>Moody's</u>
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, 2012, 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). NPAIT and STFIT invest in only the highest quality securities, including U.S. government, rated U.S. sponsored agencies, and guaranteed student loans.

CITY OF LINCOLN, NEBRASKA
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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.

<u>Type</u>	<u>Portfolio Composition</u>	<u>Policy Limits on Issuer</u>
U.S. agency obligations:		
Federal Home Loan Bank	30.78 %	40.00 %
Federal Home Loan Mortgage Corporation	23.50	40.00
Federal National Mortgage Association	25.16	40.00
Federal Farm Credit Bank	5.87	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. 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, 2012.

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.

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

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

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

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

Summary of Deposit and Investment Balances

Following is a reconciliation of the City's deposit and investment balances as of August 31, 2012:

	Totals	
Investments	\$ 723,568,195	
Deposits and Cash on Hand	9,783,900	
	<u>\$ 733,352,095</u>	

	Government-wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	Totals
Cash and Cash Equivalents	\$ 28,945,464	5,477,423	34,422,887
Investments	434,603,033	168,294,994	602,898,027
Restricted Assets:			
Cash and Cash Equivalents	11,721,387	-	11,721,387
Investments	84,309,794	-	84,309,794
	<u>\$ 559,579,678</u>	<u>173,772,417</u>	<u>733,352,095</u>

CITY OF LINCOLN, NEBRASKA
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(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				Total
	General Fund	Street Construction	West Haymarket JPA	Other Funds	
Fund Balances:					
Nonspendable:					
Inventory	\$ 379,402	264,323	-	485,996	1,129,721
Prepaid Items	4,454,094	172,937	28,814	-	4,655,845
Permanent Fund Principal	-	-	-	37,160,000	37,160,000
Total Nonspendable	<u>4,833,496</u>	<u>437,260</u>	<u>28,814</u>	<u>37,645,996</u>	<u>42,945,566</u>
Restricted For:					
Capital Improvements	332,627	18,172,109	135,151,772	11,783,064	165,439,572
Human Services	877,621	-	-	-	877,621
Donor Purposes	2,394,538	-	-	1,510,715	3,905,253
Public Improvements	1,672,268	-	-	-	1,672,268
Agency Activities	-	-	12,010,867	-	12,010,867
Land Purchases	-	-	-	1,251,424	1,251,424
Social Security Obligations	-	-	-	1,022,094	1,022,094
Community Betterment	-	-	-	1,390,187	1,390,187
Federal Loan Programs	-	-	-	19,582,000	19,582,000
Grant Programs	-	-	-	2,751,247	2,751,247
Special Assessment Improvements	-	-	-	466,711	466,711
Debt Service	-	-	-	17,964,189	17,964,189
Health Care	-	-	-	19,937,630	19,937,630
Claims Contingencies	-	-	-	865,000	865,000
Library Media	-	-	-	489,643	489,643
Total Restricted	<u>5,277,054</u>	<u>18,172,109</u>	<u>147,162,639</u>	<u>79,013,904</u>	<u>249,625,706</u>
Committed To:					
Public Access Television	-	-	-	805,612	805,612
Assigned To:					
Capital Improvements	-	11,678,214	-	207,968	11,886,182
Donor Purposes	779,585	-	-	-	779,585
Public Improvements	505,524	-	-	-	505,524
Athletic Facility Improvements	890,908	-	-	-	890,908
Senior Care	137,496	-	-	-	137,496
Emergency Communications	1,641,285	-	-	-	1,641,285
Economic Development Projects	6,289,815	-	-	-	6,289,815
Snow Removal	-	1,536,601	-	-	1,536,601
Land Purchases	-	-	-	18,843	18,843
Public Access Television	-	-	-	13,102	13,102
Library Services	-	-	-	2,749,534	2,749,534
Health Care	-	-	-	818,564	818,564
Social Security Obligations	-	-	-	351,155	351,155
Public Transportation	-	-	-	1,211,455	1,211,455
Community Betterment	-	-	-	30,501	30,501
Building Code Enforcement	-	-	-	2,843,372	2,843,372
Park Projects	-	-	-	135,255	135,255
Other Purposes	3,114,684	-	-	-	3,114,684
Total Assigned	<u>13,359,297</u>	<u>13,214,815</u>	<u>-</u>	<u>8,379,749</u>	<u>34,953,861</u>
Unassigned	<u>25,631,426</u>	<u>-</u>	<u>-</u>	<u>(191,814)</u>	<u>25,439,612</u>
Total Fund Balances	<u>\$ 49,101,273</u>	<u>31,824,184</u>	<u>147,191,453</u>	<u>125,653,447</u>	<u>353,770,357</u>

CITY OF LINCOLN, NEBRASKA
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(6) **RECEIVABLES AND DUE FROM OTHER GOVERNMENTS**

Receivables at August 31, 2012, consist of the following (in thousands):

Fund	Taxes	Accounts	Loans	Contributions	<u>Special Assessment</u>		Accrued Interest	Gross Receivables	Allowance For Uncollectibles	Net
					Current	Deferred				
General	\$ 3,656	2,817	-	-	-	-	78	6,551	-	6,551
Street Construction	-	351	-	-	-	-	44	395	-	395
West Haymarket JPA	1,236	17	-	-	-	-	338	1,591	-	1,591
Wastewater System	-	4,456	-	-	-	-	-	4,456	-	4,456
Water System	-	9,199	-	-	-	-	-	9,199	-	9,199
Electric System	-	33,091	-	-	-	-	234	33,325	1,267	32,058
Nonmajor -										
Special Revenue	1,525	507	24,509	-	-	-	69	26,610	4,927	21,683
Debt Service	811	-	-	-	313	655	33	1,812	71	1,741
Capital Projects	-	-	-	-	-	-	50	50	-	50
Permanent	-	-	-	-	-	-	1	1	-	1
Enterprise	-	6,765	-	-	-	-	75	6,840	4,229	2,611
Internal Service	-	272	-	-	-	-	81	353	-	353
Fiduciary	-	44	-	570	-	-	566	1,180	-	1,180
Total	\$ 7,228	57,519	24,509	570	313	655	1,569	92,363	10,494	81,869

Enterprise funds customer accounts receivable include unbilled charges for services. Delinquent special assessment receivables at August 31, 2012, were \$183,023.

The total of Due From Other Governments of \$28,489,016 includes the following significant items:

<u>Fund/Fund Type</u>	<u>Amount</u>	<u>Service</u>
General/Major Governmental	\$ 10,585,925	State of Nebraska, July/August Sales and Use Tax
	411,724	August Motor Vehicle Taxes Collected by Lancaster County
	80,421	Federal Government, Cost Reimbursements
	58,575	State of Nebraska, Cost Reimbursements
	75,616	Lancaster County, Cost Reimbursements
Street Construction/Major Governmental	3,474,512	State of Nebraska, July/August Highway User Fees
	61,163	Railroad Transportation Safety District, Cost Reimbursements
	5,896,631	Federal Government, Cost Reimbursements
West Haymarket JPA/Major Governmental	812,558	Federal Government, Cost Reimbursements
	80,945	State of Nebraska, Cost Reimbursements
Wastewater/Major Enterprise	967,257	State of Nebraska, Cost Reimbursements
	118,617	Federal Government, Cost Reimbursements
Water/Major Enterprise	1,500,956	State of Nebraska, Cost Reimbursements
Lincoln/Lancaster Co. Health/Special Revenue	345,909	Lancaster County, Cost Reimbursements
StarTran/Special Revenue	10,815	Federal Government, Cost Reimbursements
Federal Grants/Special Revenue	1,772,059	Federal Government, Cost Reimbursements
	273,492	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	1,369,403	August Motor Vehicle Taxes Collected by Lancaster County
Parking Lot Revolving/Enterprise	116,534	State of Nebraska, Cost Reimbursements
Information Services/Internal Service	226,338	Lancaster County Billings
Insurance Revolving/Internal Service	11,830	Lancaster County Billings
Copy Services/Internal Service	14,853	Lancaster County Billings
Subtotal	28,432,800	
All other	56,216	
Total Due From Other Governments	<u>\$ 28,489,016</u>	

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
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(7) **CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 69,850,907	69,314,379	396,409	138,768,877
Construction in Progress	167,924,977	102,594,348	111,132,742	159,386,583
Total Capital Assets, not being Depreciated	237,775,884	171,908,727	111,529,151	298,155,460
Capital Assets, being Depreciated:				
Buildings	82,225,612	6,201,705	21,040	88,406,277
Improvements Other Than Buildings	66,309,398	4,677,503	1,519,798	69,467,103
Machinery and Equipment	85,634,114	6,805,926	3,370,597	89,069,443
Infrastructure	548,713,115	59,315,031	92,698	607,935,448
Total Capital Assets, being Depreciated	782,882,239	77,000,165	5,004,133	854,878,271
Less Accumulated Depreciation for:				
Buildings	32,481,221	2,126,950	19,355	34,588,816
Improvements Other Than Buildings	28,432,482	2,134,741	1,460,249	29,106,974
Machinery and Equipment	49,949,097	7,090,418	3,272,433	53,767,082
Infrastructure	196,265,054	17,462,771	48,456	213,679,369
Total Accumulated Depreciation	307,127,854	28,814,880	4,800,493	331,142,241
Total Capital Assets, being Depreciated, Net	475,754,385	48,185,285	203,640	523,736,030
Governmental Activities Capital Assets, Net	\$ 713,530,269	220,094,012	111,732,791	821,891,490
Business-type Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 24,144,286	88,014	-	24,232,300
Construction in Progress	79,574,630	76,513,970	96,219,368	59,869,232
Total Capital Assets, not being Depreciated	103,718,916	76,601,984	96,219,368	84,101,532
Capital Assets, being Depreciated:				
Buildings	193,588,310	22,131,759	-	215,720,069
Improvements Other Than Buildings	615,410,886	18,157,179	-	633,568,065
Machinery and Equipment	30,354,865	2,805,950	2,157,058	31,003,757
Utility Plant	1,224,514,000	47,751,000	4,268,000	1,267,997,000
Total Capital Assets, being Depreciated	2,063,868,061	90,845,888	6,425,058	2,148,288,891
Less Accumulated Depreciation for:				
Buildings	70,938,019	4,390,242	-	75,328,261
Improvements Other Than Buildings	170,109,772	12,507,405	-	182,617,177
Machinery and Equipment	18,459,870	1,897,502	2,119,082	18,238,290
Utility Plant	470,744,000	41,002,000	5,323,000	506,423,000
Total Accumulated Depreciation	730,251,661	59,797,149	7,442,082	782,606,728
Total Capital Assets, being Depreciated, Net	1,333,616,400	31,048,739	(1,017,024)	1,365,682,163
Business-type Activities Capital Assets, Net	\$ 1,437,335,316	107,650,723	95,202,344	1,449,783,695

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2012

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 1,231,172
Public Safety	1,945,299
Streets and Highways, including Infrastructure	16,724,188
Culture and Recreation	3,889,205
Economic Opportunity	41,804
Health and Welfare	297,439
Mass Transit	2,103,181
Subtotal	<u>26,232,288</u>
Internal Service Funds Capital Assets	
Depreciation is charged to the various functions based on usage of the assets.	<u>2,582,592</u>
Total Depreciation Expense - Governmental	<u><u>\$ 28,814,880</u></u>
Business-type Activities:	
Parking Lots	\$ 28,492
Golf	562,569
Parking Facilities	1,208,227
Pershing Municipal Auditorium	20,239
Solid Waste Management	1,924,210
Emergency Medical Services	207,990
Wastewater System	7,314,450
Water System	7,528,972
Lincoln Electric System	41,002,000
Total Depreciation Expense - Business-type	<u><u>\$ 59,797,149</u></u>

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	\$ 5,913,340	83,483	-	5,996,823
Construction in Progress	6,189,533	9,689,247	14,111,618	1,767,162
Total Capital Assets, not being Depreciated	<u>12,102,873</u>	<u>9,772,730</u>	<u>14,111,618</u>	<u>7,763,985</u>
Capital Assets, being Depreciated:				
Buildings	75,384,901	4,454,488	-	79,839,389
Improvements Other Than Buildings	254,651,742	10,496,110	-	265,147,852
Machinery and Equipment	8,596,734	221,225	23,977	8,793,982
Total Capital Assets, being Depreciated	<u>338,633,377</u>	<u>15,171,823</u>	<u>23,977</u>	<u>353,781,223</u>
Less Accumulated Depreciation for:				
Buildings	23,271,134	1,815,805	-	25,086,939
Improvements Other Than Buildings	69,217,652	5,033,436	-	74,251,088
Machinery and Equipment	4,895,301	465,209	18,802	5,341,708
Total Accumulated Depreciation	<u>97,384,087</u>	<u>7,314,450</u>	<u>18,802</u>	<u>104,679,735</u>
Total Capital Assets, being Depreciated, Net	<u>241,249,290</u>	<u>7,857,373</u>	<u>5,175</u>	<u>249,101,488</u>
Wastewater System Capital Assets, Net	<u><u>\$ 253,352,163</u></u>	<u><u>17,630,103</u></u>	<u><u>14,116,793</u></u>	<u><u>256,865,473</u></u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
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	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Water System:				
Capital Assets, not being Depreciated:				
Land	\$ 5,445,167	4,531	-	5,449,698
Construction in Progress	1,511,081	5,123,328	2,233,713	4,400,696
Total Capital Assets, not being Depreciated	6,956,248	5,127,859	2,233,713	9,850,394
Capital Assets, being Depreciated:				
Buildings	67,363,431	363,868	-	67,727,299
Improvements Other Than Buildings	324,805,770	2,466,019	-	327,271,789
Machinery and Equipment	8,569,723	615,689	569,336	8,616,076
Total Capital Assets, being Depreciated	400,738,924	3,445,576	569,336	403,615,164
Less Accumulated Depreciation for:				
Buildings	24,398,945	1,379,253	-	25,778,198
Improvements Other Than Buildings	80,607,609	5,709,136	-	86,316,745
Machinery and Equipment	4,686,132	440,583	550,571	4,576,144
Total Accumulated Depreciation	109,692,686	7,528,972	550,571	116,671,087
Total Capital Assets, being Depreciated, Net	291,046,238	(4,083,396)	18,765	286,944,077
Water System Capital Assets, Net	\$ 298,002,486	1,044,463	2,252,478	296,794,471
Lincoln Electric System:				
Capital Assets, not being Depreciated:				
Construction in Progress	\$ 58,267,000	52,529,000	58,112,000	52,684,000
Capital Assets, being Depreciated:				
Utility Plant	1,224,514,000	47,751,000	4,268,000	1,267,997,000
Less Accumulated Depreciation	470,744,000	41,002,000	5,323,000	506,423,000
Total Capital Assets, being Depreciated, Net	753,770,000	6,749,000	(1,055,000)	761,574,000
Electric System Capital Assets, Net	\$ 812,037,000	59,278,000	57,057,000	814,258,000

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 2012, capitalized interest activity was as follows:

	Incurred Interest Cost	Capitalized Interest
Lincoln Wastewater System	\$ 3,564,879	162,593
Lincoln Water System	2,942,846	56,888
Lincoln Parking System	1,124,682	567,973
Golf Fund	39,002	24,324

Lincoln Electric System utility plant includes an allowance for funds used during construction for projects costing in excess of \$500,000 with a budgeted construction period in excess of 12 months. The allowance for funds used during construction consists of the project balance times the weighted-average interest rate on debt based on Federal Energy Regulatory Commission accounting method. The weighted-average rate for 2011 was 4.6%.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2012

(8) INTERFUND BALANCES AND ACTIVITY

Balances Due To/From Other Funds at August 31, 2012, consist of the following:

	Due To	Due From					
		General Fund	Street Construction	West Haymarket JPA	Nonmajor Governmental	Nonmajor Enterprise	Internal Service
General Fund	\$	-	720	12,491	36,939	849,354	727,394
Street Construction		464,299	-	-	5,750,665	-	-
West Haymarket JPA		1,044,032	-	-	-	-	-
Nonmajor Governmental		970,303	-	-	1,847,655	30,000	5,734
Lincoln Wastewater System		347,338	-	-	364,711	-	-
Lincoln Water System		299,582	-	-	73,164	-	-
Nonmajor Enterprise		272,999	2,967	-	92,255	7,893	16
Internal Service		1,064,334	236,508	496	178,248	42,331	63,149
Total	\$	4,462,887	240,195	12,987	8,343,637	929,578	796,293

“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 126 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, 2012, consist of the following:

	Transfer To	Transfer From					
		General Fund	Street Construction	Nonmajor Governmental	Lincoln Electric System	Nonmajor Enterprise	Internal Service
General Fund	\$	-	-	636,300	8,205,760	696,769	6,532
Street Construction		2,078,556	-	13,474,036	-	-	-
West Haymarket JPA		307,428	-	-	-	-	-
Nonmajor Governmental		17,453,137	6,113,306	3,271,460	-	1,116,476	-
Lincoln Wastewater		-	-	3,660	-	-	-
Lincoln Water System		20,605	-	-	-	-	-
Nonmajor Enterprise		632,628	-	107,968	-	-	-
Internal Service		33,627	-	24,613	-	-	45,000
Total	\$	20,525,981	6,113,306	17,518,037	8,205,760	1,813,245	51,532

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 \$4,193,760 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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2012

(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, 2011, LES had \$128.5 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, 2011, was 0.20 percent. The outstanding commercial paper notes are secured by a revolving credit agreement, which provides for borrowings up to \$150 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement, LES can either settle or refinance the commercial paper upon maturity. LES uses 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 2011 was 42 days.

Commercial paper activity for the year ended December 31, 2011, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Lincoln Electric System:					
Commercial Paper Notes	\$ 90,000,000	994,600,000	(956,100,000)	128,500,000	128,500,000

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 assets of \$4,447,455, \$2,847,674, \$10,305,977, and \$363,083 are 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	19,307,004	-
Improvements	219,925	-
Infrastructure	15,475,023	-
Machinery and Equipment	4,699,356	3,122,785
Construction in Progress	672,247	160,297
Less Accumulated Depreciation, (where applicable)	(6,939,014)	(2,219,160)
Total	\$ 35,208,991	\$ 1,273,922

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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
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In 2012, the City issued the following refunding bonds:

- \$28,095,000 in general obligation highway allocation fund refunding bonds with an average interest rate of 3.90% to advance refund \$30,155,000 in 2004 bonds. The refunding resulted in a cash flow differential of \$3,569,569 and a net present value savings of \$2,350,953.
- \$8,090,000 in general obligation refunding bonds with an average interest rate of 2.28% to advance refund \$7,960,000 of 2003 various purpose bonds. The refunding resulted in a cash flow differential of \$578,762, and a net present value savings of \$557,287.
- \$38,290,000 in sanitary sewer revenue refunding bonds with an average interest rate of 3.70% to advance refund \$40,345,000 in outstanding sanitary sewer revenue bonds, series 2003. The refunding resulted in a cash flow differential of \$10,070,963 and a net present value savings of \$5,934,216.
- \$10,895,000 in water revenue refunding bonds with an average interest rate of 3.55% to refund \$12,840,000 in outstanding water revenue bonds, series 2002. The refunding resulted in a cash flow differential of \$3,119,198 and a net present value savings of \$1,947,399.

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%. During the fiscal year ended August 31, 2012, project costs were incurred totaling \$2,556,613, resulting in a project loan payable of \$5,000,000.

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, 2012, Lincoln Wastewater System incurred project costs totaling \$7,055,103, resulting in a project loan payable of \$5,683,103. The remaining available funds totaling \$11,316,897 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, 2012, project costs were incurred totaling \$3,432,815, resulting in the recognition of a project loan payable of \$2,628,391. The remaining available funds totaling \$12,371,609 are not reflected in the financial statements.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2012

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	7,235
8,295	06/27/07	Stormwater Drainage and Flood Mgmt	4.625 - 5.000	Serial 2008 to 2027	2017	"	6,935
8,200	02/10/11	Stormwater Bonds	2.000 - 4.500	Serial 2013 to 2030	2020	"	8,200
19,290	06/21/11	Refunding	0.200 - 5.000	Serial 2011 to 2022	2019	"	18,880
8,090	06/26/12	Refunding	1.000 - 3.000	Serial 2013 to 2023	---	"	8,090
Total General Bonds							<u>\$ 49,340</u>
Tax Allocation Bonds:							
5,500	04/21/04	Tax Allocation Bonds	3.000 - 4.800	Serial 2004 to 2015	2010	Semiannually	2,415
365	08/15/05	Tax Allocation Bonds	4.750	Serial 2006 to 2018	Anytime	"	187
288	10/01/06	Tax Allocation Bonds	5.100	Serial 2008 to 2016	Anytime	"	157
2,205	04/05/07	Tax Allocation Bonds	5.000 - 5.550	Serial 2009 to 2018	2012	"	1,655
601	06/01/07	Tax Allocation Bonds	5.240	Serial 2008 to 2018	Anytime	"	550
388	06/01/07	Tax Allocation Bonds	5.240	Serial 2007 to 2020	Anytime	"	275
369	06/15/07	Tax Allocation Bonds	5.400	Serial 2007 to 2014	Anytime	"	140
42	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2021	Anytime	"	33
71	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2017	Anytime	"	58
474	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2022	Anytime	"	280
547	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	435
200	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	157
611	06/30/09	Tax Allocation Bonds	7.00	Serial 2011 to 2023	Anytime	"	597
3,375	07/28/09	Tax Allocation Bonds	2.500 - 6.400	Serial 2011 to 2023	Anytime	"	3,175
263	04/01/11	Tax Allocation Bonds	3.990	Serial 2011 to 2022	Anytime	"	244
Total Tax Allocation Bonds							<u>\$ 10,358</u>
Tax Supported Bonds:							
27,000	12/05/06	Highway Allocation Fund	4.000 - 5.000	Serial 2008 to 2027	2016	Semiannually	22,155
28,095	06/06/12	Highway Allocation Fund Refunding	1.000 - 5.000	Serial 2012 to 2023	---	"	28,095
Total Tax Supported Bonds							<u>\$ 50,250</u>
Special Assessment Bonds:							
825	08/18/11	Special Assessment	0.400 - 3.700	Serial 2012 to 2026	2016	Semiannually	775
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	"	2,860
Total Special Assessment Bonds							<u>\$ 4,010</u>
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							<u>\$ 300,000</u>
TOTAL GENERAL OBLIGATION BONDS							<u>\$ 413,958</u>
Tax Supported Bonds:							
11,080	3/13/02	Antelope Valley Project	1.500 - 5.000	Serial 2002 to 2016	2012	Semiannually	<u>\$ 5,210</u>

CITY OF LINCOLN, NEBRASKA
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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	14,460
16,710	04/18/07	Wastewater Revenue	4.000 - 4.500	Serial 2008 to 2029	2017	"	14,190
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	"	38,290
Total Wastewater Bonds							<u>\$ 70,690</u>
40,000	11/16/04	Water Revenue	3.000 - 5.000	Serial 2005 to 2025	2014	Semiannually	31,210
10,515	08/04/09	Water Revenue	2.000 - 4.125	Serial 2013 to 2029	2019	"	10,515
4,905	08/04/09	Water Revenue	4.5000	Term 2034	2019	"	4,905
10,895	06/21/12	Water Revenue Refunding	1.000 - 4.000	Serial 2013 to 2022	---	"	10,895
Total Water Bonds							<u>\$ 57,525</u>
4,360	12/18/01	Parking Revenue	3.750 - 5.000	Serial 2002 to 2017	2011	Semiannually	1,650
1,640	12/18/01	Parking Revenue	5.125	Term 2021	2011	"	1,640
2,065	12/29/10	Parking Revenue	1.250 - 2.850	Serial 2011 to 2014	---	"	1,185
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
Total Parking Bonds							<u>\$ 22,995</u>
4,000	08/17/06	Solid Waste Management Revenue	4.000 - 4.250	Serial 2007 to 2021	2013	Semiannually	<u>\$ 2,800</u>
148,190	10/01/02	Electric Revenue and Refunding Bonds	4.000 - 5.000	Serial 2004 to 2025	2012	Semiannually	70,040
93,045	10/01/03	Electric Revenue and Refunding Bonds	3.000 - 5.000	Serial 2004 to 2026	2014	"	74,905
33,265	10/01/03	Electric Revenue and Refunding Bonds	4.750	Term 2028	2014	"	33,265
61,290	10/01/05	Electric Revenue Bonds	5.000	Serial 2029 to 2032	2015	"	61,290
53,710	10/01/05	Electric Revenue Bonds	4.750	Term 2035	2015	"	53,710
183,230	05/15/07	Electric Revenue and Refunding Bonds	4.000 - 5.000	Serial 2009 to 2035	2016	"	172,490
81,850	05/15/07	Electric Revenue and Refunding Bonds	4.500 / 4.750	Term 2034 & 2037	2016	"	81,850
Total Electric Bonds							<u>\$ 547,550</u>
TOTAL REVENUE BONDS							<u><u>\$ 701,560</u></u>

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
2013	\$ 7,683	19,140	740	238	3,842	962
2014	8,876	19,022	780	200	3,983	878
2015	9,236	18,766	815	162	4,076	787
2016	9,606	18,433	855	122	4,165	680
2017	8,724	18,114	2,020	51	2,955	573
2018 - 2022	54,714	85,303	-	-	8,894	1,822
2023 - 2027	69,719	71,004	-	-	5,123	613
2028 - 2032	55,270	57,191	-	-	333	32
2033 - 2037	62,955	43,267	-	-	-	-
2038 - 2042	76,235	25,396	-	-	-	-
2043 - 2046	50,940	5,492	-	-	-	-
Total	<u>\$ 413,958</u>	<u>381,128</u>	<u>5,210</u>	<u>773</u>	<u>33,371</u>	<u>6,347</u>

Fiscal Year Ended August 31	Business-Type Activities					
	Revenue Bonds		Loans Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 27,200	32,687	368	139	343	49
2014	28,440	31,411	527	259	350	41
2015	29,605	30,123	693	371	297	32
2016	30,920	28,746	709	355	243	27
2017	32,355	27,288	725	338	248	22
2018 - 2022	167,615	112,587	3,887	1,431	790	48
2023 - 2027	117,085	79,931	4,365	954	-	-
2028 - 2032	117,995	52,148	4,448	415	-	-
2033 - 2037	122,705	23,693	810	25	-	-
2038	27,640	1,244	-	-	-	-
Total	<u>\$ 701,560</u>	<u>419,858</u>	<u>16,532</u>	<u>4,287</u>	<u>2,271</u>	<u>219</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
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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
2013	\$ 3,488	2,925	3,360	2,397	19,610	26,333
2014	3,724	2,858	3,498	2,323	20,595	25,353
2015	3,909	2,838	3,649	2,239	21,620	24,323
2016	4,047	2,665	3,752	2,107	22,675	23,271
2017	4,200	2,493	3,875	1,971	23,800	22,146
2018 - 2022	22,513	10,690	21,435	7,169	120,725	91,862
2023 - 2027	26,752	6,262	12,993	2,897	75,095	68,966
2028 - 2032	15,407	1,520	5,225	1,190	95,195	48,970
2033 - 2037	554	17	2,366	151	120,595	23,550
2038 - 2042	-	-	-	-	27,640	1,244
Total	\$ 84,594	32,268	60,153	22,444	547,550	356,018

Long-term liability activity for the year ended August 31, 2012, 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	\$ 51,600	8,090	(10,350)	49,340	4,225
Tax Allocation Bonds	11,658	-	(1,300)	10,358	1,203
Tax Supported Bonds	55,205	28,095	(33,050)	50,250	2,085
Special Assessment Debt with					
Government Commitment	1,200	3,000	(190)	4,010	170
West Haymarket Joint Public Agency Bonds	300,000	-	-	300,000	-
Tax Supported Antelope Valley					
Project Bonds	5,920	-	(710)	5,210	740
Capital Leases	33,525	3,534	(3,688)	33,371	3,842
Gross Bonds and Leases Payable	459,108	42,719	(49,288)	452,539	12,265
Deferred Amounts:					
For Issuance Premiums	9,202	4,182	(1,936)	11,448	-
For Issuance Discounts	(1,005)	-	1	(1,004)	-
For Refunding	(155)	(1,167)	18	(1,304)	-
Net Bonds and Leases Payable	467,150	45,734	(51,205)	461,679	12,265
Other Liabilities:					
Compensated Absences	14,184	8,379	(7,402)	15,161	7,681
Construction Contracts	4,806	-	(314)	4,492	-
Claims and Judgements	10,789	26,461	(26,947)	10,303	5,171
Net Pension Obligation	3,757	-	(641)	3,116	-
Net OPEB Obligation	3,377	2,067	-	5,444	-
Governmental Activities Long-Term Liabilities	\$ 504,063	82,641	(86,509)	500,195	25,117
Business-Type Activities:					
Bonds, Loans and Leases Payable:					
Wastewater Revenue Bonds	\$ 75,625	38,290	(43,225)	70,690	3,120
Wastewater Loan Payable	6,991	7,171	(258)	13,904	368
Water Revenue Bonds	63,920	10,895	(17,290)	57,525	3,360
Water Loan Payable	-	2,628	-	2,628	-
Parking Revenue Bonds	23,855	-	(860)	22,995	885
Solid Waste Management Revenue Bonds	3,020	-	(220)	2,800	225
Electric System Revenue Bonds	566,230	-	(18,680)	547,550	19,610
Capital Leases	1,009	1,520	(258)	2,271	342
Gross Bonds, Loans and Leases Payable	740,650	60,504	(80,791)	720,363	27,910
Deferred Amounts:					
For Issuance Premiums	13,576	4,949	(3,711)	14,814	-
For Issuance Discounts	(8,822)	-	1,776	(7,046)	-
For Refunding	(1,916)	(977)	479	(2,414)	-
Net Bonds and Leases Payable	743,488	64,476	(82,247)	725,717	27,910
Other Liabilities:					
Compensated Absences	1,785	1,062	(1,108)	1,739	1,080
Construction Contracts	6,157	3,409	(4,166)	5,400	5,092
Claims and Judgements	-	941	-	941	559
Net OPEB Obligation	576	261	-	837	-
Accrued Landfill Closure/Postclosure Care Costs	14,632	804	-	15,436	-
Business-Type Activities Long-Term Liabilities	\$ 766,638	70,953	(87,521)	750,070	34,641

CITY OF LINCOLN, NEBRASKA
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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. 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, 2012, was as follows (in thousands of dollars):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Lincoln Wastewater System:					
Bonds Payable:					
Wastewater Revenue Bonds	\$ 75,625	38,290	(43,225)	70,690	3,120
Wastewater Loan Payable	6,991	7,171	(258)	13,904	368
Deferred for Issuance Premiums	1,608	3,841	(1,437)	4,012	-
Deferred for Issuance Discounts	(10)	-	-	(10)	-
Deferred for Refunding	-	(1,000)	15	(985)	-
Net Bonds Payable	84,214	48,302	(44,905)	87,611	3,488
Other Liabilities:					
Compensated Absences	559	372	(365)	566	354
Construction Contracts	3,794	1,654	(1,997)	3,451	3,333
Net OPEB Obligation	138	24	-	162	-
Total Long-Term Liabilities	\$ 88,705	50,352	(47,267)	91,790	7,175
Lincoln Water System:					
Bonds Payable:					
Water Revenue Bonds	\$ 63,920	10,895	(17,290)	57,525	3,360
Water Loan Payable	-	2,628	-	2,628	-
Deferred for Issuance Premiums	1,508	1,094	(497)	2,105	-
Deferred for Issuance Discounts	(34)	-	1	(33)	-
Deferred for Refunding	(130)	23	129	22	-
Net Bonds Payable	65,264	14,640	(17,657)	62,247	3,360
Other Liabilities:					
Compensated Absences	824	404	(428)	800	428
Construction Contracts	2,363	1,755	(2,169)	1,949	1,759
Net OPEB Obligation	196	39	-	235	-
Total Long-Term Liabilities	\$ 68,647	16,838	(20,254)	65,231	5,547
Lincoln Electric System:					
Bonds Payable:					
Electric System Revenue Bonds	\$ 566,230	-	(18,680)	547,550	19,610
Deferred for Issuance Premiums	10,450	-	(1,776)	8,674	-
Deferred for Issuance Discounts	(8,754)	-	1,774	(6,980)	-
Deferred for Refunding	(1,642)	-	290	(1,352)	-
Net Bonds Payable	566,284	-	(18,392)	547,892	19,610
Other Liabilities:					
Claims and Judgements	-	941	-	941	559
Total Long-Term Liabilities	\$ 566,284	941	(18,392)	548,833	20,169

DEVELOPER PURCHASED TAX INCREMENT FINANCING NOTES AND BONDS

At August 31, 2012, \$3,520,755 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

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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.

(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, 2012, which discloses the nature and amount of the adjustments necessary to convert the actual GAAP data to the budgetary basis, is presented below:

	General <u>Fund</u>	Street Construction <u>Fund</u>
Net Change in Fund Balances:		
Balance on a GAAP basis	\$ 7,347,437	(4,654,384)
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.	(832,851)	(51,600)
Perspective differences occur when the structure used for budgeting differs from the fund structure used for financial reporting.	(339,439)	-
Amount budgeted on a project basis.	-	24,290,239
Balance on a budget basis	<u>\$ 6,175,147</u>	<u>19,584,255</u>

(11) DEFICIT NET ASSETS

The following funds had a net asset or fund balance deficit as of August 31, 2012:

Special Revenue - Impact Fees Fund	\$ (191,814)
Enterprise – Pinnacle Bank Arena Fund	(18,851)
Internal Service - Engineering Revolving Fund	(449,739)
Internal Service - Communication Services Fund	(12,913)

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 scheduled to open in 2013. The Fund is yet to receive any revenue.

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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	\$ 2,048,947
Debt Service	52,667

(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, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	438
Terminated plan members entitled to but not yet receiving benefits	26
Active plan members (non-DROP)	559
DROP members	49
Total	<u>1,072</u>
Number of participating employers	<u>1</u>

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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 2012 was 15.62% of annual covered payroll. Actual contributions by the City were 16.67% 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	\$ 5,574
Interest on net pension obligation	282
Adjustment to annual required contribution	(445)
Annual pension cost	5,411
Contributions made	(6,052)
Decrease in net pension obligation	(641)
Net pension obligation beginning	3,757
Net pension obligation ending	<u>\$ 3,116</u>

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
2012	\$ 5,411	\$ 6,052	112 %	\$ 3,116
2011	4,495	4,334	96	3,757
2010	3,576	3,963	111	3,596

Actuarial Methods and Assumptions – The annual required contribution for the current year was determined as part of the August 31, 2010, 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, 2012, the most recent actuarial valuation date, the plan was 77 percent funded. The actuarial accrued liability for benefits was \$214,879,000, and the actuarial value of assets was \$164,500,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$50,379,000. The covered payroll (annual payroll of active employees covered by the plan) was \$36,311,000, and the ratio of the UAAL to the covered payroll was 138.7 percent.

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

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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; however, employees are not eligible to receive employer contributions until they have been employed six months. The plan is a straight-money purchase plan, with plan assets held, managed and administered by a trustee. The LES administrative board of directors authorized this plan and related contribution requirements. 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 five-year period. Employee forfeitures are used to reduce employer contributions. Vested benefits are fully funded. For the year ended December 31, 2011, LES incurred contribution expense of approximately \$3,416,000 or 9.41% of covered payroll and its employees contributed approximately \$2,312,000 or 6.37% 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, 2011, was \$1,766,310. City contributions totaled \$206,579 or 11.7% of covered payroll. There were no employee contributions made for the year ended December 31, 2011.

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, 2011, total payroll was approximately \$80,170,000 and covered payroll was approximately \$71,464,000. City contributions totaled \$8,217,613 or 11.50% of covered payroll and employee contributions totaled \$4,110,263 or 5.75% of covered payroll. Employees made \$53,604 in voluntary contributions for the year ended December 31, 2011.

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(14) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

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

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

The net OPEB obligation as of August 31, 2012, was calculated as follows:

(Dollar amounts in thousands)

Annual required contribution	\$ 3,098
Interest on net OPEB obligation	178
Adjustment to annual required contribution	(243)
Annual OPEB cost	3,033
Contributions made	(705)
Increase in net OPEB obligation	2,328
Net OPEB obligation beginning	3,955
Net OPEB obligation ending	<u>\$ 6,283</u>

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
2012	\$ 3,033,000	23.2 %	\$ 6,283,000
2011	2,078,000	25.2	3,955,000
2010	2,097,000	25.1	2,401,000

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

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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 \$1,274,000.

(15) PROPERTY TAXES

The Home Rule Charter of the City imposes a tax ceiling for general revenue purposes. The City tax ceiling was established by using the September 1, 1966, City dollar tax limit as an initial tax limit, and increasing that tax limit each year following 1966 by 7% so that in each fiscal year thereafter the amount of the City tax limit shall be the amount of the City tax limit for the previous year plus 7% thereof. In addition, the City has the power to levy taxes each year sufficient to pay any judgment existing against the City, the interest on bonded debt, and the principal on bonded debt maturing during the fiscal year or within 6 months thereafter, as well as taxes authorized by state law. The 2011 tax levy, for the 2011-2012 fiscal year, was \$100,174,806 below the legal limit, with a tax rate per \$100 valuation of \$0.3158. The assessed value upon which the 2011 levy was based was \$15,900,828,813.

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 2011-2012 are recorded as revenue in the fund financial statements when expected to be collected within 60 days after August 31, 2012. 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.

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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, 2012, the City had a self-insured retention for workers' compensation exposures up to \$800,000 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 unlimited stop loss; 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 \$800,000 per individual. Law enforcement, general, public officials, public transportation, medical professional, and auto liabilities were covered by policies that provided limits of \$6 million per occurrence with a \$12 million annual aggregate. Health had excess loss indemnity coverage above \$150,000 per claim 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 \$10,303,038 were recorded at August 31, 2012. Excluding medical care claims approximating \$1,688,000, 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 has purchased no annuity contracts in the current fiscal year to resolve City of Lincoln claims.

The following is a summary of the changes in the estimated claims liability for the years ended August 31, 2012 and 2011:

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<u>2012</u>	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	<u>\$ 7,729,000</u>	<u>886,204</u>	<u>1,687,834</u>	<u>10,303,038</u>

<u>2011</u>	Worker's Compensation and Others	Long-Term Disability	Health and Dental	Total
Balance at September 1	\$ 6,590,000	896,183	1,227,887	8,714,070
Current year claims and changes in estimates	2,977,000	230,886	22,315,628	25,523,514
Claims payments	(2,717,000)	(97,272)	(20,634,356)	(23,448,628)
Balance at August 31	<u>\$ 6,850,000</u>	<u>1,029,797</u>	<u>2,909,159</u>	<u>10,788,956</u>

LINCOLN ELECTRIC SYSTEM

LES has a self-funded health 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:

	<u>2011</u>	<u>2010</u>
Balance beginning of year	\$ 604,000	664,000
Claims accrued	6,253,000	6,193,000
Claims paid/other	(5,916,000)	(6,253,000)
Balance end of year	<u>\$ 941,000 *</u>	<u>604,000</u>

* Beginning in 2011 this value includes \$382,000 statutory reserve.

(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, 2012, approximately 96% of the full-time, regular City's employees are represented by a Union. The existing union contracts expired in August 2012. 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.

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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. These commitments are included in the City's current 6-year capital improvement program or depending on when the commitment is due, will be included in the City's future capital improvement program. As of August 31, 2012, the City's commitment to developers is estimated to be approximately \$55,000,000.

STREET CONSTRUCTION PROJECTS

The City's Street Construction Fund has commitments under major construction contracts in progress of approximately \$4,800,000 as of August 31, 2012, 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 \$135,000,000 as of August 31, 2012.

PARKING FACILITIES

The Lincoln Parking System has commitments under major contracts in progress of approximately \$1,200,000 as of August 31, 2012.

LINCOLN WASTEWATER SYSTEM

The Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$1,700,000 as of August 31, 2012.

LINCOLN WATER SYSTEM

The Lincoln Water System has commitments under major construction contracts in progress of approximately \$3,600,000 as of August 31, 2012.

LINCOLN ELECTRIC SYSTEM

Participation Contracts with NPPD

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

LES is responsible for its respective participating interests in the two facilities' capital additions and improvements. LES's share of debt service payments necessary to retire the respective participating interests of principal and interest on bonds issued by NPPD for the facilities was approximately \$6,800,000 in 2011. 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 ASC 980. Fixed cost payments under the agreements are on a participation basis whether or not such plants are operating or operable. LES recognized expense for its share of the total fixed costs of approximately \$11,400,000 in 2011.

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

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estimated fixed cost payments to NPPD under these contracts, including capital additions and improvements, debt service payments and fixed costs, and credits aggregate approximately \$19,400,000, \$25,100,000, \$24,200,000, \$21,600,000, and \$22,100,000, respectively, in each of the five years subsequent to December 31, 2011.

Laramie River Station (LRS)

LES is a 12.76 percent co-owner of the Missouri Basin Power Project, which includes LRS, a three-unit, 1,650 MW coal-fired generating station in eastern Wyoming and a related transmission system. Costs, net of accumulated depreciation, associated with LRS of approximately \$19,400,000 are reflected in utility plant at December 31, 2011.

LES has a participation power sales agreement with the County of Los Alamos, New Mexico (the County) whereby the County purchases from LES 10 MW of LES's capacity interest in LRS. The agreement provides for the County to pay LES monthly fixed payments for the repayment of debt service. The amount is subject to change each July 1 based on debt costs of LES relative to the current market rates, until termination of the agreement. The agreement remains in effect until either the final maturity occurs on any LRS related debt, LRS is removed from commercial operation, or the County gives LES six-months notice to terminate the agreement. During 2011, LES billed the County approximately \$3,100,000 for demand and energy charges.

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

Walter Scott Energy Center (WS4)

MidAmerican Energy's Walter Scott Energy Center includes the following units: Unit #1 – a 1954 coal-fired unit built with 43 MW capacity, Unit #2 – a 1958 coal-fired unit built with 88 MW capacity, Unit #3 – a 1979 coal-fired unit built with 675 MW capacity, and Unit #4 - 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 percent 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 Unit #3 and 55 MW of 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.

(18) LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

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

At August 31, 2012, the City had incurred a liability of approximately \$10,534,000 for the municipal solid waste landfill which represents the amount of costs reported to date based on the approximately 50 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$10.4

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million, which will be recognized as the remaining capacity is used (estimated to be approximately 25 years).

As of August 31, 2012, the City had incurred a liability of approximately \$500,000 for the construction and demolition debris landfill which represents the amount of costs reported to date based on the approximately 50 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$494,000, which will be recognized as the remaining capacity is used (estimated to be approximately 18 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, 2012, a liability for closure and postclosure care costs is recorded in the amount of approximately \$4,402,000, 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) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Long-term debt – The estimated fair value of the long-term debt is approximately \$75,388,000 for the Water System and \$134,953,000 for the Wastewater System based on borrowing rates currently available as of August 31, 2012.

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

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

(20) SEGMENT INFORMATION

The City has issued revenue bonds and other debt instruments to finance capital construction and acquisitions for both the 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 Facilities Fund. The Solid Waste Operations Section of the Public Works/Utilities Department operates the City's solid waste disposal sites, yard waste composting facility,

CITY OF LINCOLN, NEBRASKA
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and re-cycling drop-off program. Summary financial information for these divisions as of and for the year ended August 31, 2012, is presented as follows:

	Parking Facilities	Solid Waste Management
CONDENSED STATEMENT OF NET ASSETS		
Assets:		
Current Assets, excluding Due from Other Funds	\$ 2,721,831	3,173,547
Due from Other Funds	230,920	89,391
Other Assets	7,480,898	2,348,852
Capital Assets	52,834,315	22,430,829
Total Assets	<u>63,267,964</u>	<u>28,042,619</u>
Liabilities:		
Current Liabilities, excluding Due to Other Funds	2,603,884	687,069
Due to Other Funds	12,848	3,492
Noncurrent Liabilities	21,991,755	18,107,985
Total Liabilities	<u>24,608,487</u>	<u>18,798,546</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	31,830,657	19,912,011
Restricted	2,484,212	15,233
Unrestricted	4,344,608	(10,683,171)
Total Net Assets	<u>\$ 38,659,477</u>	<u>9,244,073</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS		
Operating Revenues	\$ 7,353,847	5,693,728
Depreciation Expense	(1,208,227)	(1,924,210)
Other Operating Expenses	(3,823,131)	(6,066,290)
Operating Income (Loss)	<u>2,322,489</u>	<u>(2,296,772)</u>
Nonoperating Revenues (Expenses):		
Investment Earnings	28,254	3,222
Gain (Loss) on Disposal of Capital Assets	(9,824)	36,632
Insurance Recovery	-	5,587
Occupation Tax	-	2,048,615
Interest Expense and Fiscal Charges	(570,054)	(127,103)
Capital Contributions	1,722,988	-
Transfers	(577,058)	(1,113,830)
Change in Net Assets	<u>2,916,795</u>	<u>(1,443,649)</u>
Beginning Net Assets	35,742,682	10,687,722
Ending Net Assets	<u>\$ 38,659,477</u>	<u>9,244,073</u>
CONDENSED STATEMENT OF CASH FLOWS		
Net Cash Provided (Used) by:		
Operating Activities	\$ 3,323,152	632,875
Noncapital Financing Activities	(195,917)	1,112,048
Capital and Related Financing Activities	(10,686,300)	(2,650,112)
Investing Activities	5,631,741	303,803
Net Decrease in Cash	<u>(1,927,324)</u>	<u>(601,386)</u>
Beginning Balance	4,962,115	907,088
Ending Balance	<u>\$ 3,034,791</u>	<u>305,702</u>

CITY OF LINCOLN, NEBRASKA
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(21) PLEDGED REVENUES

The City has pledged future revenues derived from the operation of the Lincoln Wastewater System, net of operating and maintenance expenses, to repay \$90,991,895 in 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 2034. The total principal and interest remaining to be paid on the debt is \$116,861,491, with annual payments expected to require 53 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$6,793,014 and \$12,835,302, respectively.

The City has pledged future revenues derived from the operation of the Lincoln Water System, net of operating and maintenance expenses, to repay \$68,943,391 in 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 \$82,597,505, with annual payments expected to require 41 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$8,335,202 and \$20,348,397, respectively.

The City has pledged future revenues derived from the operation of the Lincoln Electric System, net of operating, maintenance and certain power expenses, to repay \$654,580,000 in electric revenue bonds. Proceeds from the bonds provided financing for construction of additional utility plant, as well as refunding certain issues of electric revenue bonds. The bonds are payable solely from the net earnings of the Electric System and are payable through 2037. The total principal and interest remaining to be paid on the bonds is \$903,568,000, with annual payments expected to require 51 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$46,116,000 and \$92,280,000, 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 \$26,585,000 in parking revenue bonds. Proceeds from the bonds provided financing for construction and improvements to the parking system, as well as refunding \$5,525,000 of Series 1994A parking revenue bonds. The bonds are payable solely from the net earnings of the Parking System and are payable through 2031. The total principal and interest remaining to be paid on the bonds is \$35,735,095, with annual payments expected to require 46 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$1,938,688 and \$3,558,970, respectively.

The City has pledged future revenues derived from the operation of the municipally owned solid waste management facilities, net of operating and maintenance expenses, to repay \$4,000,000 in solid waste management revenue bonds. Proceeds from the bonds provided financing for improvements to the solid waste facilities. The bonds are payable solely from the net earnings of the Solid Waste System and are payable through 2021. The total principal and interest remaining to be paid on the bonds is \$3,475,863, with annual payments expected to require 24 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$344,025 and \$1,369,445 respectively.

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(22) PUBLIC BUILDING COMMISSION

In 1990, the City and the County of Lancaster, pursuant to state statute, activated a separate governmental entity denominated as the Lincoln-Lancaster County Public Building Commission. The purpose of this joint venture is to design, acquire, construct, maintain, operate, improve, remodel, remove and reconstruct, so long as its corporate existence continues, public buildings, structures, or facilities for use jointly by the City and the County. The City and the County each appoint two members to the five-member Commission, with the fifth member being appointed by the other four members. All property held or acquired by the Commission is held or acquired in the name of the City and the County for use by the Commission in its corporate capacity. The Commission's costs of operation and debt service are funded through rental payments made by the City and the County based upon their proportionate occupancy of such buildings to the extent not covered by a maximum property tax levy of 1.7 cents for each \$100 of actual valuation of taxable property in the County. For the year ended August 31, 2012, the City made rental payments of approximately \$2.8 million to the Commission.

As of August 31, 2012, the Commission has bonds outstanding of \$38,635,000 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.

(23) JOINT ANTELOPE VALLEY AUTHORITY

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

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

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

For the year ended August 31, 2012, total assets of JAVA reached approximately \$199 million, an increase of \$10 million from the prior year. The City's equity interest increased by approximately \$9.7 million to \$169 million.

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

(24) JOINTLY GOVERNED ORGANIZATIONS

District Energy Corporation

LES, in conjunction with two other governmental entities, created the District Energy Corporation (DEC) in 1989 to own, operate, maintain, and finance the heating and cooling facilities utilized by certain city, county, and state buildings. The Board of Directors of DEC is comprised of five members: two appointed by the 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 \$811,000 in 2011. The total amount of payments to LES for energy was approximately \$129,000 in 2011.

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 \$119,000 in 2011. The total amount of payments to LES for energy was approximately \$9 million in 2011.

(25) SUBSEQUENT EVENTS

In August 2012, Lincoln Electric System issued \$277,315,000 in Revenue and Refunding Bonds, Series 2012, to provide funds for the payment and redemption of certain outstanding 2002, 2003, and 2005 bonds, a portion of LES' outstanding commercial paper notes, as well as to reimburse LES for prior capital improvements. Interest rates range from 1.000 to 5.000 percent. Debt service principal payments are

CITY OF LINCOLN, NEBRASKA
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August 31, 2012

scheduled annually on the serial bonds at amounts that range from \$10,970,000 to \$20,230,000, with \$30,165,000 of term bonds due in 2037.

In October 2012, the City issued \$10,000,000 of Certificates of Participation, Series 2012, to provide funds for street light improvements, communication equipment, and remodeling, renovation, equipping and furnishing the Municipal Services Center. The interest rate is 3.000 percent and the final maturity is June 2027. Debt service principal payments are scheduled annually at amounts that range from \$480,000 to \$1,270,000.

In December 2012, the City issued \$12,080,000 of Parking Revenue and Refunding Bonds, Series 2012, to provide funds for the payment and redemption of the outstanding 2001 Parking Bonds, and to pay a portion of the costs of constructing a new Haymarket parking garage. The interest rates on the bonds range from .400 to 4.000 percent and the final maturity is August 2032. Debt service principal payments are scheduled annually at amounts that range from \$435,000 to \$810,000.

CITY OF LINCOLN, NEBRASKA
Required Supplementary Information
August 31, 2012

Schedule of Funding Progress for PFDP Pension
(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
August 31, 2012	\$ 164,500	\$ 214,879	\$ 50,379	76.6 %	\$ 36,311	138.7 %
August 31, 2011	165,436	204,990	39,554	80.7	35,763	110.6
August 31, 2010	172,317	195,206	22,889	88.3	34,233	66.9
August 31, 2009	177,526	187,292	9,766	94.8	33,450	29.2
August 31, 2008	179,390	179,376	(14)	100.0	32,266	(0.0)
August 31, 2007	171,264	169,587	(1,677)	101.0	30,546	(5.5)

Schedule of Employer Contributions for PFDP Pension
(dollar amounts in thousands)

Year Ended August 31	Annual Required Contribution	Annual Pension Contribution	Percentage Contributed
2012	\$ 5,574	\$ 6,052	109 %
2011	4,652	4,334	93
2010	3,752	3,963	106
2009	3,316	3,572	108
2008	4,076	3,456	85
2007	4,056	3,494	86

Schedule of Funding Progress for City OPEB
(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
September 1, 2011	\$ 0	\$ 24,902	\$ 24,902	0.0 %	\$ 118,498	21.0 %
September 1, 2009	0	19,796	19,796	0.0	112,002	17.7
September 1, 2007	0	5,662	5,662	0.0	106,787	5.3

APPENDIX C

BOOK-ENTRY SYSTEM

BOOK-ENTRY SYSTEM

The Bonds are available in book-entry form and beneficial ownership interest therein may be purchased in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds.

The following information concerning The Depository Trust Company (“DTC”), New York, New York and DTC’s book-entry system has been obtained from sources the City believes to be reliable. However, the City takes no responsibility as to the accuracy or completeness thereof and neither the Indirect Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (“**NSCC**,” “**FICC**,” and “**EMCC**,” also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”). DTC has a Standard & Poor’s rating of “AA+”. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bonds (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such

other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bonds documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal or redemption price of and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detailed information from the City or the Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, its nominee, the Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or redemption price of and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed, registered in the name of DTC's partnership nominee, Cede & Co. (or such other name as may be requested by an authorized representative of DTC), and delivered to DTC (or a successor securities depository), to be held by it as securities depository for Direct Participants. If, however, the system of book-entry transfers has been discontinued and a Direct Participant has elected to withdraw its Bonds from DTC (or such successor securities depository), Bonds may be delivered to Beneficial Owners upon compliance with DTC's withdrawal procedures then in effect.

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