

LINCOLN PARKS AND RECREATION  
FOUNDATION

FINANCIAL STATEMENTS

December 31, 2011 and 2010

LINCOLN PARKS AND RECREATION FOUNDATION  
FINANCIAL STATEMENTS  
December 31, 2011 and 2010

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Lincoln Parks and Recreation Foundation

We have audited the accompanying statements of assets, liabilities and net assets – modified cash basis of the Lincoln Parks and Recreation Foundation (a nonprofit organization) as of December 31, 2011 and 2010, and the related statements of revenue, expenses and changes in net assets – modified cash basis for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

As described in Note 1, the Lincoln Parks and Recreation Foundation prepares its financial statements on the modified cash basis. This basis is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Lincoln Parks and Recreation Foundation as of December 31, 2011 and 2010, and its revenue, expenses and changes in net assets for the years then ended, in accordance with the basis of accounting described in Note 1.

*Strain Slattery Barkley & Co, CPA's, P.C.*

November 5, 2012

EXHIBIT A  
LINCOLN PARKS AND RECREATION FOUNDATION  
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS  
December 31, 2011 and 2010

|   | <u>2011</u>         | <u>2010</u>         |
|---|---------------------|---------------------|
| Assets:   |                     |                     |
| Cash and cash equivalents                           | \$ 976,833          | \$ 1,638,342        |
| Certificates of deposit                             | 1,472,713           | 1,511,402           |
| Cash equivalents restricted for endowment (Note 6): |                     |                     |
| Appropriated for distribution                       | 55,869              | 43,239              |
| Other endowment                                     | 123,723             | 85,415              |
| Investments (Note 4)                                | 1,665,301           | 1,376,451           |
| Real estate - A Street (Note 5)                     | 214,423             | 227,771             |
| Leasehold improvements (Note 7)                     | <u>-</u>            | <u>3,288</u>        |
| <u>Total assets</u>                                 | <u>\$ 4,508,862</u> | <u>\$ 4,885,908</u> |
| Net assets:   |                     |                     |
| Unrestricted (Note 8)                               | \$ 80,353           | \$ 167,455          |
| Temporarily restricted (Note 2)                     | 2,570,970           | 3,298,290           |
| Permanently restricted (Note 3)                     | <u>1,857,539</u>    | <u>1,420,163</u>    |
| <u>Total net assets</u>                             | <u>\$ 4,508,862</u> | <u>\$ 4,885,908</u> |

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

## EXHIBIT B

Reclassifications:

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EXHIBIT B  
LINCOLN PARKS AND RECREATION FOUNDATION  
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS - Continued  
For the Years Ended December 31, 2011 and 2010

|                                    | 2011         |                        |                        | 2010         |              |                        |
|------------------------------------|--------------|------------------------|------------------------|--------------|--------------|------------------------|
|                                    | Unrestricted | Temporarily Restricted | Permanently Restricted | Total        | Unrestricted | Temporarily Restricted |
| Expenses:                          |              |                        |                        |              |              |                        |
| Program expenses:                  |              |                        |                        |              |              |                        |
| Union Plaza Park                   | \$ 798,972   | \$ -                   | \$ -                   | \$ 798,972   | \$ 60,000    | \$ -                   |
| Legacy Tree Grove                  | 44,590       | -                      | -                      | 44,590       | 42,494       | -                      |
| Sherman Field                      | 56,198       | -                      | -                      | 56,198       | -            | -                      |
| Hazel Abel Park                    | 96,228       | -                      | -                      | 96,228       | 70,514       | -                      |
| Other programs                     | 81,418       | -                      | -                      | 81,418       | 87,387       | -                      |
| Total                              | 1,077,406    | -                      | -                      | 1,077,406    | 260,395      | -                      |
| Management and general Fundraising | 49,326       | -                      | -                      | 49,326       | 25,989       | -                      |
|                                    | 83,402       | -                      | -                      | 83,402       | 29,047       | -                      |
| Total expenses                     | 1,210,134    | -                      | -                      | 1,210,134    | 315,431      | -                      |
| Change in net assets               | (87,102)     | (727,320)              | 437,376                | (377,046)    | 31,478       | 2,027,812              |
| Net assets, beginning of year      | 167,455      | 3,298,290              | 1,420,163              | 4,885,908    | 135,977      | 1,270,478              |
| Net assets, end of year            | \$ 80,353    | \$ 2,570,970           | \$ 1,857,539           | \$ 4,508,862 | \$ 167,455   | \$ 3,298,290           |
|                                    |              |                        |                        |              | \$ 1,420,163 | \$ 4,885,908           |

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

LINCOLN PARKS AND RECREATION FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1

NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of organization – The Lincoln Parks and Recreation Foundation (the Foundation) is a not-for-profit corporation established under the laws of the State of Nebraska. The Foundation is dedicated to securing and managing time, treasure and talent resources for the betterment of the City of Lincoln's parks and recreation facilities and programs. The Foundation's primary sources of revenue are private grants and contributions from various foundations and the general public.

Basis of accounting – The Foundation prepares its financial statements on the modified cash basis. Under the modified cash basis, revenues are recognized when collected rather than when earned, and expenses are recognized when paid rather than when incurred. Expenditures for the purchase of real estate and leasehold improvements are capitalized.

Income tax status – The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and has no unrelated business income. Therefore, the Foundation has no provision for income taxes. The Foundation is not a private foundation under the Internal Revenue Code. As of December 31, 2011, the Foundation was subject to examination by the Internal Revenue Service for 2008, 2009 and 2010, generally three years after the filing date.

Contributions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction expires, restricted net assets are reclassified to unrestricted net assets.

In-kind contributions – The value of in-kind contributions (donated materials, space and services) is not included as revenue or expenditures in these financial statements, although the Foundation receives substantial services from volunteers, primarily for administrative and fundraising support.

Investments – Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at estimated fair value as of the statement of financial position date. Unrealized appreciation or depreciation in the value of these securities is included in investment income for the period.

Investment income includes interest, dividends, gains and losses (realized and unrealized) and is reported in unrestricted net assets unless the income is restricted by the terms of a gift agreement or by law. See Note 6 for information on investment earnings in the endowment fund.

Pickle card program – The Foundation sells pickle cards to a licensed operator at a predetermined price which is net of prize payouts and operator's commissions. State regulations require net profits from the sale of pickle cards to be deposited in a separate bank account. Pickle card funds may only be expended for the costs of continuing the pickle card program or for items that further the Foundation's exempt purpose. As of December 31, 2011 and 2010, segregated pickle card funds consisted of \$58,676 and \$59,020 in cash and \$52,417 and \$52,018 in certificates of deposit, respectively. Due to the broad nature of the restrictions on these accounts, all activity and net assets related to pickle cards are included in unrestricted net assets.

LINCOLN PARKS AND RECREATION FOUNDATION  
NOTES TO FINANCIAL STATEMENTS – Continued

NOTE 1

NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Estimates and risk – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined. The Foundation invests in various investment securities. Investment securities are subject to various risks, including interest rate, credit and overall market volatility. Due to the level of risk associated with investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term in amounts that could be material to the financial statements.

Subsequent events have been evaluated through November 5, 2012, the date the financial statements were available for issue.

NOTE 2

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following projects:

|  | 2011                | 2010                |
|--|---------------------|---------------------|
| Veterans                                       | \$ 43,074           | \$ 49,282           |
| 2700-2800 Sheridan (Country Club Median)       | 2,279               | 4,546               |
| Lincoln Tennis Association                     | 19,446              | 19,497              |
| Tennis Courts                                  | 3,075               | 3,083               |
| Woods Park Tennis                              | 51,869              | 40,668              |
| Wilderness Park                                | 21,841              | 21,366              |
| Sherman Field                                  | 218,884             | 139,730             |
| Memorials-Current                              | 13,653              | 12,952              |
| Memorials-Care                                 | 17,555              | 11,560              |
| Open Studios                                   | 3,301               | -                   |
| Sunken Gardens                                 | 26,486              | 28,087              |
| Kontras Park                                   | 7,029               | 7,359               |
| Pioneers Park Nature Center                    | 6,748               | 2,545               |
| Cooper Park Bench Maintenance                  | 5,235               | 5,249               |
| Union Plaza Park                               | 1,676,917           | 2,657,868           |
| Rose and Rotary Strolling Garden               | 9,057               | 15,226              |
| Ken Good Public Gardens Internship             | 12,908              | 19,460              |
| Jim Ager Golf Marathon                         | 24,260              | 21,708              |
| Legacy Tree Grove                              | 51,321              | 18,458              |
| Centennial Mall                                | 266,535             | 108,718             |
| Hazel Abel Park                                | 637                 | 97,074              |
| TierOne Foundation                             | 29,585              | -                   |
| Parker Pals                                    | 9,474               | -                   |
| Two for Trees                                  | 42,149              | -                   |
| Other projects                                 | 7,652               | 13,854              |
| <u>Total temporarily restricted net assets</u> | <u>\$ 2,570,970</u> | <u>\$ 3,298,290</u> |



LINCOLN PARKS AND RECREATION FOUNDATION  
NOTES TO FINANCIAL STATEMENTS – Continued

NOTE 3  
PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of funds invested for permanent endowment. See Note 6 for additional information on the Foundation's endowment funds. Permanently restricted net assets consisted of assets invested to support the following:

|  | 2011                | 2010                |
|--|---------------------|---------------------|
| Operations                                     | \$ 39,963           | \$ 39,963           |
| Capital Endowment                              | 6,564               | 6,564               |
| Kids Endowment                                 | 1,456               | 1,456               |
| Veterans                                       | 49,563              | 49,562              |
| Antelope Park Playground                       | 13,240              | 13,240              |
| Sunken Gardens                                 | 175,831             | 158,331             |
| Kontras Park                                   | 27,468              | 27,468              |
| Country Club Median                            | 3,720               | 3,720               |
| Sticks for Kids                                | 2,003               | 2,003               |
| Rose and Rotary Strolling Garden               | 53,001              | 40,501              |
| Ken Good Public Gardens Internship             | 150,000             | 150,000             |
| Union Plaza                                    | 1,334,730           | 927,355             |
| <u>Total permanently restricted net assets</u> | <u>\$ 1,857,539</u> | <u>\$ 1,420,163</u> |

NOTE 4  
INVESTMENTS

The Foundation's investments are carried at fair value based on quoted prices in active markets. All investments are held for permanent endowment. Investments consisted of the following as of December 31:

|                           | 2011                | 2010                |
|---------------------------|---------------------|---------------------|
| Equity mutual funds       | \$ 1,112,195        | \$ 833,324          |
| Fixed income mutual funds | 553,106             | 543,127             |
| <u>Total</u>              | <u>\$ 1,665,301</u> | <u>\$ 1,376,451</u> |

Fair value measurements. The Foundation reports investments in the statement of financial position at fair value on a recurring basis. Various sources of information are used to estimate fair value, depending on the nature of the asset and the availability of market information. Sources of information (inputs) for estimated fair value are classified in three categories:

Level 1 inputs – Quoted prices in active markets for identical assets.

Level 2 inputs – Significant other observable inputs.

Level 3 inputs – Significant unobservable inputs.

All of the investments shown above are valued using Level 1 inputs.

LINCOLN PARKS AND RECREATION FOUNDATION  
NOTES TO FINANCIAL STATEMENTS – Continued

NOTE 4  
INVESTMENTS – CONTINUED

Investment income (loss) consisted of the following components:

|                                       | <u>2011</u>        | <u>2010</u>      |
|---------------------------------------|--------------------|------------------|
| Interest and dividends                | \$ 36,486          | \$ 40,450        |
| Realized gains                        | 19,670             | -                |
| Unrealized gains (losses)             | (130,874)          | 26,430           |
| Investment management fees            | <u>(12,720)</u>    | <u>(6,057)</u>   |
| <u>Total investment income (loss)</u> | <u>\$ (87,438)</u> | <u>\$ 60,823</u> |

NOTE 5  
PROPERTY HELD FOR RESALE

On April 15, 2010, the Foundation purchased real estate at 2847 A Street which is adjacent to existing park and trail facilities owned by the City of Lincoln Parks and Recreation Department (the Department). The Department has expressed its intention to purchase this property from the Foundation when sufficient funding becomes available by reimbursing the Foundation's acquisition costs plus interest. A purchase date has not yet been determined. A portion of the real estate that is not needed by the Department was sold to a third party in 2011. No gain or loss was recognized on the sale. The remaining real estate is stated at its acquisition cost, including capitalized carrying costs.

NOTE 6  
ENDOWMENT FUNDS

The endowment investment policy adopted by the Foundation's board of directors is designed to seek long-term returns consistent with prudent levels of risk. The target annualized rate of return is the Consumer Price Index inflation rate plus a spending rate, to be established annually by the board of directors. The spending rate for 2011 and 2010 was 4%. The policy establishes target investment allocations and restrictions on investment options which are designed to achieve safety and diversification in the overall investment portfolio.

The amount allocated to spendable earnings under the new policy is based on a spending rate determined annually and applied to a four-year rolling average market value of the endowment fund. Spending allocations are calculated annually. Investment earnings that have not been appropriated under the spending formula are considered to be temporarily restricted in accordance with current accounting standards for funds managed in accordance with the Nebraska Uniform Prudent Management of Institutional Funds Act (NUPMIFA). Prior to 2010, unappropriated investment earnings were considered to be permanently restricted due to a contractual agreement with the Lincoln Community Foundation (LCF). LCF managed the endowment under a contractual arrangement from 2001 until 2009.

LINCOLN PARKS AND RECREATION FOUNDATION  
NOTES TO FINANCIAL STATEMENTS – Continued

NOTE 6  
ENDOWMENT FUNDS – CONTINUED

Management considers the unexpendable portion of the endowment funds that were transferred from LCF in 2009 to be permanently restricted. Management has interpreted NUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) additions to the permanent endowment made in accordance with the applicable gift instrument. Surplus assets transferred each year from temporarily restricted net assets to the endowment are treated as permanently restricted net assets since such funds are either subject to explicit donor restrictions at the time of the transfer or are implicitly restricted based on the understanding that certain excess funds raised by various constituent groups will be maintained for endowment.

| Endowment Fund by Net Asset Category |                    |                           |                           |                     |
|--------------------------------------|--------------------|---------------------------|---------------------------|---------------------|
|                                      | Unrestricted       | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
| As of December 31, 2011              | \$ <u>(57,668)</u> | \$ <u>45,022</u>          | \$ <u>1,857,539</u>       | \$ <u>1,844,893</u> |
| As of December 31, 2010              | \$ <u>5,874</u>    | \$ <u>79,068</u>          | \$ <u>1,420,163</u>       | \$ <u>1,505,105</u> |

As of December 31, 2011, the fair value of invested assets assigned to the Rose and Rotary Strolling Garden and Union Plaza endowments were less than the amount recorded as permanently restricted net assets in accordance with the policy described above. The deficiency of \$72,236 is classified as a reduction of unrestricted net assets until it is restored through future appreciation of the invested assets or reductions in future spending appropriations.

LINCOLN PARKS AND RECREATION FOUNDATION  
NOTES TO FINANCIAL STATEMENTS – Continued

NOTE 6  
ENDOWMENT FUNDS – CONTINUED

|   | Changes in Endowment Net Assets |                           |                           |                     |
|---|---------------------------------|---------------------------|---------------------------|---------------------|
|   | Unrestricted                    | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
| Year ended December 31, 2011:                       |                                 |                           |                           |                     |
| Interest and dividends<br>(net of \$12,720 in fees) | \$ -                            | \$ 23,766                 | \$ -                      | \$ 23,766           |
| Realized gains                                      | -                               | 19,670                    | -                         | 19,670              |
| Unrealized losses                                   | -                               | (130,874)                 | -                         | (130,874)           |
| Transfers from temporarily<br>restricted funds      | -                               | -                         | 437,376                   | 437,376             |
| Reclassification of funds                           | (72,236)                        | 72,236                    | -                         | -                   |
| Spending appropriation                              | 1,397                           | (1,397)                   | -                         | -                   |
| Administrative charges                              | 7,297                           | (15,207)                  | -                         | (7,910)             |
| Transfers to fund projects                          | -                               | (2,240)                   | -                         | (2,240)             |
| <u>Net change</u>                                   | (63,542)                        | (34,046)                  | 437,376                   | 339,788             |
| Endowment net assets,<br>beginning of year          | <u>5,874</u>                    | <u>79,068</u>             | <u>1,420,163</u>          | <u>1,505,105</u>    |
| Endowment net<br><u>assets, end of year</u>         | <u>\$ (57,668)</u>              | <u>\$ 45,022</u>          | <u>\$ 1,857,539</u>       | <u>\$ 1,844,893</u> |
| Year ended December 31, 2010:                       |                                 |                           |                           |                     |
| Interest and dividends<br>(net of \$6,057 in fees)  | \$ -                            | \$ 34,393                 | \$ -                      | \$ 34,393           |
| Unrealized gains                                    | -                               | 26,430                    | -                         | 26,430              |
| Contributions                                       | -                               | -                         | 923                       | 923                 |
| Transfers from temporarily<br>restricted funds      | -                               | -                         | 980,981                   | 980,981             |
| Reclassification of funds                           | -                               | -                         | (12,366)                  | (12,366)            |
| Spending appropriation                              | 1,489                           | (1,489)                   | -                         | -                   |
| Administrative charges                              | 4,195                           | (4,195)                   | -                         | -                   |
| Transfers to fund projects                          | -                               | (3,961)                   | -                         | (3,961)             |
| <u>Net change</u>                                   | 5,684                           | 51,178                    | 969,538                   | 1,026,400           |
| Endowment net assets,<br>beginning of year          | <u>190</u>                      | <u>27,890</u>             | <u>450,625</u>            | <u>478,705</u>      |
| Endowment net<br><u>assets, end of year</u>         | <u>\$ 5,874</u>                 | <u>\$ 79,068</u>          | <u>\$ 1,420,163</u>       | <u>\$ 1,505,105</u> |

LINCOLN PARKS AND RECREATION FOUNDATION  
NOTES TO FINANCIAL STATEMENTS – Continued

NOTE 7  
LEASE COMMITMENT

The Foundation occupies office space in a building owned by the Department. The Department has agreed to grant the Foundation a long-term lease of the office space in exchange for the Foundation's payment of \$25,000 toward the costs of the improvements of the leased facilities. The lease term began October 1, 2011 and ends April 30, 2024. The Foundation expended \$3,287 in 2010 and \$8,508 in 2011 for improvements. During 2011, management determined that expenditures made directly for improvements could be applied to the \$25,000 improvement commitment in the lease agreement. Accordingly, any prior year or current year payments related to improvements were classified as rent expense in 2011. The balance remaining on the lease commitment was \$13,205 as of December 31, 2011. The balance is due on demand from the Department.

NOTE 8  
DESIGNATION OF UNRESTRICTED FUNDS

As of December 31, the Foundation's board had committed unrestricted cash in the pickle card accounts to be used for the following projects:

|                           | <u>2011</u>      | <u>2010</u>      |
|---------------------------|------------------|------------------|
| Leasehold improvements    | \$ 13,205        | \$ 25,000        |
| Sherman Field             | 10,000           | 10,000           |
| Centennial Mall           | 25,000           | 15,000           |
| Neighborhood grants       | -                | 2,500            |
| Miscellaneous projects    | <u>-</u>         | <u>2,000</u>     |
| <u>Total designations</u> | <u>\$ 48,205</u> | <u>\$ 54,500</u> |

The Foundation has pledged an additional \$35,000 to the Centennial Mall project which will be formally designated in future years.

NOTE 9  
RELATED PARTY

The Foundation is a private fundraising organization for the Department. The Department is represented on the Foundation's board of directors. The Department provides the Foundation with office facilities in accordance with the agreement described in Note 7. The Foundation is currently holding real estate that was purchased on the Department's behalf as described in Note 5.

LINCOLN PARKS AND RECREATION FOUNDATION  
NOTES TO FINANCIAL STATEMENTS – Continued

NOTE 10  
CONCENTRATIONS

In 2011, the Foundation had two major donors that accounted for approximately 25% of total revenue for the year. In 2010, the Foundation had two major donors that accounted for approximately 70% of total revenue for the year. A major donor is defined as an individual, business or foundation whose donations or grants for the year account for 10% or more of the Foundation's revenue.