MATURITY SCHEDULE

Maturity (March 15)	Principal Amount	Interest Rate	Yield	Price	CUSIP Number
2008	$480,000	3.500%	3.50%	100.000%	534266 BQ 3
2009	480,000	3.500	3.51	99.979	534266 BR 1
2010	500,000	3.500	3.52	99.942	534266 BS 9
2011	515,000	3.625	3.54	100.307	534266 BT 7
2012	535,000	3.625	3.57	100.244	534266 BU 4
2013	555,000	3.625	3.60*	100.109	534266 BV 2
2014	575,000	3.750	3.64*	100.490	534266 BW 0
2015	595,000	3.750	3.69*	100.265	534266 BX 8
2016	620,000	3.750	3.74*	100.042	534266 BY 6
2017	645,000	3.750	3.80	99.587	534266 BZ 3

* Yield to date of earliest optional redemption.

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

RATING: Moody's: "Aaa"
See "RATING"

In the opinion of Gilmore & Bell, P.C., Special Tax Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), the interest portion of the Rental Payments paid by the City and distributed to the registered owners of the Certificates (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal and Nebraska income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Certificates have ***not*** *been designated by the City as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code. See "TAX MATTERS."*

DTC Book

$5,500,000
THE CITY OF LINCOLN, NEBRASKA
CERTIFICATES OF PARTICIPATION - LEASE RENTALS
(Series 2007)
Evidencing Proportionate Interests in Rental Payments to be Made Pursuant to a Lease-Purchase Agreement By and Between the The City of Lincoln, Nebraska, as Lessee, and Union Bank & Trust Company, as Lessor

Dated: date of delivery

Due: March 15, as on the inside cover

The Certificates of Participation (the **"Certificates"**) are issuable as fully registered certificates and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (**"DTC"**). DTC will act as securities depository for the Certificates. Purchases of beneficial ownership interests in the Certificates will be made in book-entry form only, in $5,000 principal amounts or integral multiples thereof. Beneficial owners of the Certificates will not receive physical delivery of Certificates evidencing their ownership interest therein so long as DTC or a successor securities depository acts as the securities depository with respect to the Certificates. So long as DTC or its nominee is the registered owner of the Certificates, payment of the distributions with respect to the Certificates will be made directly to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursements of such payments to the beneficial owners is the responsibility of DTC Participants. See "**THE CERTIFICATES - Book-Entry System**" and **"APPENDIX D – BOOK-ENTRY SYSTEM."**

The Certificates are being issued to finance the purchase of light poles and related equipment (collectively, the **"Leased Property"**) for The City of Lincoln, Nebraska (the **"City"**) and to pay the costs incident to the issuance of the Certificates. See **"INTRODUCTION"** and **"THE LEASED PROPERTY."** The Leased Property will be the subject of a Lease-Purchase Agreement (the **"Lease"**) dated April 11, 2007 among the City, as lessee, Union Bank & Trust Company, as lessor (the **"Lessor"**), and Union Bank & Trust Company, as paying agent and registrar (the **"Registrar"**). The Certificates will be issued pursuant to the Lease in fully registered form in denominations of $5,000 or integral multiples thereof and are payable at the principal corporate office of the Registrar. Distributions representing interest from the date of the Certificates are payable semiannually on March 15 and September 15, of each year, beginning September 15, 2007. Distributions representing principal are payable with respect to each Certificate on the maturity dates set forth on the inside cover.

MATURITY SCHEDULE – SEE INSIDE COVER

The Certificates maturing on or after March 15, 2013 are subject to optional redemption at any time on or after March 15, 2012 as set forth under **"THE CERTIFICATES – Optional Redemption."**

Distributions with respect to the Certificates are payable solely from basic cash rental payments (the **"Rental Payments"**) paid by the City under the Lease. The Rental Payments are payable from the City's General Fund, which includes the City's sales tax revenue and ad valorem taxes levied by the City against all taxable property in the City. See **"NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION."**

The Certificates are offered when, as and if issued and are subject to the receipt of the legal opinion of Gilmore & Bell, P.C., Lincoln, Nebraska, Special Tax Counsel. Certain other legal matters will be passed upon for the City by the City Attorney. It is expected that the Certificates in definitive form will be available for delivery through DTC in New York, New York, on or about April 11, 2007.

MORGAN STANLEY DW INC.

AMERITAS INVESTMENT CORP.
Has acted as Financial Advisor

This Official Statement is dated March 28, 2007

MATURITY SCHEDULE

Maturity (March 15)	Principal Amount	Interest Rate	Yield	Price	CUSIP Number
2008	$480,000	3.500%	3.50%	100.000%	354266 BQ 3
2009	480,000	3.500	3.51	99.979	354266 BR 1
2010	500,000	3.500	3.52	99.942	354266 BS 9
2011	515,000	3.625	3.54	100.307	354266 BT 7
2012	535,000	3.625	3.57	100.244	354266 BU 4
2013	555,000	3.625	3.60*	100.109	354266 BV 2
2014	575,000	3.750	3.64*	100.490	354266 BW 0
2015	595,000	3.750	3.69*	100.265	354266 BX 8
2016	620,000	3.750	3.75*	100.042	354266 BY 6
2017	645,000	3.750	3.80	99.587	354266 BZ 3

* Yield to date of earliest optional redemption.

THE CITY OF LINCOLN, NEBRASKA
CITY OFFICIALS

Coleen J. Seng, Mayor

City Council Members

Patte Newman (Chair)

Jon Camp
Jonathan Cook
Robin Eschliman
Dan Marvin
Annette McRoy
Ken Svoboda

Department Heads

Donald Herz ..... Finance Director
Marvin Krout ..... Planning Director
Lynn Johnson ..... Parks and Recreation Director
Terry Bundy ..... LES Administrator and CEO
Marc Wullschleger ..... Urban Development Director
Carol Connor ..... Library Director
Karl Fredrickson ..... Public Works and Utilities Director
Bruce Dart ..... Health Director
Don Taute ..... Personnel Director
Dana W. Roper ..... City Attorney
Thomas Casady ..... Police Chief
Dan Wright ..... Interim Fire Chief
Mike Merwick ..... Building and Safety Director

Peggy Watchorn, City Controller

Special Tax Counsel

Gilmore & Bell, P.C.
Lincoln, Nebraska

Lessor and Registrar

Union Bank & Trust Company
Lincoln, Nebraska

Underwriter

Morgan Stanley DW
Purchase, New York

Financial Advisor

Ameritas Investment Corp.
Lincoln, Nebraska

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No dealer, broker, 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 Certificates 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 such Certificates 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 it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter or, as to information from other sources, by the City. The Underwriter has provided the following sentence for inclusion in this Official Statement: "The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information." 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 circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

Copies of the Lease referred to herein in the form adopted by the City may be obtained upon request from the Underwriter.

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THE CERTIFICATES 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 CERTIFICATES ARE OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION.

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OFFICIAL STATEMENT

$5,500,000
THE CITY OF LINCOLN, NEBRASKA
CERTIFICATES OF PARTICIPATION - LEASE RENTALS
(Series 2007)
Evidencing Proportionate Interests in Rental Payments to be Made Pursuant to a Lease-Purchase Agreement By and Between the The City of Lincoln, Nebraska, as Lessee, and Union Bank & Trust Company, as Lessor

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INTRODUCTION

This Official Statement, including the preceding pages and appendices hereto, is furnished in connection with the offering of $5,500,000 aggregate principal amount of The City of Lincoln, Nebraska Certificates of Participation - Lease Rentals (Series 2007), dated the date of delivery thereof (the **"Certificates"**). The Certificates represent direct and proportionate interests of the registered owners thereof (the **"Registered Owners"**) in basic cash rental payments (the **"Rental Payments"**) to be made by The City of Lincoln, Nebraska (the **"City"**) pursuant to a Lease-Purchase Agreement dated April 11, 2007 (the **"Lease"**) among the City, as lessee, Union Bank & Trust Company, as lessor (the **"Lessor"**), and Union Bank & Trust Company, as registrar and paying agent (the **"Registrar"**). The net proceeds received from the sale of the Certificates will be used to finance the City's purchase of new light poles and related equipment (collectively, the **"Leased Property"**) needed to adequately light certain of the City's streets and provide for the continued safety and welfare of its residents. Pursuant to the Lease, the City is required to make Rental Payments that comprise the principal and interest to be distributed (the **"Distributions"**) to the Registered Owners. See **"SECURITY," "ESTIMATED SOURCES AND USES OF FUNDS," "THE CERTIFICATES," "NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION,"** and **"APPENDIX B - SUMMARY OF CERTAIN PROVISIONS OF THE LEASE."** Distributions payable with respect to the Certificates are payable solely from the Rental Payments, which are general obligations of the City, and from certain money held by the Registrar under the Lease.

The net proceeds received from the sale of the Certificates will be deposited into the Acquisition Fund created by the Lease and used, together with the investment earnings thereon, to pay (a) the costs of acquiring the Leased Property, including the costs of executing and delivering the Lease, and (b) the costs of issuing the Certificates.

Descriptions of and references to the Certificates, the transaction documents, the transaction participants and related 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 being available for inspection at the offices of the Financial Advisor.

THE LEASED PROPERTY

The City will use the proceeds of the Certificates to purchase and install light poles and related equipment, such as light fixtures, wiring, and other items necessary to complete the installation of new street lights in newly developed residential and commercial areas as well as replace, rebuild and relocate street lights in established areas.

SECURITY

The City has contracted in the Lease to pay the Rental Payments from which the Distributions will be made, which Rental Payments are general obligations of the City payable from the City's General Fund. The City's General Fund includes sales tax revenue together with ad valorem taxes which the City is authorized to levy, subject to certain budget and levy limitations, in amounts sufficient to make the Rental Payments. In the Lease, the City has covenanted that the Rental Payments and any additional rent payable under the Lease do not exceed any limitation imposed by law, and that the Rental Payments are not such as may reasonably be expected to require the City to levy taxes in excess of any levy or budget limitation. The City shall continue to be responsible to raise funds to pay and to take all actions required to provide funds to make the Rental Payments required in the Lease from any power and source lawfully available. The City has further covenanted and agreed that throughout the term of the Lease it will observe all budget and spending limitations now or hereafter imposed by law in such a manner that a sufficient portion of its tax levy or other money shall be lawfully available to pay the Rental Payments and any additional rent due under the Lease. Any property taxes levied by the City to make Rental Payments are subject to the budget and levy limitations described under **"NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION."**

NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION

In recent years, the Nebraska Legislature (the **"Legislature"**) has enacted and amended legislation intended to reduce the level of property taxation and political subdivision expenditures in the State of Nebraska (the **"State"**). The two statutory sections of principal importance are Section 13-519, Reissue Revised Statutes of Nebraska, as amended (as enacted and amended from time to time, **"Section 13-519"**), which provides for an overall limitation on general fund budget expenditures for all governmental units within the State, and Section 77-3442, Reissue Revised Statutes of Nebraska, as amended (as enacted and amended from time to time, **"Section 77-3442"**), which reduces the rate of taxation for general property taxes authorized for all governmental units within the State.

Section 13-519 provides that for all fiscal years beginning on or after July 1, 1998, no governmental unit (including the City) may adopt a budget containing a total of budgeted restricted funds more than the last prior year's total of budgeted restricted funds plus allowable growth, plus a basic allowable growth percentage (initially 2½% until adjusted by the Legislature). Restricted funds generally include property taxes, excluding any amounts refunded to taxpayers, payments in lieu of property taxes, local option sales taxes, state aid, transfers of surpluses from any user fee, permit fee, or regulatory fee if the fee surplus is transferred to fund a service or function not directly related to the fee and the costs of the activity funded from the fee, any funds excluded from restricted funds for the prior year because they were budgeted for capital improvements but which were not spent and are not expected to be spent for capital improvements, and any excess tax collections returned to the county by a governmental unit as a result of overpayment due to clerical error or mistake. Allowable growth includes the percentage increase in taxable valuation in excess of the base limitation established under Section 77-3446, Reissue Revised Statutes of Nebraska, as amended, if any, due to improvements to real property as a result of new

construction, additions to existing buildings, any improvements to real property which increase the value of such property and any increase in valuation due to annexation and any personal property valuation over the prior year. Such budget limitations may be exceeded by up to an additional 1% upon the affirmative vote of at least 75% of the governing body of the governmental unit, and larger increases are permitted with the approval of a majority of legal voters voting on the issue of such increase at a special election held for such purposes.

Under Section 77-3442, the rates for levying property taxes are limited for each type of governmental unit in the State. The rate for cities is no more than 45¢ per $100 of taxable valuation plus an additional 5¢ per $100 of taxable valuation may be levied to provide financing for a city's share of revenue required under an agreement executed pursuant to the Interlocal Cooperation Act, Chapter 13, Article 8, Reissue Revised Statutes of Nebraska, as amended, or the Joint Public Agency Act, Chapter 13, Article 25, Reissue Revised Statutes of Nebraska, as amended. A political subdivision may exceed the levy limitations provided in Section 77-3442 or a final levy allocation determination as provided in Section 77-3443 by an amount not to exceed a maximum levy approved by a majority of registered voters. The limitations of Section 13-519 do not apply to restricted funds pledged to retire bonded indebtedness, and the limitations of Section 77-3442 do not apply to property taxes levied for bonded indebtedness approved according to law and secured by a levy on property. The City's total levy (excluding bond levy) for the current fiscal year is $0.24574, which is expected to produce $33,931,649 in collected taxes.

ESTIMATED SOURCES AND USES OF FUNDS

Sources of Funds:

Certificate Proceeds	$5,500,000.00
Plus: Net Original Issue Premium	5,091.40
Total Sources of Funds	$5,505,091.40

Applications of Funds:

Project Costs	$5,431,053.90
Costs of Issuance*	74,037.50
Total Applications of Funds	$5,505,091.40

*Includes underwriter's discount, legal fees, printing expenses and other miscellaneous expenses.

THE CERTIFICATES

General

The Registered Owner of each Certificate is entitled to receive Distributions on March 15 and September 15 of each year (the **"Distribution Dates"**), commencing September 15, 2007, until the date of final maturity or earlier redemption of such Certificate. The total amount of Distributions to be made with respect to each Certificate shall be equal to the principal amount thereof plus interest calculated on the basis of a 360-day year consisting of twelve, 30-day months, at a rate equal to the relevant interest rate set forth on the cover hereof. Interest on the principal amount of each Certificate shall be included in

Distributions made on each Distribution Date. The entire principal amount of each Certificate shall be included in the final Distribution made on the maturity date or upon earlier redemption.

The Certificates will be issued in fully registered form in denominations of $5,000 each or integral multiples thereof. Certificates initially delivered under the Lease shall be dated the date of delivery thereof. Certificates issued in exchange for Certificates shall be dated as of the date of such exchange. Interest shall be calculated from the date of the Certificate or from the last Distribution Date to which interest shall have been paid.

Distributions, other than the final Distribution, shall be paid on a Distribution Date (or if any such Distribution Date is not a business day of the Registrar, then on the business day next succeeding such Distribution Date) by check or draft mailed by the Registrar on such Distribution Date to the Registered Owner thereof as of the close of business on the Record Date (hereinafter defined), directed to the address appearing on the Certificate register maintained by the Registrar. **"Record Date"** means, with respect to each Distribution, the last business day of the month preceding the month in which the Distribution Date for such Distribution falls. Payment of the final Distribution with respect to each Certificate shall be made only upon presentation and surrender of such Certificate to the Registrar or any successor Registrar at its principal corporate office.

Book-Entry Only System

General. The Depository Trust Company (**"DTC"**), New York, New York, will act as securities depository for the Certificates. The ownership of one fully registered Certificate for each maturity, as set forth on the cover 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 Certificates 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 D - BOOK-ENTRY SYSTEM"** to this Official Statement.

Risk Factors. Beneficial Owners of the Certificates may experience some delay in their receipt of distributions of the principal or redemption price of and interest on the Certificates 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 Certificates can only be effected through DTC, DTC Participants and certain banks, the ability of a Beneficial Owner to pledge Certificates to persons or entities that do not participate in the Book-Entry System, or otherwise to take actions in respect of such Certificates, 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 Ordinance, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and DTC Participants.

Transfer and Exchange

The Certificates, upon surrender thereof to the Registrar together with a written instrument of transfer satisfactory to the Registrar, duly executed by the Registered Owner or his or her duly authorized attorney, may, at the option of the Registered Owner thereof, be exchanged for an equal aggregate principal amount of Certificates in registered form of the same series, rate of interest, maturity and of any other authorized denomination. In all cases in which the privilege of exchanging or transferring the Certificates is exercised, the City shall execute and the Registrar shall deliver the Certificates in accordance with the Lease. For every such exchange or transfer of Certificates, 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 Certificate. No exchange or transfer of any Certificate shall be required to be made during the 15 days next preceding the date of the first mailing of notice of redemption in the case of a proposed redemption of the Certificates.

The foregoing procedures do not apply to Beneficial Owners of the Certificates, whose rights will be governed by the procedures described under **"THE CERTIFICATES - Book-Entry System"** and in **"APPENDIX D - BOOK ENTRY SYSTEM"** so long as the Certificates are held in book-entry form.

Optional Redemption

Certificates maturing on or prior to March 15, 2012 are not subject to redemption prior to their stated maturities. Certificates maturing on or after March 15, 2013 are subject to redemption prior to maturity at the option of the City, in whole or in part, at any time on or after March 15, 2012, 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 thereof plus accrued interest thereon to the date fixed for redemption.

Notice of Redemption

At least 30 days before the date any Certificate (or portion thereof) is to be redeemed, the Registrar will send notice of such redemption by first-class mail, postage prepaid, to all Registered Owners of the Certificates (or portions thereof) to be redeemed, but failure to mail any such notice will not affect the validity of the proceedings for such redemption.

CONTINUING DISCLOSURE

The City has determined that no financial or operating data concerning the Lessor is material to an evaluation of the offering of the Certificates or to any decision to purchase, hold or sell the Certificates, and the City will not provide any such information. The City has no responsibility to any person with respect to the provision of any information about the Lessor.

The City has covenanted for the benefit of the Beneficial Owners of the Certificates to provide certain financial information and operating data relating to the City by not later than May 1 of each year (the "**Annual Report**"), commencing May 1, 2008, and to provide notices of the occurrence of certain enumerated events, if material, using the services of Digital Assurance Certification, L.L.C. as dissemination agent (the **"Dissemination Agent"**). The Annual Report will be filed by the Dissemination Agent with each Nationally Recognized Municipal Securities Information Repository. Notices of material events will be filed by the Dissemination Agent with the Municipal Securities Rulemaking Board. The proposed form of the Dissemination Agent Agreement between the City and the Dissemination Agent is attached to this Official Statement as **"APPENDIX C – FORM OF DISCLOSURE DISSEMINATION AGENT AGREEMENT."** These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5) (the **"Rule"**).

A failure by the City to comply with the Disclosure Dissemination Agent Agreement will not constitute a default under the Ordinance, although Beneficial Owners will have any available remedy at law or in equity. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Certificates in the secondary market. Consequently, such a failure may adversely affect the transferability

and liquidity of the Certificates and their market price. The City is in compliance with each prior undertaking made by it pursuant to the Rule.

RISK FACTORS

The following items, among others, however, should be considered by potential investors:

Limitation of Rights upon Insolvency. The United States Bankruptcy Code enables debtors, including municipalities, which are insolvent to obtain relief through a petition and plan that may result in the modification or delay of payments to creditors, including the Registered Owners of the Certificates. In the event of any insolvency upon the part of the City, the Registered Owners of the Certificates would have a security interest in the Leased Property. However, in the event the Leased Property is repossessed, there can be no assurance that the Leased Property can be leased, sold or otherwise disposed of for a net amount equal to the then outstanding aggregate principal amount of the Certificates and accrued interest thereon to the date of redemption. The extent to which the exceptions from limitations upon overall tax rates provided for in existing legislation (which are discussed in the following paragraph) might enable the Registered Owners of the Certificates to be treated as a separate class or otherwise be given priority over other unsecured claimants is a matter subject to future determinations by State and federal courts interpreting and applying State law and the United States Bankruptcy Code. Procedures under the Bankruptcy Code or other insolvency laws could result in delays in payment and modifications of payment rights. The State has by statute authorized its political subdivisions to seek relief under the United States Bankruptcy Code.

Nebraska Developments Related to Taxation. The Certificates are payable from ad valorem taxes levied upon all the taxable property in the City. The Legislature has from time to time enacted legislation intended to reduce the level of property taxation in the State as described under **"NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION."**

RATING

Moody's Investors Service has assigned the Certificates the rating of "Aaa." Such rating reflects only the views of such organization, and an explanation of the significance of such rating may be obtained from Moody's Investors Service, 99 Church Street, New York, New York 10007, telephone (212) 553-0300.

Generally, a rating agency bases its rating on such information and materials and investigations, studies and assumptions furnished to and obtained and made by the rating agency. The debt rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment as to market price or suitability for a particular investor. There is no assurance that the above rating will remain for any given period of time or that it may not be lowered, suspended or withdrawn entirely by such rating agency if it deems circumstances are appropriate. Any downward change in, suspension or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

LITIGATION

In the opinion of the City Attorney there is no litigation of any nature now pending or, to the knowledge of the City, threatened, restraining or enjoining the execution and delivery of the Lease, or the

issuance, sale, execution or delivery of the Certificates, or in any way contesting or affecting the validity of such documents or the Certificates or any proceedings of the City taken with respect thereto.

TAX MATTERS

Federal and Nebraska Tax Exemption. In the opinion of Gilmore & Bell, P.C., Special Tax Counsel, under existing law, the interest portion of each Rental Payment paid by the City and distributed to the registered owners of the Certificates (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal and State income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the **"Code"**), that must be satisfied subsequent to the issuance of the Certificates in order that interest thereon be, or continue to be, excluded from gross income for federal and State income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Certificates in gross income for federal and State income tax purposes retroactive to the date of issuance of the Certificates. The Certificates have not been designated as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Code.

Original Issue Discount Certificates. In the opinion of Special Tax Counsel, subject to the conditions set forth above, the original issue discount in the selling price of each Certificate maturing in the years 2009, 2010 and 2017, purchased in the original offering at a price less than the par amount thereof (hereinafter referred to as the **"OID Certificates"**), to the extent properly allocable to each owner of such Certificate, is excludable from gross income for federal income tax purposes with respect to such owner. Original issue discount is the excess of the stated redemption price at maturity of an OID Certificate over the initial offering price to the public (excluding underwriters and intermediaries) at which price a substantial amount of the OID Certificates were sold. Under Section 1288 of the Code, original issue discount on tax-exempt obligations accrues on a compound basis. For an owner who acquires an OID Certificate in this offering, the amount of original issue discount that accrues during any accrual period generally equals (a) the issue price of such OID Certificate plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (b) the yield to maturity on such OID Certificate (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (c) any interest payable on such OID Certificate during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such OID Certificate. Any gain realized by an owner from a sale, exchange, payment or redemption of an OID Certificate would be treated as gain from the sale or exchange of such Certificate. Owners of OID Certificates should consult with their individual tax advisors to determine whether the application of the proposed original issue discount federal regulations will require them to include, for State and local income tax purposes, an amount of interest on the OID Certificates as income even though no corresponding cash interest payment is actually received during the tax year.

Certificates Purchased at a Premium. Certificates maturing in the years 2011 to 2016, inclusive, have an initial offering price which exceeds the stated redemption price of such Certificates at maturity. The excess of the purchase price of a Certificate over its stated redemption price at maturity constitutes premium on such Certificate. A purchaser of a Certificate must amortize any premium over such Certificate's term using constant yield principles, based on the purchaser's yield to maturity. As

premium is amortized, the amount of tax-exempt interest deemed received by the purchaser and the purchaser's basis in such Certificate are each reduced by a corresponding amount. The adjustment to a purchaser's tax basis will result 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 Certificate prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed.

Purchasers of any Certificates at a premium, ***whether at the time of initial issuance or afterward***, should consult with their own tax advisors as to the determination and treatment of premium for federal income tax purposes and state and local tax consequences of owning such Certificate.

Other Tax Consequences.

Prospective purchasers of the Certificates should be aware that there may be tax consequences of purchasing the Certificates other than those discussed above, including the following:

(1) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Certificates or, in the case of a financial institution, that portion of such institution's interest expense allocable to interest on the Certificates;

(2) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Certificates;

(3) interest on the Certificates earned by certain foreign corporations doing business in the United States of America could be subject to a branch profits tax imposed by Section 884 of the Code;

(4) passive investment income, including interest on the Certificates, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year, if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income; and

(5) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Certificates.

Special Tax Counsel expresses no opinion regarding these tax consequences. Purchasers of Certificates should consult their own tax advisors as to the applicability of these tax consequences.

LEGAL MATTERS

All legal matters incidental to the authorization, issuance, sale and validity of the Certificates are subject to the approval of Special Tax Counsel. Certain other legal matters will be passed upon for the City by the City Attorney.

INDEPENDENT AUDITORS

The financial statements and schedules of the City for the year ended August 31, 2006, included in **"APPENDIX A-2 – FINANCIAL STATEMENTS"** to this Official Statement, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein.

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 herein, and that which follows in the attached appendices, shall not be construed as representing all of the conditions affecting the City or the Certificates.

This Official Statement is issued by the City.

THE CITY OF LINCOLN, NEBRASKA

By: /s/ Don Herz
Don Herz, Finance Director

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THE CITY OF LINCOLN, NEBRASKA

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THE CITY OF LINCOLN

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 85.76 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. It is currently one of the fastest growing non-Sunbelt cities in the U.S. and one of the fastest growing metro areas in the Midwest.

Population

The 1960 population of the City was 128,521; the 1970 population was 149,510; the 1980 population was 171,932; the 1990 population was 191,972; and the 2000 population was 225,588, a 17.5 percent increase over the 1990 count. The 2000 count represents approximately 90 percent of the population of Lancaster County, the county in which the City is located. The estimated 2006 population is 239,213.

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 6,114 acres maintained for public use, eleven 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.

Scheduled air service is provided by United Express, Allegiant Air, and Northwest Airlink. The City's modern airport has three runways (one of which is 12,900 feet in length) which can accommodate any type of modern aircraft.

Railroad transportation facilities include those of Burlington Northern & Santa Fe, Union Pacific, and AMTRAK. Ground transportation is furnished by Greyhound bus system, and local StarTran bus services.

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), the Nebraska State Fair Park, 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 21,000 students, Nebraska Wesleyan University, with approximately 1,950 students, Union College, with approximately 800 students, Hamilton College, with approximately 500 students and Southeast Community College, with approximately 10,000 students and with a number of facilities for both full-time and part-time occupational training, are in the City of Lincoln. The City's modern and progressive school system, with an enrollment of over 32,000 is served by 6 senior high schools, 10 middle schools, and 36 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 Christian.

Building Permits and Property Values

LAST TEN YEARS

FISCAL YEAR	COMMERCIAL [1] CONSTRUCTION # PERMITS	COMMERCIAL [1] CONSTRUCTION VALUE	RESIDENTIAL [1] CONSTRUCTION # PERMITS	RESIDENTIAL [1] CONSTRUCTION VALUE	PROPERTY VALUE [2] COMMERCIAL	PROPERTY VALUE [2] RESIDENTIAL	TOTALS
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	315,666,242	3,094,988,486	7,255,640,292	10,350,628,778
2002	1,013	245,476,386	3,405	262,293,941	2,855,200,333	7,048,688,380	9,903,888,713
2001	1,017	215,856,679	3,212	231,390,626	2,540,905,431	6,273,610,610	8,814,516,041
2000	1,069	181,983,107	3,385	225,622,611	2,356,367,014	6,067,493,586	8,423,860,600
1999	1,148	186,569,754	3,235	206,065,342	2,132,780,337	5,726,511,673	7,859,292,010
1998	1,093	119,532,867	3,109	185,894,741	2,001,814,878	4,863,604,491	6,865,419,369
1997	1,107	90,599,429	3,284	191,975,903	1,834,275,313	4,676,645,258	6,510,920,571

[1] City of Lincoln, Building and Safety Department.

[2] Lancaster County Assessor.

Police and Fire Protection

Lincoln has fourteen fire stations manned by 247 firefighters and two police stations with 317 police officers.

City Employee Information

For the 2006-2007 fiscal year, contracts have been signed with all 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, and the City Employees Association (CEA) representing supervisory, highly technical, and professional personnel. The LPU, IAF, CEA and PAGE contracts expire at the end of August, 2008; and the ATU contract expires at the end of August, 2009.

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 union representing labor, trades, and clerical personnel.

SELECTED ECONOMIC INDICATORS

LINCOLN SMSA (LANCASTER COUNTY)
NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

	MAY 31, 2006		NOVEMBER 30, 2006	
	Number Employed	Percent of Total	Number Employed	Percent of Total
Industry Manufacturing:				
Durable Goods	7,918	4.6	7,679	4.4
Nondurable Goods	6,026	3.5	5,597	3.2
Total Industry Manufacturing	13,944	8.1	13,276	7.7
Nonmanufacturing:				
Natural Resource & Construction	8,528	5.0	8,476	4.9
Transportation, Communications & Utilities	7,369	4.3	7,564	4.4
Wholesale Trade	3,912	2.3	3,896	2.2
Retail Trade	16,468	9.6	17,023	9.8
Information	2,856	1.8	2,843	1.8
Finance, Insurance & Real Estate	12,858	7.5	13,166	7.6
Services (except domestic)	64,690	37.6	65,503	37.8
Government	41,288	24.0	41,593	24.0
Total Nonmanufacturing	157,969	92.0	160,064	92.5
TOTAL	171,913	100.0	173,340	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 1997-2006)
(For the Calendar Year Indicated)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Civilian Labor Force	142,807	142,918	142,384	150,239	150,846	153,021	156,940	158,444	157,999	157,632
Unemployment	2,494	3,208	3,397	3,542	4,209	5,007	5,841	5,346	5,643	4,592
Percent of Labor Force	1.7	2.2	2.4	2.4	2.8	3.3	3.7	3.4	3.6	2.9
Employment	140,313	139,710	138,987	146,697	146,636	148,013	151,100	153,098	152,355	153,040

STATE OF NEBRASKA

Percent of Labor Force Unemployment	2.3	2.7	2.9	2.7	3.1	3.6	3.8	3.8	3.9	3.2

Source: State of Nebraska, Department of Labor

DEMOGRAPHIC STATISTICS
LAST TEN YEARS

Year	Population 1	Per Capita Income 2	School Enrollment 3
2006	239,213	$	32,934
2005	238,625		32,505
2004	236,146	32,749	32,270
2003	235,565	31,071	31,889
2002	231,800	30,237	31,867
2001	225,588	29,453	31,581
2000	218,497	29,045	31,354
1999	217,537	27,127	31,052
1998	215,000	26,110	31,000
1997	209,192	24,363	30,924

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 2005 and 2006 is unavailable.

3 Lincoln Public Schools.

Median age from the 2000 census was 31.3. Education statistics per the 2000 Census indicate that 90.2% of the population 25 years and older has a high school degree or greater with 33% of the same population holding a Bachelor's degree or greater.

LINCOLN UTILITY CUSTOMERS
LAST TEN YEARS

Year	Water Customers	Gas Customers	Electricity Customers
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
2002	69,704	89,085	114,388
2001	68,187	87,749	112,247
2000	66,956	86,501	110,414
1999	65,823	85,156	108,194
1998	64,423	80,770	105,970
1997	63,241	79,490	103,616

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 [3] Welfare	Mass [2] Transit	Debt Service	Totals
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
2002	27,237,134	49,913,169	10,833,055	16,974,798	14,017,601	17,989,603	12,691,837	7,411,878	157,069,075
2001	23,821,580	48,122,074	11,175,059	14,806,760	12,559,336	15,862,462	-	7,742,690	134,089,961
2000	23,529,495	44,042,882	9,039,840	13,958,414	11,204,029	13,974,690	-	7,924,295	123,673,645
1999	21,891,174	41,555,922	9,406,531	13,254,994	10,215,261	11,709,801	-	9,181,071	117,214,754
1998	30,170,768	41,140,827	8,992,439	13,111,328	12,009,990	10,979,131	-	9,651,132	126,055,615
1997	17,791,275	35,073,010	10,348,129	12,655,548	8,581,741	9,491,687	-	7,807,532	101,748,922

[1] Includes General, Special Revenue, and Debt Service Funds.
[2] StarTran added as a Governmental Fund in 2002.
[3] Community Health Permanent Endowment Fund added as a Governmental Fund in 1999.

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
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
2002 [2]	105,139,052	59,029,609	12,449,879	5,605,557	4,606,825	10,325,634	197,156,556
2001	95,016,014	48,619,317	9,638,475	5,071,766	8,005,027	9,146,189	175,496,788
2000	92,305,453	35,807,100	9,838,029	4,896,203	9,330,374	10,246,196	162,423,355
1999 [3]	88,259,613	35,600,952	8,685,268	4,366,482	8,016,026	7,684,411	152,612,752
1998	84,391,111	41,035,908	9,131,287	3,709,572	4,726,874	9,389,155	152,383,907
1997	82,736,034	27,424,737	7,903,461	5,094,910	3,849,287	7,268,050	134,276,479

[1] Includes General, Special Revenue and Debt Service Funds.
[2] StarTran added as a Governmental Fund in 2002.
[3] Community Health Permanent Endowment Fund added as a Governmental Fund in 1999.

SPECIAL ASSESSMENT COLLECTIONS
LAST TEN YEARS [1]

Fiscal Year Ended August 31	Special Assessment Collections Including Interest
2006	$ 1,667,037
2005	1,413,582
2004	2,104,925
2003	1,814,191
2002	1,867,653
2001	1,796,924
2000	1,948,791
1999	2,359,812
1998	2,104,022
1997	2,390,085

[1] Special assessment collections are not tracked by levy year, therefore the portion of collections during any year which 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 2006 tax levy for the 2006-2007 fiscal year is $68,512,344 below the legal limit, a tax rate per $100 valuation of .28337. The assessed value upon which the 2006 levy is based is $15,342,163,788. Only 90% of the property tax levy may be appropriated, by charter.

For the 2006-2007 fiscal year the City is subject to a state imposed lid on the appropriation of "restricted funds", which are revenues received from property tax, sales tax, state aid, in-lieu of tax, municipal infrastructure redevelopment fund (MIRF), and highway allocation fees. Bonded indebtedness, capital improvements, and costs associated with interlocal agreements are exempt from the lid. For 2006-2007 the City can also use authority equal to the amount of real growth in the tax base of 2.80%. An additional 1% can be authorized by a 75% vote of the City Council but was not utilized for the 2006-2007 budget. The 2006-2007 budget is approximately $6.6 million 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.

Tax Year	Taxes Levied	Collected As Of August 31 After Levy		Accumulated Collections As Of August 31, 2005	
		Amount	Percent	Amount	Percent
2006	$ 40,873,358	$ 39,579,041	96.83 %	$ 39,579,041	96.83 %
2005	38,755,995	37,514,748	96.80	38,847,890	100.24
2004	36,994,112	35,726,509	96.57	37,026,097	100.09
2003	35,007,926	33,676,453	96.20	35,034,547	100.08
2002	33,731,282	32,501,760	96.35	33,830,227	100.29
2001	31,159,364	29,936,079	96.07	31,145,644	99.96
2000	29,603,794	28,665,780	96.83	29,761,419	100.53
1999	27,597,664	26,411,546	95.70	27,510,816	99.69
1998	26,812,692	25,758,577	96.07	26,975,496	100.61
1997	27,022,949	25,894,971	95.83	26,962,614	99.78

The figures below do not include motor vehicle in lieu of ad valorem taxes.

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	2006 Assessed Valuations	Percentage Of Total Assessed Valuation
Alltel Communications	Telecommunications	$ 77,180,720	.57%
Kawasaki	Manufacturing	69,477,067	.51
B & J Partnership Ltd.	Building Management	62,605,030	.46
Ameritas Life Insurance Corp	Insurance	49,520,031	.36
Chateau Van Dorn LLC	Real Estate Development	46,979,720	.35
WEA Gateway LLC	Retail Management	45,403,741	.33
Pfizer	Animal Health	44,063,691	.32
Burlington Northern	Railroad	43,813,618	.32
Nebco	Construction/Development	38,828,548	.29
Molex Inc.	Manufacturing	32,776,339	.24
		$ 510,648,505	3.75%

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
2006	$ 54,270,346
2005	53,781,209
2004	51,869,477
2003	48,657,268
2002	45,393,491
2001	44,486,127
2000	43,608,313
1999	41,642,771
1998	37,479,413
1997	36,549,194

GENERAL FUND TAX COLLECTIONS
LAST TEN YEARS

Fiscal Year	Property and Motor Vehicle Taxes	Sales and Use Taxes	Insurance Taxes	Sundry Taxes	Taxes In Lieu	Occupation Taxes	Total
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
2002	23,353,414	45,393,491		8,403	1,163,468	9,097,442	79,016,218
2001	20,284,364	44,486,127		8,497	1,107,183	5,889,097	71,775,268
2000	19,487,198	43,608,313		8,522	1,043,287	5,651,371	69,798,691
1999	20,741,154	41,642,771		17,516	1,080,495	5,721,321	69,203,257
1998	18,953,860	37,479,413	889,226	8,647	944,612	4,743,649	63,019,407
1997	19,642,898	36,549,194	921,550	14,903	960,260	4,783,841	62,872,646

TAXABLE ASSESSED VALUATION
LAST TEN YEARS [1]

Tax Year		Real Estate	All Other	Total
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
2003		10,350,628,778	779,959,389	11,130,588,167
2002		9,903,888,713	820,797,124	10,724,685,837
2001		8,814,516,041	806,431,814	9,620,947,855
2000		8,423,860,600	716,780,457	9,140,641,057
1999		7,859,292,010	660,609,204	8,519,901,214
1998		6,865,419,369	637,669,384	7,503,088,753
1997		6,510,920,571	525,762,951	7,036,683,522

[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 YEARS *

	Tax Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
City of Lincoln	0.3009	0.2950	0.2903	0.3145	0.3145	0.3239	0.3239	0.3239	0.3581	0.3837
School District No. 1	1.3142	1.3141	1.3011	1.2830	1.2732	1.3684	1.3813	1.3050	1.6308	1.6260
Lancaster County	0.2841	0.2797	0.2683	0.2683	0.2583	0.2643	0.2584	0.2782	0.2966	0.3106
Educational Service Unit #18	0.0150	0.0150	0.0150	0.0150	0.0150	0.0150	0.0150	0.0149	0.0089	0.0081
Community Technical College	0.0696	0.0655	0.0655	0.0655	0.0636	0.0295	0.0334	0.0696	0.0782	0.0840
Lower Platte South Natural Res. Dist.	0.0422	0.0323	0.0323	0.0359	0.0365	0.0367	0.0372	0.0389	0.0365	0.0346
Railroad Transportation Safety Dist.	0.0260	0.0260	0.0248	0.0220	0.0221	0.0260	0.0260	0.0260	0.0260	0.0091
Agricultural Society of Lancaster County	0.0018	0.0020	0.0030	0.0012	0.0024	0.0073	0.0032	0.0013	0.0364	0.0364
Lancaster County Fairgrounds	0.0042	0.0042	0.0043	0.0050	0.0052	0.0000	0.0000	0.0000	0.0000	0.0000
Public Building Commission	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0169
	2.0750	2.0508	2.0216	2.0274	2.0078	2.0881	2.0954	2.0748	2.4885	2.5094

*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, 2006

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
General Obligation Bonds:							
General Bonds:							
14,435	03/01/99	Various Purpose Series A	3.000 - 4.600	Ser. '00 to '14	2009	Semiannually	$ 8,780
7,365	03/01/99	Various Purpose Series A	4.750	Term '15 to '19	2009	"	7,365
8,220	03/01/99	Various Purpose Series B	3.000 - 4.250	Ser. '99 to '11	2007	"	3,140
7,500	05/29/02	Storm Sewer and Drainage	3.000 - 5.000	Ser. '04 to '22	2010	"	6,965
15,595	06/24/03	Various Purpose	2.625 - 3.750	Ser. '04 to '17	2013	"	10,940
3,710	06/24/03	Various Purpose	4.000 - 4.125	Term '18 to '23	2013	"	3,710
6,555	05/01/05	Storm Sewer Refunding	2.500 - 4.375	Ser. '05 to '17	2011	"	6,180
9,950	05/25/05	Storm Sewer Construction	3.250 - 4.250	Ser. '06 to '25	2015	"	9,585
		Total General Bonds					$ 56,665
Tax Allocation Bonds:							
1,310	11/15/92	Tax Allocation Bonds	3.250 - 6.200	Ser. '93 to '06	1997	Semiannually	$ 65
105	11/15/92	Tax Allocation Bonds	6.350	Term '93 to '06	1997	"	15
232	04/21/00	Tax Allocation Bonds	6.390	Ser. '00 to '10	2000	"	110
42	06/01/03	Tax Allocation Bonds	4.060	Ser. '04 to '11	Anytime	"	29
1,035	04/06/04	Tax Allocation Bonds	2.000 - 3.200	Ser. '04 to '11	2008	"	790
5,500	04/07/04	Tax Allocation Bonds	3.000 - 4.800	Ser. '04 to '15	2010	"	4,895
365	08/15/05	Tax Allocation Bonds	4.750	Ser. '06 to '18	Anytime	"	343
		Total Tax Allocation Bonds					$ 6,247
Tax Supported Bonds:							
3,200	06/13/00	Municipal Infrastructure Redevelopment	4.750 - 5.100	Ser. '01 to '09	2005	Semiannually	$ 1,435
35,000	03/03/04	Highway Allocation Fund	2.000 - 5.000	Term '07 to '23	2014	"	35,000
		Total Tax-Supported Bonds					$ 36,435
		TOTAL GENERAL OBLIGATION BONDS					$ 99,347
Tax Supported Bonds:							
11,080	2/27/02	Antelope Valley Project	1.500 - 5.000	Ser. '02 to '16	2012	Semiannually	$ 9,110
Revenue Bonds:							
15,765	07/31/03	Wastewater Revenue	2.000 - 5.000	Ser. '04 to '23	2013	Semiannually	$ 10,995
39,235	07/31/03	Wastewater Revenue	4.625 - 5.000	Term '24 to '28	2013	"	39,235
18,000	08/03/05	Wastewater Revenue	4.000 - 5.000	Ser. '06 to '30	2015	"	17,455
		Total Wastewater Bonds					$ 67,685
11,850	11/22/02	Water Revenue	2.750 - 5.000	Ser. '05 to '17	2012	Semiannually	$ 10,360
6,660	11/22/02	Water Revenue	5.000	Term '18 to '22	2012	"	6,660
32,180	05/20/03	Water Revenue	5.000	Ser. '04 to '12	-	"	22,380
40,000	11/16/04	Water Revenue	3.000 - 5.000	Ser. '05 to '25	2014	"	38,150
		Total Water Bonds					$ 77,550
6,815	09/08/99	Parking Revenue Series A	4.000 - 5.000	Ser. '00 to '09	2009	Semiannually	$ 3,175
6,695	09/08/99	Parking Revenue Series A	5.375	Term '10 to '14	2009	"	6,695
6,000	12/05/01	Parking Revenue	3.750 - 5.125	Ser.'02 to '21	2011	"	4,845
		Total Parking Bonds					$ 14,715
3,165	10/23/01	Golf Course Revenue Refunding	2.300 - 4.050	Ser. '02 to '11	2008	Semiannually	$ 1,690
4,000	08/17/06	Solid Waste Mangement Revenue	4.000 - 4.250	Ser. '07 to '21	2013	Semiannually	$ 4,000
45,560	02/15/98	Electric Revenue Bonds '98 Series A	4.500 - 5.000	Ser. '98 to '18	2008	Semiannually	$ 32,985
141,150	08/15/01	Electric Revenue Bonds '01	4.000 - 5.250	Ser. '06 to '20	2011	"	141,150
148,190	10/01/02	Electric Revenue Bonds '02	4.000 - 5.000	Ser. '04 to '25	2012	"	131,085
93,045	10/01/03	Electric Revenue Bonds '03	3.000 - 5.000	Ser. '04 to '26	2014	"	90,195
33,265	10/01/03	Electric Revenue Bonds '03	4.750	Term '28	2014	"	33,265
61,290	10/01/05	Electric Revenue Bonds '05	5.00	Ser. '29 to '32	2015	"	61,290
53,710	10/01/05	Electric Revenue Bonds '05	4.750	Term '35	2015	"	53,710
		Total Electric Bonds					$ 543,680
		TOTAL REVENUE BONDS					$ 709,320

The 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					
	General Obligation Bonds		Tax-Supported Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 4,913	4,100	595	392	1,029	728
2008	5,176	3,927	615	372	1,238	697
2009	6,049	3,741	635	350	1,269	658
2010	5,182	3,521	660	326	1,223	617
2011	5,573	3,321	685	299	1,212	575
2012 - 2016	31,413	12,787	3,900	993	6,043	2,169
2017 - 2021	26,856	6,073	2,020	50	3,135	1,189
2022 - 2026	14,185	1,037	-	-	2,307	495
2027 - 2031	-	-	-	-	865	22
	$ 99,347	38,507	9,110	2,782	18,321	7,150

Fiscal Year Ended August 31	Business-Type Activities			
	Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2007	$ 20,135	33,912	323	26
2008	23,860	33,484	333	12
2009	24,880	32,440	23	3
2010	25,980	31,316	25	1
2011	28,725	30,098	-	-
2012 - 2016	140,900	131,074	-	-
2017 - 2021	171,255	92,867	-	-
2022 - 2026	98,865	56,772	-	-
2027 - 2031	89,005	33,101	-	-
2032 - 2036	85,715	12,700	-	-
	$ 709,320	487,764	704	42

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

Net assets of $3,225,252, $3,427,680, and $5,210,292 are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, and Tax Allocation Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

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

	Governmental Activities	Business-Type Activities
Land	$ 515,750	$ 210,000
Buildings	12,134,675	-
Machinery and Equipment	1,838,042	2,736,012
Less Accumulated Depreciation, (where applicable)	(1,126,681)	(1,562,675)
Total	$ 13,361,786	$ 1,383,337

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

Established by City Ordinance, LES may borrow up to $150 million under a commercial paper note program. At December 31, 2005, LES had $90.0 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, 2005, was 2.3 percent. The annual requirement to pay interest on this outstanding debt is approximately $2.0 million. 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.

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, 2006, is summarized below (unaudited):

Governmental Units	Debt Outstanding	Estimated Percentage Applicable [1]	Direct And Overlapping Debt To The City
Direct:			
City	$ 99,347,000	100.0 %	$ 99,347,000
Overlapping:			
School District #1	281,600,000	99.5	280,192,000
Lower Platte South N.R.D.	9,782,000	75.4	7,376,000
Lancaster County	7,960,000	85.4	6,798,000
Public Building Commission	50,105,000	85.4	42,790,000
Lancaster County Fairgrounds	2,780,000	85.4	2,374,000
	352,227,000		339,530,000
Total	$ 451,574,000		$ 438,877,000

The City has no direct liability for the School District, Lower Platte South N.R.D., Lancaster County, Public Building Commission or Lancaster County Fairgrounds debt summarized above. This results in a per capita direct City debt of $415.31; a per capita direct and overlapping debt of $1,834.67; a ratio of direct City debt to 2006 actual valuation of .73 percent; and a ratio of direct and overlapping debt to 2006 actual valuation of 3.23 percent.

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 [3]	Total Debt Service	Total General Governmental Expenditures [1,2,4]	Ratio Of Debt Service To Total General Expenditures
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
2002	4,921,172	2,421,303	7,342,475	157,069,075	4.67
2001	4,966,405	2,753,247	7,719,652	134,089,961	5.76
2000	5,125,296	2,772,021	7,897,317	123,673,645	6.39
1999	4,209,267	2,301,745	6,511,012	117,214,754	5.55
1998	4,927,317	2,329,696	7,257,013	126,055,615	5.76
1997	5,469,089	2,274,947	7,744,036	101,748,922	7.61

[1] Includes: General, Special Revenue, and Debt Service Funds
[2] Community Health Permanent Endowment Fund added as a Governmental Fund in 1999.
[3] Does not include fiscal and miscellaneous charges.
[4] StarTran added as a Governmental Fund in 2002.

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 [2]	Ratio Of Net Debt To Assessed Valuation Real & Personal	Assessed Valuation Of Taxable Real Property [2]	Ratio Of Net Debt To Estimated Valuation Of Taxable Real Property
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
2002	56,997,000	15,847,000	41,150,000	231,800	177.52	10,724,685,837	0.38	9,903,888,713	0.42
2001	54,418,000	11,243,000	43,175,000	225,588	191.39	9,620,947,855	0.45	8,814,516,041	0.49
2000	58,814,000	9,739,000	49,075,000	218,497	224.60	9,140,641,057	0.54	8,423,860,600	0.58
1999	60,508,000	12,182,000	48,326,000	217,537	222.15	8,519,901,214	0.57	7,859,292,010	0.61
1998	40,492,000	17,707,000	22,785,000	215,000	105.98	7,503,088,753	0.30	6,865,419,369	0.33
1997	47,665,000	16,121,000	31,544,000	209,192	150.79	7,036,683,522	0.45	6,510,920,571	0.48

[1] Source: Lincoln/Lancaster Planning Department.

[2] Assessed valuation is 100% of actual.

REVENUE BOND COVERAGE
LAST TEN FISCAL YEAR

	Gross Revenue	Direct Operating Expenses	Net Revenue Available For Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
Wastewater System							
2006	$ 19,305,465	11,125,819	8,179,646	2,065,000	3,043,500	5,108,500	1.60
2005	18,526,816	10,482,955	8,043,861	1,500,000	2,403,519	3,903,519	2.06
2004	19,071,798	10,042,919	9,028,879	1,750,000	2,133,704	3,883,704	2.32
2003	15,785,843	9,086,469	6,699,374	1,032,500	266,722	1,299,222	5.16
2002	15,731,749	8,632,287	7,099,462	992,500	316,847	1,309,347	5.42
2001	16,663,975	8,087,688	8,576,287	952,500	364,972	1,317,472	6.51
2000	16,741,692	7,707,242	9,034,450	912,500	411,097	1,323,597	6.83
1999	16,286,632	7,591,990	8,694,642	1,255,000	474,743	1,729,743	5.03
1998	15,873,036	7,512,753	8,360,283	1,217,500	554,216	1,771,716	4.72
1997	15,521,150	7,339,135	8,182,015	1,120,000	627,402	1,747,402	4.68
Water System							
2006	$ 27,297,378	13,808,214	13,489,164	5,130,000	3,834,301	8,964,301	1.50
2005	25,600,740	13,145,665	12,455,075	4,895,000	3,517,932	8,412,932	1.48
2004	22,940,862	12,477,486	10,463,376	3,115,000	2,411,632	5,526,632	1.89
2003	21,533,965	11,631,496	9,902,469	3,010,000	2,898,489	5,908,489	1.68
2002	22,687,789	11,474,433	11,213,356	2,880,000	2,110,590	4,990,590	2.25
2001	22,287,139	10,960,315	11,326,824	2,755,000	2,240,075	4,995,075	2.27
2000	23,823,957	9,812,147	14,011,810	2,640,000	2,361,515	5,001,515	2.80
1999	20,787,797	9,067,262	11,720,535	2,530,000	2,514,373	5,044,373	2.32
1998	21,009,615	8,894,295	12,115,320	2,435,000	2,621,365	5,056,365	2.40
1997	20,426,318	8,161,529	12,264,789	2,345,000	2,730,407	5,075,407	2.42
Parking Facilities [1, 2]							
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
2002	5,483,546	1,964,389	3,519,157	1,115,000	924,470	2,039,470	1.73
2001	5,172,264	2,127,350	3,044,914	795,000	787,419	1,582,419	1.92
2000	4,853,708	1,393,637	3,460,071	455,000	761,521	1,216,521	2.84
1999	4,209,988	2,329,165	1,880,823	585,000	640,712	1,225,712	1.53
1998	4,068,991	1,340,709	2,728,282	455,000	651,694	1,106,694	2.47
1997	3,623,705	1,110,085	2,513,620	435,000	670,847	1,105,847	2.27
Golf							
2006	$ 2,993,961	2,467,141	526,820	305,000	74,973	379,973	1.39
2005	3,135,875	2,568,462	567,413	295,000	83,823	378,823	1.50
2004	2,899,670	2,467,141	432,529	290,000	91,653	381,653	1.13
2003	2,648,552	2,408,947	239,605	280,000	98,513	378,513	0.63
2002	2,673,078	2,141,707	531,371	305,000	75,628	380,628	1.40
2001	2,626,592	2,140,853	485,739	230,000	239,088	469,088	1.04
2000	2,934,568	1,952,906	981,662	215,000	252,310	467,310	2.10
1999	2,527,564	1,656,746	870,818	200,000	264,310	464,310	1.88
1998	2,337,800	1,493,277	844,523	190,000	275,520	465,520	1.81
1997	2,414,843	1,620,120	794,723	180,000	285,960	465,960	1.71

1 Includes parking meter revenues that were deposited to the General Fund but are pledged per bond ordinance.
2 Information in this table does not agree with information in the transmittal letter of the City's CAFR 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

	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001	F.Y. 2002	F.Y. 2003	F.Y. 2004	F.Y. 2005	F.Y. 2006
Cash & Investment Balance - September 1 of Year Indicated	20,599,597	26,542,206	22,742,585	25,069,133	26,814,745	24,802,768	26,589,993	26,784,845	23,521,130	18,948,253
Receipts:										
Property Tax	19,642,898	18,953,860	20,741,154	19,487,198	20,284,364	23,353,414	22,780,085	24,546,532	26,727,618	28,366,526
City Sales & Use Tax	36,549,194	37,479,413	41,642,771	43,608,313	44,486,127	45,393,492	48,657,268	51,869,477	53,781,209	54,270,346
Other Income	18,708,672	19,373,404	19,991,222	21,339,093	21,786,016	26,342,414	24,933,838	23,615,320	25,620,145	25,390,112
Total Receipts	74,900,764	75,806,677	82,375,147	84,434,604	86,556,507	95,089,320	96,371,191	100,031,329	106,128,972	108,026,984
Less Disbursements	68,958,155	79,606,298	80,048,599	82,688,992	88,568,484	93,302,095	96,176,339	103,295,044	110,701,849	113,499,594
Cash & Investment Balance - August 31 of Year Indicated	26,542,206	22,742,585	25,069,133	26,814,745	24,802,768	26,589,993	26,784,845	23,521,130	18,948,253	13,475,643

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

	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001	F.Y. 2002	F.Y. 2003	F.Y. 2004	F.Y. 2005	F.Y. 2006
Cash Balance - September 1 of Year Indicated	3,748,493	4,000,777	3,682,098	3,536,402	3,313,405	3,099,198	3,440,537	2,935,997	3,570,557	3,364,608
Receipts:										
Property Tax	4,350,593	4,461,628	4,475,066	5,843,384	5,814,489	6,340,938	5,883,592	5,387,468	5,607,615	2,973,410
Interest Income	166,270	236,658	145,534	174,146	107,693	53,873	32,298	48,595	83,286	86,812
Bond Proceeds			189,482				9,436,083		6,597,635	
Other Income	656,811	116,996	54,475	247,591	235,736	232,009	240,110	691,340	149,038	2,935,603
Total Receipts	5,173,674	4,815,282	4,864,557	6,265,121	6,157,918	6,626,820	15,592,083	6,127,403	12,437,574	5,995,825
Disbursements:										
Bonds Paid	3,158,769	3,304,097	2,725,042	3,973,769	4,052,948	4,137,254	4,177,765	3,215,000	3,850,000	4,250,000
Bonds Defeased							9,609,774			
Interest Paid	1,756,656	1,817,400	1,955,821	2,500,471	2,308,922	2,144,322	2,309,084	2,271,548	2,197,207	2,342,582
Transfer to Trustee			164,400						6,504,876	
Other Disbursements	5,965	12,464	164,990	13,878	10,255	3,905		6,295	91,440	6,360
Total Disbursements	4,921,390	5,133,961	5,010,253	6,488,118	6,372,125	6,285,481	16,096,623	5,492,843	12,643,523	6,598,942
Equity Transfer										
Cash Balance - August 31 of Year Indicated	4,000,777	3,682,098	3,536,402	3,313,405	3,099,198	3,440,537	2,935,997	3,570,557	3,364,608	2,761,491

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

	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001	F.Y. 2002	F.Y. 2003	F.Y. 2004	F.Y. 2005	F.Y. 2006
Cash & Investment Balance - September 1 of Year Indicated	4,855,959	5,150,392	5,357,118	5,003,362	4,964,458	3,778,207	6,586,633	6,910,967	7,830,502	7,583,251
Receipts:										
Special Assessment Collections	1,972,082	1,818,743	1,992,503	1,638,233	1,529,352	1,360,347	1,271,575	1,654,695	1,208,686	1,476,284
Interest on Special Assessments	418,003	285,279	367,309	310,558	257,157	294,839	346,725	267,298	204,108	189,927
City's Share of Costs	161,620		2,038,202	895,961	2,516,175	2,145,574	97,107	116,009	578,992	723,038
Developers' Share of Costs	40,508	685,754	75,572		473,445	4,617				
Bond Proceeds										
Interest on Investments	253,112	341,581	241,768	286,460	219,536	137,143	130,555	140,289	217,996	254,809
Miscellaneous	4,134		244,724	993,245	144,005	474,438	195,535	288,482	30,687	74,657
Total Receipts	2,849,459	3,131,357	4,960,078	4,124,457	5,139,670	4,416,958	2,041,497	2,466,773	2,240,469	2,718,715
Disbursements:										
Construction Costs	703,170	1,637,987	2,333,433	2,338,999	3,646,025	1,090,434	1,560,456	1,399,323	1,796,239	1,066,513
Bonds Paid	1,115,000	1,105,000	785,000	770,000	270,000	110,000	105,000	105,000	100,000	
SID Warrants										
Interest Paid on Bonds & Notes	225,544	167,055	110,155	67,293	39,438	24,762	17,534	10,420	3,425	
Other Refunds & Expenses	511,312	14,589	2,085,246	987,069	2,370,458	383,336	34,173	32,495	588,056	389,453
Total Disbursements	2,555,026	2,924,631	5,313,834	4,163,361	6,325,921	1,608,532	1,717,163	1,547,238	2,487,720	1,455,966
Cash & Investment Balance - August 31 of Year Indicated	5,150,392	5,357,118	5,003,362	4,964,458	3,778,207	6,586,633	6,910,967	7,830,502	7,583,251	8,846,000

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APPENDIX A-2

THE CITY OF LINCOLN, NEBRASKA
FINANCIAL STATEMENTS

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CITY OF LINCOLN
NEBRASKA

MAYOR COLEEN J. SENG
lincoln.ne.gov

Office of the Mayor
555 South 10th Street
Suite 208
Lincoln, Nebraska 68508
402-441-7511
fax: 402-441-7120
mayor@lincoln.ne.gov

December 31, 2005

Dear Citizens and Public Officials:

I am pleased to provide the City of Lincoln's Comprehensive Annual Financial Report for the fiscal year ended August 31, 2005.

Sound fiscal policy and discipline are the rule for the City of Lincoln finances. We enforce fiscal responsibility to stay within the operating budget. Our stable city government is an asset to Lincoln's overall economy.

Lincoln residents are proud of our growing and prospering City. The City's good financial condition is reflected by the City's excellent bond ratings.

City Departments do an excellent job of meeting the high demand for city services with limited resources. City government is prudent in its use of taxpayers' funds, as evidenced by the significant reduction in the city property tax rate during the past ten years.

Our ability to manage the City's fiscal affairs and ensure a full disclosure of the City's fiscal condition is exhibited by the unqualified audit opinion. I am proud to report that for the twenty-second consecutive year the Government Finance Officers Association has again recognized the City with the prestigious Certificate of Achievement for Excellence in Financial Reporting for last year's report. This is a complement to the City Finance Department staff for dealing with these complex accounting issues. We express thanks to the Finance Department staff and to all city departments for their cooperation in preparing this document.

Sincerely,

Coleen J. Seng
Mayor of Lincoln

December 30, 2005

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, 2005, 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 generally accepted accounting principles (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, 2005, 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 results of operations 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, 2005, 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 80 square miles, serves a population of over 238,000, 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, sanitary landfill; 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, Parking Lots, Parking Facilities, Golf Courses and Pershing Municipal Auditorium are all part of administrative departments under the direction of the Mayor and are included as part of the primary government. Separately audited financial statements are available for LES, Lincoln Water System, Lincoln Wastewater System, Emergency Medical Services, the City's Sanitary Landfill, and the Community Health Permanent Endowment Trust.

The annual 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 fiscal year, 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 annual 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 over 17% between 1990 and 2000, adding over 3,350 people to the community each year. The 1990 population of 213,641 reached 250,291 persons with the 2000 census, setting the County's annualized rate of population growth for the 1990's at 1.6 percent.

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 1.5 percent per year. As importantly, the City of Lincoln continues to absorb about 90% of all growth in Lancaster County.

Despite a slow national and regional economy, Lincoln's growth has continued. Lincoln's unemployment rate at August 31, 2005 was 3.4%, well below the national average of 4.8%, with employment strongest in the categories of government, educational & health services, and retail trade. Following the building boom experienced in the past few years, Lincoln's construction permit activity has returned to levels comparable to those 5 years ago, with an increase in the value of construction permits of over $74 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 Mayors Technology Council completed its technology audit, which led to a new strategic plan for economic development. Developing an identity and slogan for Lincoln is a vital part of that plan.

Current net sales and use tax revenue increased 3.4% over the previous fiscal year. Tax collections have been positively impacted by an improving local economy and an expansion of the sales tax base to include additional services.

Long-Term Planning And Major Initiatives

Urban Development

The City anticipates approximately $35 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 area, Havelock and University Place business areas, Focus Area neighborhoods, the Antelope Valley project area, 48th and O, West O Street, North 56th and Arbor Road, West Cornhusker Highway, and in low - moderate income areas throughout the City.

Financing will be provided by a variety of sources, including CDBG, HOME, and Nebraska Affordable Housing Trust Fund grants, Tax Increment Financing, Advanced Land Acquisition funds, Special Assessments, General Fund and Street Construction funds. 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 projects include:

- Downtown Redevelopment Projects:
  1) Downtown I-180 entryway improvements.
  2) Government Square park and streetscape improvement projects.
  3) Redevelopment of Douglas III and Cinema Twin theaters.
  4) Implementation of Haymarket 8th Street streetscape.
  5) Redevelopment of Salvation Army Building.
  6) Assist the Planning Department and Downtown Lincoln Association to implement the Downtown Master Plan catalyst projects.
  7) Haymarket Housing projects.
- The North 27th Street Corridor redevelopment projects include:
  1) Construction of the pedestrian trail bridge at X Street.
  2) Redevelopment of the Carpenter's Union building at 1010 North 27th Street.
- Implementation of selected Antelope Valley community revitalization catalyst projects as identified in the Antelope Valley Redevelopment Plan.
- Havelock Redevelopment on-going projects include streetscape improvements, pedestrian walkway and public parking lot redevelopment and beautification, alley resurfacing and/or repair.
- University Place Redevelopment includes streetscape improvements, the North 48th/University Place Concept Plan implementation, and redevelopment of the former Northeast Printers building.
- 48th and O North/South redevelopment.
- West O Street redevelopment.

- North 56th and Arbor Road redevelopment.

- NW Corridor redevelopment (Cornhusker Highway).

- Housing rehabilitation and development programs:
  1) Continuation of First-time Homebuyer, Housing Development, and Owner-Occupied housing rehabilitation loan programs.
  2) Development of residential housing in Antelope Valley with the neighborhood "champion" for Antelope Valley, NeighborWorks of Lincoln.
  3) Development of residential housing units in conjunction with downtown projects.
  4) Continue development of future phases of the affordable housing project, Old Mill Village, with Nebraska Housing Resource and plan the development of the next affordable housing project.
  5) Sustain the existing affordable rental housing stock by assisting on-going non-profit and tax credit projects.

- Housing Rehabilitation and Real Estate Division projects also include:
  1) Planning and negotiation for acquisition of park sites.
  2) Acquisition and negotiation projects –
     - ✓ 14th and Warlick intersection improvements.
     - ✓ Yankee Hill widening, 27th – 40th.
     - ✓ O Street widening, 42nd to 52nd Streets.
     - ✓ West O trunk sewer.
     - ✓ Antelope Valley storm water management and transportation projects.
     - ✓ Beal Sough relief trunk sewer.
     - ✓ SE Upper Salt Creek storm sewer.
     - ✓ South 27th Street, Porter Ridge Road to south of Yankee Hill Road.
     - ✓ Pine Lake Road widening, 40th – 59th.
     - ✓ Stevens Creek sanitary sewer.
     - ✓ Special assessment, executive order, and arterial rehab projects.
     - ✓ Various projects in Public Works/Utilities 6-year program.
     - ✓ Other Parks and Recreation projects city-wide.
     - ✓ Antelope Valley redevelopment plan catalyst projects.
  3) Acquisition and disposition of surplus properties including tax sale lots, street and alley vacation, surplus park sites, surplus right-of-way, and other miscellaneous properties.
  4) Relocation projects including Antelope Valley Storm Management, Transportation, and Community Revitalization.

- Neighborhood Revitalization projects include: Focus Areas – Implementation of focus area public improvements. The focus areas are located in the Woods Park, Near South, Malone, Everett, Clinton, Downtown, North Bottoms, South Salt Creek and Hartley neighborhoods.

- The Workforce Investment Act (WIA) is federal legislation which took effect on July 1, 2000. Under this legislation, Mayor Coleen J. Seng is the designated Chief Elected Official working in conjunction with a 47 member Workforce Investment Board. This Board is constituted by law with a business majority. Other members represent community based organizations, education, economic development, organized labor, and program partner agencies. The Board and the Mayor developed a local plan to implement WIA that was approved by the State of Nebraska.

  WIA services are provided from the One Stop Career Center, located in downtown Lincoln. During the year, over 27,000 customer visits were made to the Center. A computer lab is operated in the center, serving both job seekers and businesses. Efforts are underway to further align WIA services with local economic development plans and to increase the level of services to businesses in the workforce area.

Antelope Valley Project

The City of Lincoln, Lower Platte South Natural Resources 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 stormwater, transportation and community revitalization strategies.

When implemented the Antelope Valley Projects will provide significant benefits to the State of Nebraska. Recognizing these benefits, the State Legislature authorized and appropriated one million dollars each state fiscal year, for a period of 15 years, to the City of Lincoln to fund the various projects. The City is required to provide matching funds equal to the ratio of one dollar for each three dollars of the State distribution.

The stormwater and transportation portions of the project are scheduled for completion in 2012. Redevelopment projects have begun and will progress as flood control work is completed. The entire project is projected to cost $238 million of which nearly 47 percent has been spent or is under contract.

Projects completed include Fleming Field; Military, Y Street, and Vine Street Bridges and Roadways; and channel work between Salt Creek and the BNSF Railway. The BNSF also completed a railroad bridge project over Antelope Creek in 2005.

Landscaping work began on the completed roadway projects and will be completed in the spring of 2006.

Work on the BNSF overpass near Devaney Center began in October 2004 and will be completed in December 2006.

The Corps of Engineers is planning to continue channel work south of the BNSF in 2006. Also, work on the P and Q Street Bridges and Roadways will begin in the fall of 2006.

Wastewater System

The Lincoln Wastewater System is projecting a capital improvements program in the amount of approximately $99,346,000 over the 6-year period of fiscal year 2005-06 through fiscal year 2010-11. Of that total, approximately $68,996,000 will be financed by revenue bonds, approximately $2,830,000 will be financed by impact fees, with the remaining $27,520,000 to come from charges for services. 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 $107,949,000 over the 6-year period of fiscal year 2005-06 through 2010-11. Of these dollars, approximately $80,190,000 will be financed through revenue bonds, approximately $159,000 will be financed through developer contributions, approximately $5,560,000 will be financed through impact fees, with the balance of $22,040,000 coming from charges for services. 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 2006-2011 Streets and Highways capital improvements program and Transportation improvement program identify average annual expenditures of over $33.4 million for the next six years. Funding for these projects includes $133 million in City revenues, $49 million in federal aid, and $23 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. Under the City's current 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.

Property Tax Collections

As of August 31, 2005, current tax collections by the County Treasurer were 96.80% of the tax levy, an increase of .23% from last year. Allocations of property tax levy by purpose are as follows:

City Tax Levy By Purpose	2004-2005	2003-2004	2002-2003
General Fund	.1706	.1692	.1757
Library	.0490	.0485	.0534
Social Security	.0149	.0143	.0162
Police and Fire Pension	.0182	.0149	.0149
General Obligation Debt	.0423	.0434	.0543
	.2950	.2903	.3145

Parking Facilities

The City of Lincoln operates the following parking garages:

	Number of Stalls	Date Opened
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	420	August, 2002

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 unappropriated street construction funds, are pledged for debt service of both the 2001 Parking Revenue Bonds and the 1999 Parking Revenue and Refunding Bonds. Comparative data for the past two fiscal years are presented in the following table:

	2004-2005	2003-2004
Operating Revenue	$ 5,214,542	5,325,668
Operating Income Before Depreciation	2,241,833	2,592,176
On-Street Parking Meter Revenue	835,000	835,000
Street Construction Funds	164,142	-
Revenue Available For Debt Service	3,240,975	3,427,176
Debt Service	2,160,650	2,160,650
Debt Service Coverage Ratio	1.50	1.59

Sanitary Landfill

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, 2005, the City estimates that it will incur costs approximating $15 million to adhere to such requirements (see Note 17 of Notes to the Financial Statements).

Water And Wastewater System

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

Water System	2004-2005	2003-2004
Operating Revenue	$24,362,174	22,168,258
Operating Income	5,196,025	3,901,083
Revenue Available For Debt Service	12,455,075	10,463,376
Debt Service	8,412,932	5,526,632
Debt Service Coverage Ratio	1.48	1.89

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

Wastewater System	2004-2005	2003-2004
Operating Revenue	$16,985,552	16,011,984
Operating Income	1,559,979	1,537,738
Revenue Available For Debt Service	8,043,861	9,028,879
Debt Service	3,903,519	3,883,704
Debt Service Coverage Ratio	2.06	2.32

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 2.55.090 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, 2004, is included in the City's August 31, 2005, 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, 2004. This was the twenty-second 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 generally accepted accounting principles 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,

Don Herz
Finance Director

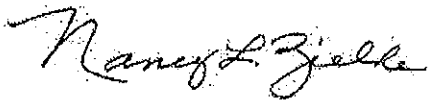
Certificate of Achievement for Excellence in Financial Reporting

Presented to

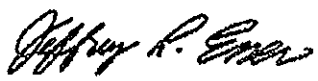
City of Lincoln, Nebraska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2004

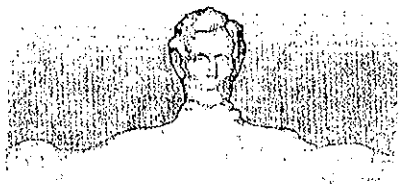
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President



Executive Director



CITY OF LINCOLN
NEBRASKA

FINANCIAL SECTION

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, 2005. 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 18).

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at August 31, 2005, by $1,265,262,396 (net assets). Of this amount, $172,910,809 (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 $65,334,599. Of this amount $54,748,865, or 84 percent, was an increase in governmental activities and $10,585,734, or 16 percent, related to business-type activities.
- As of August 31, 2005, the City's governmental funds reported combined ending fund balances of $176,870,545, a decrease of $10,326,588 in comparison with the prior year. Over 65 percent of this total amount, $119,590,792, is available for spending at the City's discretion (unreserved fund balance).
- As of August 31, 2005, unreserved fund balance for the general fund was $29,467,581, or 32 percent of total general fund expenditures.
- The City's total bonded debt increased by $42,248,000 (6 percent) during the current fiscal year. Key factors in this increase was the issuance of $58,000,000 in revenue bonds by Lincoln Water and Wastewater Systems.

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, 2005. 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; sanitary landfill; golf courses; auditorium; and parking.

The government-wide financial statements can be found on pages 18-19 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-eight 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, the Federal Grants fund, and the Community Health Permanent Endowment 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, Street Construction, and Federal Grants major funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 20-27 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; sanitary landfill; 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, 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 28-30 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 31-32 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 33-67 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. Required supplementary information can be found on page 68 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 $1,265,262,396 at August 31, 2005.

By far the largest portion of the City's net assets (72 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, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	$ 294,212,420	293,558,771	269,056,883	282,564,460	563,269,303	576,123,231
Capital Assets	498,355,444	438,680,200	1,127,231,363	1,058,409,793	1,625,586,807	1,497,089,993
Total Assets	792,567,864	732,238,971	1,396,288,246	1,340,974,253	2,188,856,110	2,073,213,224
Long-Term Liabilities Outstanding	142,349,895	133,570,216	707,735,364	666,274,803	850,085,259	799,845,019
Other Liabilities	22,591,906	25,791,557	50,916,549	47,648,851	73,508,455	73,440,408
Total Liabilities	164,941,801	159,361,773	758,651,913	713,923,654	923,593,714	873,285,427
Net Assets:						
Invested in Capital Assets, Net of Related Debt	399,561,548	361,516,579	509,989,903	496,144,600	909,551,451	857,661,179
Restricted	167,698,499	147,333,934	15,101,637	16,262,952	182,800,136	163,596,886
Unrestricted	60,366,016	64,026,685	112,544,793	114,643,047	172,910,809	178,669,732
Total Net Assets	$ 627,626,063	572,877,198	637,636,333	627,050,599	1,265,262,396	1,199,927,797

An additional portion of the City's net assets (14 percent) represents resources that are subject to external restrictions on their use. The remaining balance of unrestricted net assets (14 percent) may be used to meet the government's ongoing obligations to citizens and creditors.

At August 31, 2005, 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, 2005 and 2004

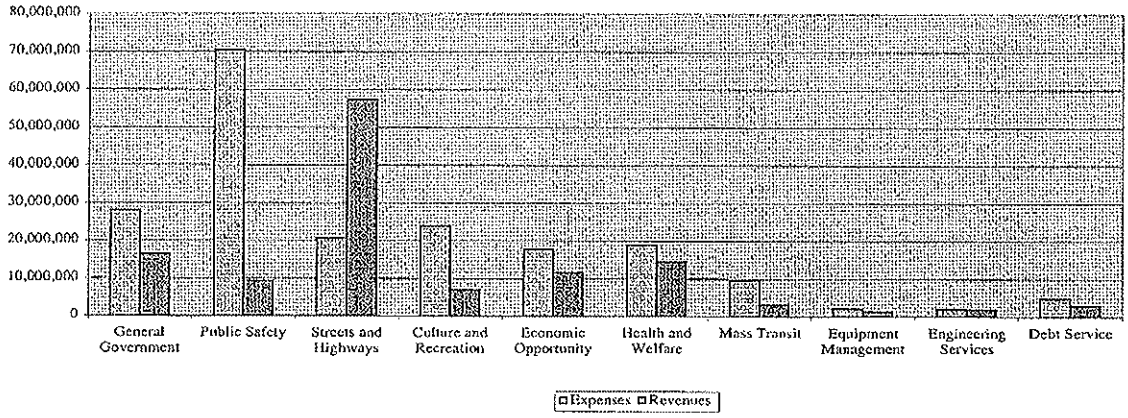
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for Services	$ 40,597,953	36,926,551	227,024,882	224,808,683	267,622,835	261,735,234
Operating Grants and Contributions	36,666,428	59,074,592	650,300	1,316,900	37,316,728	60,391,492
Capital Grants and Contributions	48,270,586	18,375,380	9,703,652	8,707,137	57,974,238	27,082,517
General Revenues:						
Property Tax	40,877,070	39,138,647	-	-	40,877,070	39,138,647
Sales and Use Tax	53,741,266	51,978,978	-	-	53,741,266	51,978,978
Other Taxes	22,893,674	22,018,572	2,111,731	2,234,490	25,005,405	24,253,062
Unrestricted Grants and Contributions	1,577,852	1,597,551	-	-	1,577,852	1,597,551
Unrestricted Investment Earnings	2,800,970	3,163,454	3,986,941	4,387,629	6,787,911	7,551,083
Other	3,899,801	895,935	210,321	373,759	4,110,122	1,269,694
Total Revenues	251,325,600	233,169,660	243,687,827	241,828,598	495,013,427	474,998,258
Expenses:						
General Government	27,955,407	28,475,396	-	-	27,955,407	28,475,396
Public Safety	70,432,578	66,461,665	-	-	70,432,578	66,461,665
Streets and Highways	20,620,140	24,066,450	-	-	20,620,140	24,066,450
Culture and Recreation	23,827,670	23,699,396	-	-	23,827,670	23,699,396
Economic Opportunity	17,701,471	16,778,622	-	-	17,701,471	16,778,622
Health and Welfare	18,873,394	18,122,416	-	-	18,873,394	18,122,416
Mass Transit	9,511,096	8,928,193	-	-	9,511,096	8,928,193
Equipment Management	2,012,107	1,017,244	-	-	2,012,107	1,017,244
Engineering Services	2,073,123	2,139,853	-	-	2,073,123	2,139,853
Interest on Long-Term Debt	4,859,767	3,701,385	-	-	4,859,767	3,701,385
Parking	-	-	5,186,283	4,962,873	5,186,283	4,962,873
Golf Courses	-	-	3,295,680	3,230,108	3,295,680	3,230,108
Auditorium	-	-	2,211,685	2,374,730	2,211,685	2,374,730
Sanitary Landfill	-	-	6,767,689	6,446,310	6,767,689	6,446,310
Ambulance Transport	-	-	3,828,891	3,684,221	3,828,891	3,684,221
Wastewater	-	-	16,461,078	15,461,420	16,461,078	15,461,420
Water	-	-	22,249,027	20,169,981	22,249,027	20,169,981
Electric	-	-	171,812,000	163,078,000	171,812,000	163,078,000
Total Expenses	197,866,753	193,390,620	231,812,333	219,407,643	429,679,086	412,798,263
Increase in Net Assets Before Transfers	53,458,847	39,779,040	11,875,494	22,420,955	65,334,341	62,199,995
Transfers	1,290,018	1,155,884	(1,289,760)	(1,156,219)	258	(335)
Increase in Net Assets	54,748,865	40,934,924	10,585,734	21,264,736	65,334,599	62,199,660
Net Assets - Beginning	572,877,198	531,942,274	627,050,599	605,785,863	1,199,927,797	1,137,728,137
Net Assets - Ending	$ 627,626,063	572,877,198	637,636,333	627,050,599	1,265,262,396	1,199,927,797

GOVERNMENTAL ACTIVITIES

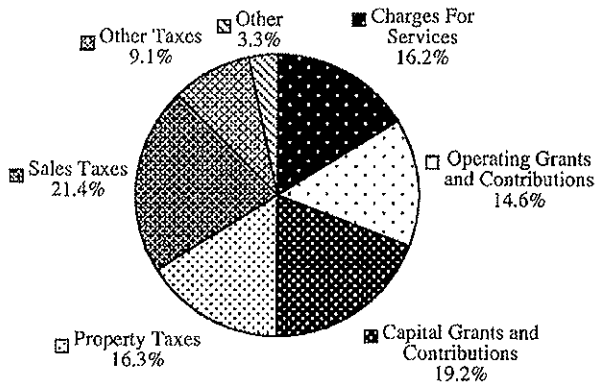
Governmental activities increased the City's net assets by $54,748,865, accounting for 84 percent of the total growth in the net assets of the City of Lincoln. Key elements of this increase are as follows:

- The City's current year contribution to the Joint Antelope Valley Authority amounted to $24,653,165.
- Property taxes increased by approximately $1.7 million (4.4 percent) during 2005. Total growth in the tax base, which includes revaluations, annexations and other adjustments, was 3.1%.
- Net sales and use tax increased by approximately $1.8 million (3.4 percent) during 2005. Legislation passed in 2002 and 2003 by the Nebraska Legislature expanded the sales tax base to include more services and thus generated additional collections for the entire year in 2005.
- Other general revenues increased by approximately $3.0 million. Included in this increase was $2.8 million in gains from sales of assets.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



BUSINESS-TYPE ACTIVITIES

Business-type activities increased the city's net assets by $10,585,734, accounting for 16 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

- Charges for services increased by approximately $2.2 million, or 1 percent. The Water System revenues increased by $2,193,916 (9.90 percent) due to a user fee increase of 5 percent implemented with the water billings beginning in February of 2004. Total water pumpage for 2005 exceeded 2004 usage by 7.8 percent. Water pumpage for fiscal year 2005 was the fourth highest of the top five water-use years.

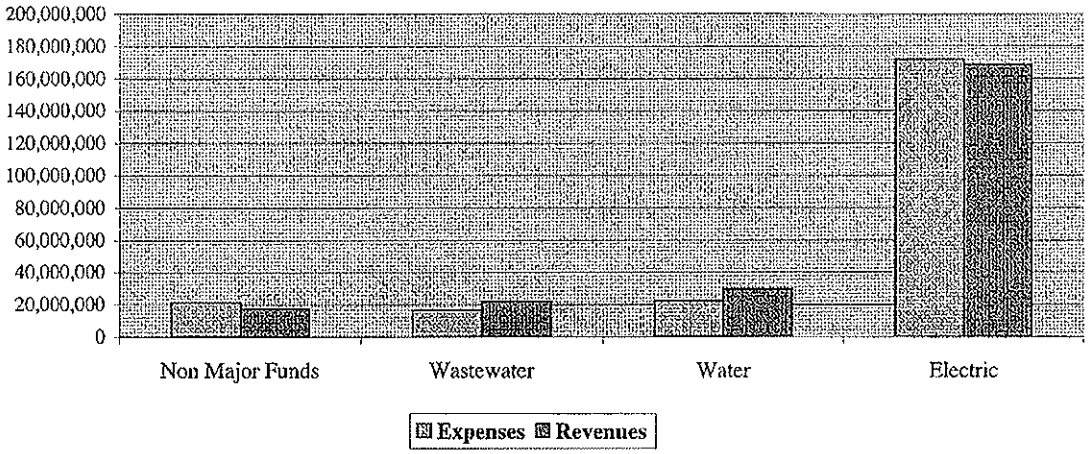
  Wastewater revenues are also based on water usage. Increased usage plus an increase of 7 percent in user fees implemented in February 2004 resulted in an operating revenue increase of $973,568 (6 percent).

  Operating revenues decreased .2 percent for the Electric System in 2004 primarily due to a rate increase put in place on October 15, 2004 and offset by the fact cooling and heating degree days were below the

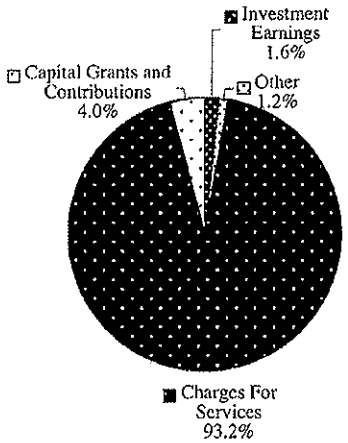
prior year. Growth in the City remains constant with 2.0 percent more customers in 2004, now totaling nearly 121,000 customers. Wholesale revenue was reduced 20.6 percent from the prior year primarily because of less resource availability and higher prices in the wholesale markets.

Lincoln Electric System (LES) operating expenses for 2004 were 2.3 percent above the prior year with decreased power costs and increased depreciation expense providing most of the change. Depreciation expense increased due to the Salt Valley Generating Station starting commercial operation in 2004. A 30.5 percent increase in nonoperating expense comes from higher interest expense from increased commercial paper interest rates and lower capitalized interest expense for the construction of the Salt Valley Generating Station, which was partially offset by Council Bluffs #4 Unit construction with increased capitalized interest.

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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of August 31, 2005, the City's governmental funds reported combined ending fund balances of $176,870,545, a decrease of $10,326,588 in comparison with the prior year. Of this total amount, 68 percent constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to:

- pay debt service ($15,419,144),
- generate income for the purpose of funding health and health-related programs for the citizens of Lincoln ($37,000,000), and
- a variety of other restricted purposes ($4,860,609).

The General Fund is the chief operating fund of the City. At August 31, 2005, the unreserved fund balance of the General Fund was $29,467,581, while total fund balance reached $31,403,274. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 32 percent of total general fund expenditures, while total fund balance represents 34 percent of that same amount.

The fund balance of the City's General Fund decreased by $4,570,145 during 2005. The planned reduction in the fund balance of the General Fund is in compliance with City policy to appropriate balances that are in excess of 20 percent of the ensuing fiscal year's General Fund budget. This is accomplished by appropriating any excess over a 5-year period.

The Street Construction Fund had a total fund balance of $28,801,383, which is to be used in the construction and maintenance of street and highways. The net decrease in fund balance during 2005 in the Street Construction Fund was $9,931,562. This decrease was a result of the spend down of bond proceeds received from the issue of $35,000,000 of general obligation highway allocation bonds. An additional factor is the City's involvement in the Joint Antelope Valley projects and the related capital contributions made.

The Federal Grants Fund had a fund deficit of $(2,121,468). Expenditures in the fund decreased by $1,072,260 (4 percent), while revenues decreased by $3,166,436 (13 percent). Delays in expenditure reimbursements resulted in an approximate $3 million increase in borrowing to cover an overdraw of pooled cash.

The fund balance of the Community Health Permanent Endowment Fund increased by $808,327 during 2005. This increase can be attributed to a 35 percent decrease in the allocation of grant funds in the current year. The level of grant funding issued by the fund is relative to the amount of earnings realized on investments in the prior years, which has been impacted by consistently low interest rates.

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 $23,409,668, $23,771,839, $61,632,000 and $3,731,286, respectively, at August 31, 2005. 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 $62,087 in appropriations) and can be briefly summarized as follows:

- $(297,256) in miscellaneous decreases in general government activities.
- $(48,695) in decreases allocated to street maintenance.
- $44,500 in increases allocated to parks and recreation.
- $363,538 in increases allocated for General Fund transfers to other City funds.

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

- $2,346,169 positive variance in property taxes. Actual property tax collections were 96.8% for the 2004 levy, while estimated tax revenue is based on 90% collections as provided by the City Charter.
- $1,460,835 positive variance in general government/miscellaneous function expenditures. This variance was the result of better than anticipated insurance and contractual services costs, and contingency funds left unspent.
- $(949,423) negative variance in street lighting function expenditures. This variance was the result of anticipated changes in both budget and expenditure dollars related to the purchase of the city's street light system from Lincoln Electric System.

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, 2005, amounts to $1,625,586,807 (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 2005 was 9 percent (a 13.6 percent increase for governmental activities and an 6.5 percent increase for business-type activities).

Major capital asset events during 2005 included the following:

- A variety of street construction widening and expansion projects for existing streets and bridges continued. Along with new construction of streets and drainage projects, construction-in-progress as of August 31, 2005, reached $90,911,359.
- On September 1, 2004, the City of Lincoln General Fund purchased the street light system from Lincoln Electric System.
- Construction of the Salt Valley Generating Station (SVGS) provided $23 million to construction work-in-progress, in addition to local construction related to an expanding customer base. The SVGS project represents a total of 177 megawatts of intermediate-load and peaking generation utilizing natural gas, as the primary fuel, in a simple-cycle and combined-cycle operation. The construction in simple-cycle mode was substantially completed in 2003 and combined-cycle operation was completed in mid 2004.
- An agreement with MidAmerican Energy Company is in place for a 100-mega-watt share of the 790 megawatt Council Bluffs #4 Unit slated to start commercial operation in 2007. Construction costs added $22 million to the construction work in progress in 2004. LES's estimated cost is $152.6 million.

- Wastewater System capital assets increased by approximately $34,192,000 (21.3 percent) due to major project additions such as:

  - ✓ Northeast treatment plant - $8,959,000
  - ✓ Theresa Street treatment plant - $9,807,000
  - ✓ Trunk sewer improvements - $14,584,000

- Water System capital assets increased by approximately $7,285,000 (3.15 percent) due to major project additions such as:

  - ✓ Pumping stations - $258,000
  - ✓ Water distribution mains - $2,621,000
  - ✓ Water transmission pump station and mains - $2,166,000
  - ✓ Selected main replacements - $589,000
  - ✓ Wellfield and water treatment plant - $887,000
  - ✓ General system improvements - $345,000

City Of Lincoln
Capital Assets (net of depreciation)
August 31, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	$ 50,137,989	44,757,798	15,150,478	14,652,983	65,288,467	59,410,781
Buildings	43,793,767	44,713,299	139,685,303	136,910,236	183,479,070	181,623,535
Improvements Other Than Buildings	32,677,569	31,350,298	290,107,032	255,564,486	322,784,601	286,914,784
Machinery and Equipment	31,090,952	30,937,792	9,956,049	10,724,216	41,047,001	41,662,008
Utility Plant	-	-	552,677,000	501,468,000	552,677,000	501,468,000
Infrastructure	244,451,695	201,785,086	-	-	244,451,695	201,785,086
Construction-in-progress	96,203,472	85,135,927	119,655,501	139,089,872	215,858,973	224,225,799
Total	$ 498,355,444	438,680,200	1,127,231,363	1,058,409,793	1,625,586,807	1,497,089,993

Additional information on the City's capital assets can be found in Note 7 of the notes to the financial statements on pages 49-51 of this report.

LONG-TERM DEBT

At August 31, 2005, the City of Lincoln had total bonded debt outstanding of $723,778,000. Of this amount, $104,538,000 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
(dollar amounts in thousands)
August 31, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	$ 104,538	98,815	-	-	104,538	98,815
Special Assessment Debt With Governmental Commitment	-	100	-	-	-	100
Tax-supported Revenue Bonds	9,690	10,255	-	-	9,690	10,255
Revenue Bonds	-	-	609,550	572,360	609,550	572,360
Total	$ 114,228	109,170	609,550	572,360	723,778	681,530

The City's total bonded debt increased by $42,248,000 (6 percent) during 2005. The key factor in this increase was the issuance of $58,000,000 in revenue bonds by Lincoln Water and Wastewater Systems to provide funds for improvements to the utilities.

The City maintains the following credit ratings:

	Moody's Investors Service	Standard And Poor's	Fitch Investors Service
General Obligation Bonds	Aaa	AAA	-
Municipal Infrastructure Redevelopment Fund Bonds	Aa2	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	A2	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 52-57 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Property tax revenue required to fund the 2006 budget increased $1,905,626 or 5.46% over the prior year. Total growth in the tax base is 3.38%. The estimated impact on the property tax rate in order to fund services and debt service is expected to be an increase of 2%.

- Sales tax collections for 2005 were below projections. 2006 projections reflect a 3% increase over 2005 actual collections. The 2005 Legislature passed an economic development incentive package for businesses that exempted manufacturing equipment from both the state and local option sales tax. For the six month period this exemption will be in place during 2006, it is estimated Lincoln's sales tax collections will be reduced by $275,000 or .5 percent.

- Occupation tax revenues are expected to increase by $606,323 (6.7%) in relation to telecommunications taxes.

- Recreation receipts are expected to increase by $234,117 (11.7%) due to increased rates on a number of existing programs, as well as some proposed new self-supporting recreation programs.

- A 7% water rate increase and a 9% wastewater rate increase were adopted by the City Council and become effective January of 2006.

- The City pays employees every two weeks, or fourteen days. Every eleven or twelve years, depending on the number of leap years in the period, an additional pay period occurs during a fiscal year. This extra pay period falls in the 2006 fiscal year, significantly increasing its budget requirements. The cost of this extra pay period is approximately $3.0 million for tax funds and $4.7 million for all funds. The extra cost for tax funds is covered by using unspent bond funds from earlier bond issues to cover part of the 2006 debt service costs. This allows a similar amount of the property tax levy to be used to cover the extra payroll. The extra cost for non-tax funds is paid for by current revenues and balances in each fund.

All of these factors were considered in preparing the City's budget for the 2006 fiscal year.

At August 31, 2005, unreserved fund balance in the general fund amounted to $29,467,581. The City of Lincoln has appropriated $2,233,874 of this amount for spending in the 2006 fiscal year budget. The use of available fund balance aids the City in avoiding the need to raise additional property taxes during 2006.

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, 2005
With Summarized Financial Information as of August 31, 2004

	Governmental Activities	Business-Type Activities	Totals 2005	Totals 2004
ASSETS				
Cash and Cash Equivalents	$ 38,162,719	25,614,737	63,777,456	49,591,694
Investments	100,105,851	54,321,121	154,426,972	185,145,206
Invested Securities Lending Collateral	3,674,279	-	3,674,279	7,158,131
Receivables, (Net of Allowance for Uncollectibles)	11,448,391	29,915,991	41,364,382	39,176,824
Internal Balances	(6,988,075)	6,988,075	-	-
Due from Other Governments	35,039,727	5,339	35,045,066	29,253,925
Inventories	1,673,312	9,219,042	10,892,354	9,625,536
Plant Operation Assets	-	5,093,000	5,093,000	4,095,000
Prepaid Items	490,066	1,153,199	1,643,265	1,361,088
Deferred Charges and Other Assets	950,813	13,814,777	14,765,590	15,530,647
Restricted Assets:				
Cash and Cash Equivalents	-	835,586	835,586	829,896
Investments	37,160,000	121,459,329	158,619,329	186,056,475
Receivables	-	636,687	636,687	456,637
Investment in Joint Venture	72,495,337	-	72,495,337	47,842,172
Capital Assets:				
Non-depreciable	146,341,461	134,805,979	281,147,440	283,636,580
Depreciable (Net)	352,013,983	992,425,384	1,344,439,367	1,213,453,413
Total Assets	792,567,864	1,396,288,246	2,188,856,110	2,073,213,224
LIABILITIES				
Accounts Payable	9,856,985	26,573,986	36,430,971	34,378,352
Accrued Liabilities	6,351,084	9,433,838	15,784,922	14,722,965
Due to Other Governments	449,664	110,749	560,413	557,555
Unearned Revenue	1,013,184	265,785	1,278,969	1,380,580
Obligations under Securities Lending	3,674,279	-	3,674,279	7,158,131
Other Liabilities	-	6,346,000	6,346,000	6,124,666
Matured Bonds and Interest Payable	104,250	-	104,250	104,250
Accrued Interest Payable	1,142,460	8,186,191	9,328,651	9,013,909
Noncurrent Liabilities:				
Compensated Absences:				
Payable within One Year	5,406,284	758,934	6,165,218	6,364,864
Payable in More Than One Year	3,351,921	445,402	3,797,323	2,647,419
Claims and Judgements:				
Payable within One Year	2,377,583	-	2,377,583	2,335,986
Payable in More Than One Year	2,748,848	-	2,748,848	2,659,135
Bonds, Notes and Leases Payable:				
Due within One Year	6,524,338	19,662,439	26,186,777	26,108,752
Due in More Than One Year	119,449,341	678,867,589	798,316,930	750,940,480
Deferred Credits and Other	-	3,000	3,000	120,000
Net Pension Obligation	2,491,580	-	2,491,580	1,430,383
Accrued Landfill Closure/Postclosure Care Costs	-	7,998,000	7,998,000	7,238,000
Total Liabilities	164,941,801	758,651,913	923,593,714	873,285,427
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	399,561,548	509,989,903	909,551,451	857,661,179
Restricted for:				
Debt Service, Net of Related Debt	11,114,839	13,892,895	25,007,734	31,477,027
Capital Projects	108,364,695	1,208,742	109,573,437	85,240,786
Other	528,777	-	528,777	100,200
Trust Donations:				
Expendable	1,696,118	-	1,696,118	1,593,129
Nonexpendable	160,000	-	160,000	160,000
Health Care:				
Expendable	8,834,070	-	8,834,070	8,025,744
Nonexpendable	37,000,000	-	37,000,000	37,000,000
Unrestricted	60,366,016	112,544,793	172,910,809	178,669,732
Total Net Assets	$ 627,626,063	637,636,333	1,265,262,396	1,199,927,797

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, 2005
With Summarized Financial Information for the Year Ended August 31, 2004

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities	Totals 2005	Totals 2004
Functions/Programs								
Governmental Activities:								
General Government	$ (27,955,407)	14,366,997	1,767,011	315,944	(11,505,455)	-	(11,505,455)	(12,322,904)
Public Safety	(70,432,578)	6,336,457	2,693,917	291,209	(61,110,995)	-	(61,110,995)	(57,669,537)
Streets and Highways	(20,620,140)	6,773,393	6,126,024	44,408,199	36,687,476	-	36,687,476	19,442,555
Culture and Recreation	(23,827,670)	3,088,848	2,251,835	1,642,504	(16,844,483)	-	(16,844,483)	(14,887,011)
Economic Opportunity	(17,701,471)	2,458,632	9,078,457	20,636	(6,143,746)	-	(6,143,746)	(4,780,191)
Health and Welfare	(18,873,394)	3,100,114	11,412,056	-	(4,361,224)	-	(4,361,224)	(3,622,257)
Mass Transit	(9,511,096)	1,294,012	1,817,128	-	(6,399,956)	-	(6,399,956)	(3,637,651)
Equipment Management	(2,012,107)	1,405,479	-	-	(606,628)	-	(606,628)	27,049
Engineering Services	(2,073,123)	1,597,621	-	327,867	(147,635)	-	(147,635)	(705,105)
Interest on Long-Term Debt	(4,859,767)	176,400	1,520,000	1,264,227	(1,899,140)	-	(1,899,140)	(859,045)
Total Governmental Activities	(197,866,753)	40,597,953	36,666,428	48,270,586	(72,331,786)	-	(72,331,786)	(79,014,097)
Business-Type Activities:								
Parking Lots	(282,945)	209,875	-	-	-	(73,070)	(73,070)	(29,449)
Golf	(3,295,680)	3,134,245	-	75,688	-	(85,747)	(85,747)	(322,260)
Parking Facilities	(4,903,338)	5,209,493	-	-	-	306,155	306,155	588,909
Municipal Auditorium	(2,211,685)	1,466,639	-	15,529	-	(729,517)	(729,517)	(741,039)
Sanitary Landfill	(6,767,689)	3,997,492	-	17,000	-	(2,753,197)	(2,753,197)	(2,104,721)
Emergency Medical Services	(3,828,891)	3,332,354	-	-	-	(496,537)	(496,537)	(105,661)
Wastewater System	(16,461,078)	16,920,940	650,300	4,364,378	-	5,474,540	5,474,540	6,337,098
Water System	(22,249,027)	24,266,844	-	5,231,057	-	7,248,874	7,248,874	6,012,200
Electric System	(171,812,000)	168,487,000	-	-	-	(3,325,000)	(3,325,000)	5,790,000
Total Business-Type Activities	(231,812,333)	227,024,882	650,300	9,703,652	-	5,566,501	5,566,501	15,425,077
Total Primary Government	$ (429,679,086)	267,622,835	37,316,728	57,974,238	(72,331,786)	5,566,501	(66,765,285)	(63,589,020)
General Revenues:								
Property Tax					40,877,070	-	40,877,070	39,138,647
Motor Vehicle Tax					4,256,521	-	4,256,521	4,055,313
Wheel Tax					9,153,599	-	9,153,599	8,634,929
Sales and Use Tax					53,741,266	-	53,741,266	51,978,978
Sundry and In Lieu Tax					31,765	-	31,765	36,735
Occupation Tax					9,451,789	2,111,731	11,563,520	11,526,085
Unrestricted Grants and Contributions					1,577,852	-	1,577,852	1,597,551
Unrestricted Investment Earnings					2,800,970	3,986,941	6,787,911	7,551,083
Miscellaneous General Revenues					1,042,665	165,585	1,208,250	670,994
Gain on Sale of Capital Assets					2,857,136	44,736	2,901,872	598,700
Transfers					1,290,018	(1,289,760)	258	(335)
Total General Revenues and Transfers					127,080,651	5,019,233	132,099,884	125,788,680
Change in Net Assets					54,748,865	10,585,734	65,334,599	62,199,660
Net Assets - Beginning					572,877,198	627,050,599	1,199,927,797	1,137,728,137
Net Assets - Ending					$ 627,626,063	637,636,333	1,265,262,396	1,199,927,797

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

CITY OF LINCOLN, NEBRASKA
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2005

	General Fund	Street Construction Fund	Federal Grants Fund	Community Health Permanent Endowment Fund	Other Governmental Funds	Total
ASSETS						
Cash and Cash Equivalents	$ 5,594,163	6,655,211	2,553	3,178,910	18,485,375	33,916,212
Investments	10,445,894	17,935,083	-	42,554,539	54,619,444	125,554,960
Invested Securities Lending Collateral	-	-	-	3,674,279	-	3,674,279
Receivables, (Net of Allowance for Uncollectibles)	4,577,258	292,513	14,035	141,704	6,020,227	11,045,737
Due from Other Funds	4,964,779	5,293,391	-	41,927	6,528,232	16,828,329
Due from Other Governments	9,650,821	18,784,614	4,334,611	-	1,817,600	34,587,646
Inventories	396,752	80,520	-	-	737,236	1,214,508
Prepaid Items	16,553,180	-	-	-	16,449	16,569,629
Total Assets	52,182,847	49,041,332	4,351,199	49,591,359	88,224,563	243,391,300
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable	707,035	4,851,838	715,855	72,758	2,139,472	8,486,958
Contracts Payable	-	32,777	-	-	729,932	762,709
Accrued Liabilities	3,202,063	151,703	527,584	10,251	1,861,367	5,752,968
Due to Other Funds	15,731,419	13,267	3,228,409	-	6,599,157	25,572,252
Due to Other Governments	219,170	26	173,090	-	55,564	447,850
Unearned Revenue	-	-	-	-	307,458	307,458
Obligations under Securities Lending	-	-	-	3,674,279	-	3,674,279
Deferred Revenue	919,886	15,190,338	1,827,729	-	3,474,078	21,412,031
Matured Bonds and Interest Payable	-	-	-	-	104,250	104,250
Total Liabilities	20,779,573	20,239,949	6,472,667	3,757,288	15,271,278	66,520,755
Fund Balances (Deficits):						
Reserved for:						
Inventories	396,752	80,520	-	-	737,236	1,214,508
Prepaid Items	302,514	-	-	-	-	302,514
Improvements	707,650	-	-	-	251,043	958,693
Restricted Funds	528,777	-	-	-	-	528,777
Debt Service	-	-	-	-	15,419,144	15,419,144
Trust Donations	-	-	-	-	1,856,117	1,856,117
Health Care (non-expendable)	-	-	-	37,000,000	-	37,000,000
Unreserved, Reported in:						
General Fund:						
Designated for Debt Service	379,972	-	-	-	-	379,972
Designated for Subsequent Years Expenditures	6,836,821	-	-	-	-	6,836,821
Designated for Encumbrances	862,395	-	-	-	-	862,395
Undesignated	21,388,393	-	-	-	-	21,388,393
Special Revenue Funds:						
Designated for Subsequent Years Expenditures	-	93,949	-	-	1,696,463	1,790,412
Designated for Encumbrances	-	17,220,559	-	-	404,460	17,625,019
Undesignated	-	11,486,355	(2,121,468)	-	17,819,563	27,184,450
Debt Service Funds	-	-	-	-	7,070,715	7,070,715
Capital Projects Funds	-	-	-	-	27,698,544	27,698,544
Permanent Fund	-	-	-	8,834,071	-	8,834,071
Total Fund Balances (Deficits)	31,403,274	28,801,383	(2,121,468)	45,834,071	72,953,285	176,870,545
Total Liabilities and Fund Balances	$ 52,182,847	49,041,332	4,351,199	49,591,359	88,224,563	

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, not reported in the funds.	472,715,647
Investment in joint venture is not a financial resource and, therefore, not reported in the funds.	72,495,337
Other long-term assets are not available to pay for current-period expenditures and, therefore, deferred in the funds.	21,412,031
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.	20,435,286
Accrued pension contribution liability requires the use of unavailable financial resources and, therefore, is not reported in the funds.	(70,376)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds.	(136,232,407)
Net assets of governmental activities	$ 627,626,063

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, 2005

	General Fund	Street Construction Fund	Federal Grants Fund	Community Health Permanent Endowment Fund	Other Governmental Funds	Total
REVENUES						
Taxes:						
Property	$ 23,106,577	-	-	-	17,770,447	40,877,024
Motor Vehicle	4,256,521	-	-	-	-	4,256,521
Wheel	-	-	-	-	9,153,599	9,153,599
Sales and Use	53,741,266	-	-	-	-	53,741,266
Sundry and In Lieu	25,589	-	-	-	9,299	34,888
Occupation	9,853,990	-	-	-	-	9,853,990
Special Assessment	523	-	-	-	1,400,268	1,400,791
Intergovernmental	3,253,407	34,145,597	18,284,260	-	7,496,907	63,180,171
Permits and Fees	3,037,086	3,019,449	638,951	-	9,839,563	16,535,049
Reimbursement for Services	5,479,210	15,209	532,264	-	909,651	6,936,334
Program Income	-	-	1,758,999	-	-	1,758,999
Investment Earnings	467,367	485,201	10,806	1,882,695	1,481,242	4,327,311
Donations	750,977	-	82,665	3,500	1,313,055	2,150,197
Keno Proceeds	-	-	-	-	3,016,301	3,016,301
Miscellaneous	592,721	3,597,283	6,007	6,686	900,223	5,102,920
Total Revenues	104,565,234	41,262,739	21,313,952	1,892,881	53,290,555	222,325,361
EXPENDITURES						
Current:						
General Government	26,401,074	-	101,377	-	6,030,234	32,532,685
Public Safety	47,287,905	-	3,060,028	-	8,321,999	58,669,932
Streets and Highways	6,376,124	8,341,406	-	-	2,347,315	17,064,845
Culture and Recreation	10,905,439	-	2,341,721	-	8,422,687	21,669,847
Economic Opportunity	289,253	-	10,127,830	-	4,453,509	14,870,592
Health and Welfare	319,155	-	7,620,664	1,084,554	10,102,558	19,126,931
Mass Transit	-	-	137,841	-	8,169,080	8,306,921
Debt Service	-	-	-	-	10,562,993	10,562,993
Capital Outlay	-	47,418,909	-	-	18,440,841	65,859,750
Total Expenditures	91,578,950	55,760,315	23,389,461	1,084,554	76,851,216	248,664,496
Excess (Deficiency) of Revenues Over (Under) Expenditures	12,986,284	(14,497,576)	(2,075,509)	808,327	(23,560,661)	(26,339,135)
OTHER FINANCING SOURCES (USES)						
Transfers In	1,720,367	8,427,354	459,811	-	27,394,636	38,002,168
Transfers Out	(21,116,730)	(3,861,340)	(177,078)	-	(11,601,977)	(36,757,125)
Issuance of Debt	1,785,000	-	-	-	16,870,035	18,655,035
Premiums / Discounts on Debt Issued	(8,470)	-	-	-	35,048	26,578
Transfer To Bond Refunding Agent	-	-	-	-	(6,504,876)	(6,504,876)
Sale of Capital Assets	63,404	-	-	-	2,527,363	2,590,767
Total Other Financing Sources (Uses)	(17,556,429)	4,566,014	282,733	-	28,720,229	16,012,547
Net Change in Fund Balances	(4,570,145)	(9,931,562)	(1,792,776)	808,327	5,159,568	(10,326,588)
Fund Balances (Deficits) - Beginning	35,973,419	38,732,945	(328,692)	45,025,744	67,793,717	187,197,133
Fund Balances (Deficits) - Ending	$ 31,403,274	28,801,383	(2,121,468)	45,834,071	72,953,285	176,870,545

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, 2005

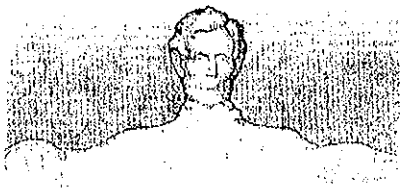
Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances - total governmental funds	$ (10,326,588)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	30,487,785
The net effect of various miscellaneous transactions involving capital contributions is to increase net assets.	12,637,345
Revenues in the statement of activites that do not provide current financial resources are not reported as revenues in the funds.	4,648,252
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.	(6,242,635)
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.	(732,130)
Changes in the net pension asset/obligation do not represent financial activity in governmental funds.	(1,061,197)
Changes in the interest in the underlying net assets of the joint venture do not represent financial activity in governmental funds.	24,653,165
Some pension contribution expenses require the use of unavailable financial resources and, therefore, are not reported as expenditures in governmental funds.	(9,341)
Internal service funds are used by management to charge the costs of certain services to individual funds.	694,209
Change in net assets of governmental activities	$ 54,748,865

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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Real Estate and Personal Property Tax	$ 25,302,252	25,302,252	27,648,421	2,346,169
Taxes Collected by Others	54,628,325	54,628,325	53,781,209	(847,116)
Sundry Taxes and In Lieu	29,863	29,863	25,928	(3,935)
Occupation Taxes	9,192,053	9,192,053	9,395,719	203,666
Special Assessment	1,700	1,700	661	(1,039)
Intergovernmental	3,187,625	3,187,625	3,318,451	130,826
Permits and Fees	2,561,507	2,561,507	2,565,968	4,461
Reimbursement for Services	2,398,269	2,398,269	2,288,841	(109,428)
Court Fees	530,400	530,400	473,229	(57,171)
Recreation Receipts	1,999,753	1,999,753	1,919,513	(80,240)
Investment Earnings	530,944	530,944	515,537	(15,407)
Donations	712,202	712,202	738,627	26,425
Rental Income	436,282	436,282	453,554	17,272
Parking Revenue	835,000	835,000	835,000	-
Miscellaneous	335,940	335,940	433,353	97,413
Total Revenues	102,682,115	102,682,115	104,394,011	1,711,896
Expenditures:				
General Government:				
Legislative	304,014	304,014	237,318	66,696
Executive	1,468,123	1,477,131	1,328,730	148,401
Financial Administration	2,392,413	2,422,413	2,242,721	179,692
Law	2,050,729	2,050,729	1,954,770	95,959
Personnel Administration	841,689	843,239	843,239	-
Planning and Zoning	1,831,793	1,831,793	1,758,387	73,406
Urban Development	851,406	851,406	1,222,980	(371,574)
Miscellaneous	18,554,512	18,216,698	16,755,863	1,460,835
Total General Government	28,294,679	27,997,423	26,344,008	1,653,415
Public Safety:				
Police	27,594,203	27,594,203	26,873,616	720,587
Fire	18,902,545	18,902,545	18,831,193	71,352
Building and Safety	9,758	9,758	9,758	-
Traffic Engineering	1,553,126	1,553,126	1,488,400	64,726
Total Public Safety	48,059,632	48,059,632	47,202,967	856,665
Streets and Highways:				
Street Maintenance	2,527,782	2,479,087	2,249,288	229,799
Street Lighting	3,035,700	3,035,700	3,985,123	(949,423)
Total Streets and Highways	5,563,482	5,514,787	6,234,411	(719,624)
Culture and Recreation:				
Parks and Recreation	10,979,264	11,023,764	10,850,877	172,887
Libraries	96,696	96,696	96,696	-
Total Culture and Recreation	11,075,960	11,120,460	10,947,573	172,887
Economic Opportunity:				
Lincoln Area Agency on Aging	293,452	293,452	292,862	590
Health and Welfare:				
Lincoln/Lancaster County Health	326,340	326,340	324,766	1,574
Total Expenditures	93,613,545	93,312,094	91,346,587	1,965,507
Excess of Revenues Over Expenditures	9,068,570	9,370,021	13,047,424	3,677,403
Other Financing Sources (Uses):				
Transfers In	1,534,983	1,534,983	1,710,401	175,418
Transfers Out	(21,995,863)	(22,359,401)	(21,116,730)	1,242,671
Proceeds from Issuance of Debt	1,785,000	1,785,000	1,785,000	-
Premiums / Discounts on Debt Issued	-	-	(8,470)	(8,470)
Sale of Capital Assets	44,334	44,334	63,403	19,069
Total Other Financing Sources (Uses)	(18,631,546)	(18,995,084)	(17,566,396)	1,428,688
Net Change in Fund Balances	(9,562,976)	(9,625,063)	(4,518,972)	5,106,091
Fund Balances - Beginning	27,465,383	27,465,383	27,465,383	-
Fund Balances - Ending	$ 17,902,407	17,840,320	22,946,411	5,106,091

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



CITY OF LINCOLN
NEBRASKA

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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Intergovernmental	$ 17,600,000	17,600,000	15,105,682	(2,494,318)
Permits and Fees	-	-	1,538,522	1,538,522
Reimbursement for Services	300,000	300,000	7,372	(292,628)
Investment Earnings	300,000	300,000	27,095	(272,905)
Miscellaneous	-	-	9,966	9,966
Total Revenues	18,200,000	18,200,000	16,688,637	(1,511,363)
Expenditures -- Streets and Highways:				
Personal Services	3,093,400	3,093,400	3,127,137	(33,737)
Materials and Supplies	472,200	472,200	461,221	10,979
Other Services and Charges	1,941,064	1,948,264	1,770,989	177,275
Capital Outlay	125,006	125,006	115,679	9,327
Total Expenditures	5,631,670	5,638,870	5,475,026	163,844
Excess of Revenues Over Expenditures	12,568,330	12,561,130	11,213,611	(1,347,519)
Other Financing Sources (Uses):				
Transfers In	8,427,354	8,427,354	8,427,354	-
Transfers Out	(3,861,340)	(3,861,340)	(3,861,340)	-
Total Other Financing Sources (Uses)	4,566,014	4,566,014	4,566,014	-
Net Change in Fund Balances	17,134,344	17,127,144	15,779,625	(1,347,519)
Amount Not Required to be Budgeted	(26,570,773)	(26,570,773)	(26,570,773)	-
Fund Balances - Beginning	35,808,787	35,808,787	35,808,787	-
Fund Balances - Ending	$ 26,372,358	26,365,158	25,017,639	(1,347,519)

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

CITY OF LINCOLN, NEBRASKA
FEDERAL GRANTS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Intergovernmental	$ 17,466,920	17,466,920	17,143,884	(323,036)
Permits and Fees	598,853	598,853	598,853	-
Reimbursement for Services	221,676	221,676	221,676	-
Client Contributions	1,214	1,214	1,214	-
Program Income	1,384,084	1,384,084	1,758,999	374,915
Recreation Receipts	194,320	194,320	194,320	-
Investment Earnings	12,447	12,447	12,867	420
Donations	80,665	80,665	80,665	-
Rental Income	111,168	111,168	111,753	585
Miscellaneous	3,666	3,666	3,676	10
Total Revenues	20,075,013	20,075,013	20,127,907	52,894
Expenditures:				
General Government:				
Materials and Supplies	116	116	116	-
Other Services and Charges	123,219	123,219	123,219	-
Capital Outlay	17,000	17,000	17,000	-
Total General Government	140,335	140,335	140,335	-
Public Safety:				
Personal Services	954,981	954,981	954,981	-
Materials and Supplies	185,216	185,216	185,216	-
Other Services and Charges	686,234	686,234	686,234	-
Capital Outlay	1,094,954	1,094,954	1,094,954	-
Total Public Safety	2,921,385	2,921,385	2,921,385	-
Culture and Recreation:				
Personal Services	444,421	444,421	444,421	-
Materials and Supplies	31,147	31,147	31,147	-
Other Services and Charges	196,663	196,663	196,663	-
Capital Outlay	1,779,968	1,779,968	1,779,968	-
Total Culture and Recreation	2,452,199	2,452,199	2,452,199	-
Economic Opportunity:				
Personal Services	3,708,356	3,710,532	3,680,108	30,424
Materials and Supplies	120,633	120,633	125,986	(5,353)
Other Services and Charges	1,870,444	1,920,432	2,104,137	(183,705)
Capital Outlay	24,235	406,700	34,460	372,240
Loans and Grants	3,360,777	5,545,655	4,054,880	1,490,775
Total Economic Opportunity	9,084,445	11,703,952	9,999,571	1,704,381

(Continued)

(Federal Grants Fund, Continued)

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Health and Welfare:				
Personal Services	3,768,792	3,768,792	3,768,792	-
Materials and Supplies	192,585	192,585	192,585	-
Other Services and Charges	3,241,125	3,241,125	3,241,125	-
Capital Outlay	335,699	335,699	335,699	-
Loans and Grants	65,494	65,494	65,494	-
Total Health and Welfare	7,603,695	7,603,695	7,603,695	-
Mass Transit:				
Personal Services	128,618	128,618	128,618	-
Other Services and Charges	7,419	7,419	7,419	-
Total Mass Transit	136,037	136,037	136,037	-
Total Expenditures	22,338,096	24,957,603	23,253,222	1,704,381
Deficiency of Revenues Under Expenditures	(2,263,083)	(4,882,590)	(3,125,315)	1,757,275
Other Financing Sources (Uses):				
Transfers In	438,069	438,069	459,811	21,742
Transfers Out	(180,813)	(180,813)	(180,813)	-
Total Other Financing Sources (Uses)	257,256	257,256	278,998	21,742
Net Change in Fund Balances	(2,005,827)	(4,625,334)	(2,846,317)	1,779,017
Fund Deficits - Beginning	(1,216,350)	(1,216,350)	(1,216,350)	-
Fund Deficits - Ending	$ (3,222,177)	(5,841,684)	(4,062,667)	1,779,017

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, 2005

	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	$ 10,286,544	11,851,093	135,000	3,342,100	25,614,737	4,246,507
Investments	-	-	46,036,000	8,285,121	54,321,121	11,710,891
Restricted Assets:						
Cash and Cash Equivalents	-	-	-	398,673	398,673	-
Investments	-	-	10,791,000	-	10,791,000	-
Accounts Receivable	-	-	-	1,025	1,025	-
Accrued Interest Receivable	-	-	-	1,202	1,202	-
Accounts Receivable, (Net of Allowance for Uncollectibles)	1,827,714	3,026,678	7,839,000	2,150,028	14,843,420	297,259
Accrued Interest Receivable	-		592,000	72,231	664,231	105,395
Unbilled Revenues	1,738,716	3,436,624	9,233,000	-	14,408,340	-
Due from Other Funds	3,094,816	4,533,045	-	871,801	8,497,662	1,795,013
Due from Other Governments	-	-	-	5,339	5,339	452,081
Inventories	141,448	736,435	8,175,000	166,159	9,219,042	458,804
Plant Operation Assets	-	-	5,093,000	-	5,093,000	-
Prepaid Expenses	-	-	1,108,000	45,199	1,153,199	171,103
Total Current Assets	17,089,238	23,581,875	89,002,000	15,338,878	145,011,991	19,237,053
Noncurrent Assets:						
Restricted Assets:						
Cash and Cash Equivalents	-	-	61,000	375,913	436,913	-
Investments	32,943,511	40,131,150	34,881,000	2,712,668	110,668,329	-
Accrued Interest Receivable	269,479	339,557	-	25,424	634,460	-
Due from Other Funds	-	-	-	96,098	96,098	-
Total Restricted Assets	33,212,990	40,470,707	34,942,000	3,210,103	111,835,800	-
Deferred Charges	676,330	850,124	11,774,000	514,323	13,814,777	-
Capital Assets:						
Land	2,778,024	4,712,330	-	7,660,124	15,150,478	48,250
Buildings	54,243,731	91,667,071	-	49,019,029	194,929,831	373,146
Improvements Other Than Buildings	161,860,471	202,085,318	-	25,933,050	389,878,839	1,163,159
Machinery and Equipment	6,813,949	5,632,463	-	9,706,027	22,152,439	21,420,520
Utility Plant	-	-	838,823,000	-	838,823,000	-
Construction in Progress	30,139,360	7,469,006	81,729,000	318,135	119,655,501	-
Less Accumulated Depreciation	(61,088,727)	(72,916,875)	(286,146,000)	(33,207,123)	(453,358,725)	(13,635,944)
Total Capital Assets, Net	194,746,808	238,649,313	634,406,000	59,429,242	1,127,231,363	9,389,131
Total Noncurrent Assets	228,636,128	279,970,144	681,122,000	63,153,668	1,252,881,940	9,389,131
Total Assets	245,725,366	303,552,019	770,124,000	78,492,546	1,397,893,931	28,626,184
LIABILITIES						
Current Liabilities:						
Accounts Payable	252,795	840,097	11,714,000	653,921	13,460,813	607,318
Construction Contracts	3,709,474	788,699	8,615,000	-	13,113,173	-
Accrued Liabilities	464,235	847,402	7,827,000	295,201	9,433,838	527,740
Accrued Compensated Absences	254,424	286,785	-	217,725	758,934	536,740
Due to Other Funds	-	-	-	293,026	293,026	39,165
Due to Other Governments	-	-	-	110,749	110,749	1,814
Unearned Revenue	-	-	-	265,785	265,785	705,726
Claims	-	-	-	-	-	2,377,583
Accrued Interest	557,063	161,460	7,426,000	41,668	8,186,191	763
Current Portion of Capital Lease	-	-	-	432,439	432,439	55,085
Current Portion of Long-Term Debt	2,065,000	5,130,000	10,545,000	1,490,000	19,230,000	-
Other	-	-	6,346,000	-	6,346,000	-
Total Current Liabilities	7,302,991	8,054,443	52,473,000	3,800,514	71,630,948	4,851,934
Noncurrent Liabilities:						
Due to Other Funds	-	-	-	1,312,659	1,312,659	-
Accrued Compensated Absences	155,858	234,743	-	54,801	445,402	366,378
Claims	-	-	-	-	-	2,748,848
Long-Term Debt, Net	69,853,810	80,131,568	421,632,000	16,373,704	587,991,082	-
Capital Lease Payable	-	-	-	703,507	703,507	223,738
Commercial Paper Notes Payable	-	-	90,173,000	-	90,173,000	-
Deferred Credits and Other	-	-	3,000	-	3,000	-
Accrued Landfill Closure/Postclosure Care Costs	-	-	-	7,998,000	7,998,000	-
Total Noncurrent Liabilities	70,009,668	80,366,311	511,808,000	26,442,671	688,626,650	3,338,964
Total Liabilities	77,312,659	88,420,754	564,281,000	30,243,185	760,257,598	8,190,898
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	143,065,437	191,109,551	134,871,000	40,943,915	509,989,903	9,110,308
Restricted for:						
Debt Service, Net of Related Debt	1,937,602	249,875	9,340,000	2,365,418	13,892,895	-
Capital Projects	-	-	-	1,208,742	1,208,742	-
Unrestricted	23,409,668	23,771,839	61,632,000	3,731,286	112,544,793	11,324,978
Total Net Assets	$ 168,412,707	215,131,265	205,843,000	48,249,361	637,636,333	20,435,286

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, 2005

	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	$ 16,985,552	24,362,174	168,487,000	3,332,354	213,167,080	28,230,424
Fees	-	-	-	6,882,058	6,882,058	-
Parking Facility Revenue Pledged as Security for Revenue Bonds	-	-	-	2,415,227	2,415,227	-
Parking Facility Revenue - Unpledged	-	-	-	3,000,613	3,000,613	-
Performance Revenue	-	-	-	1,374,505	1,374,505	-
Other Operating Revenue	-	-	-	358,193	358,193	-
Total Operating Revenues	16,985,552	24,362,174	168,487,000	17,362,950	227,197,676	28,230,424
Operating Expenses						
Personal Services	-	-	-	6,663,135	6,663,135	11,841,167
Contractual Services	-	-	-	4,787,572	4,787,572	-
Operation and Maintenance	9,040,816	11,232,841	11,370,000	5,229,149	36,872,806	14,346,857
Purchased Power	-	-	80,352,000	-	80,352,000	-
Depreciation	4,946,618	6,020,484	26,632,000	3,508,324	41,107,426	2,144,337
Payments in Lieu of Taxes	-	-	6,403,000	-	6,403,000	-
Administrative Costs	1,442,139	1,912,824	22,033,000	-	25,387,963	-
Total Operating Expenses	15,429,573	19,166,149	146,790,000	20,188,180	201,573,902	28,332,361
Operating Income (Loss)	1,555,979	5,196,025	21,697,000	(2,825,230)	25,623,774	(101,937)
Nonoperating Revenues (Expenses)						
Investment Earnings	890,964	1,238,566	1,499,000	358,411	3,986,941	361,593
Gain on Disposal of Capital Assets	-	-	-	15,797	15,797	114,101
Occupation Tax	-	-	-	2,111,731	2,111,731	-
Grants	650,300	-	-	-	650,300	-
Amortization of Deferred Charges	(25,228)	(65,410)	(4,231,000)	(49,080)	(4,370,718)	-
Interest Expense and Fiscal Charges	(1,006,277)	(3,017,468)	(20,791,000)	(1,031,238)	(25,845,983)	(3,103)
Total Nonoperating Revenues (Expenses)	509,759	(1,844,312)	(23,523,000)	1,405,621	(23,451,932)	472,591
Income (Loss) Before Contributions and Transfers	2,065,738	3,351,713	(1,826,000)	(1,419,609)	2,171,842	370,654
Capital Contributions	4,364,378	5,231,057	-	108,217	9,703,652	278,580
Transfers In	-	-	-	568,625	568,625	78,150
Transfers Out	-	-	(1,146,000)	(712,385)	(1,858,385)	(33,175)
Change in Net Assets	6,430,116	8,582,770	(2,972,000)	(1,455,152)	10,585,734	694,209
Net Assets - Beginning	161,982,591	206,548,495	208,815,000	49,704,513	627,050,599	19,741,077
Net Assets - Ending	$ 168,412,707	215,131,265	205,843,000	48,249,361	637,636,333	20,435,286

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, 2005

	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	$ 16,471,764	22,265,504	194,154,000	17,182,864	250,074,132	7,205,992
Receipts from Interfund Services Provided	591,604	543,615	3,988,000	245,778	5,368,997	21,166,134
Payments to Suppliers for Goods and Services	(8,314,554)	(5,499,422)	(122,673,000)	(8,079,978)	(144,566,954)	(12,423,256)
Payments to Employees	(6,081,704)	(6,615,451)	(19,070,000)	(6,598,324)	(38,365,479)	(11,654,875)
Payments for Interfund Services Provided	(1,392,153)	(2,441,864)	(1,416,000)	(1,297,799)	(6,547,816)	(1,645,873)
Payments in Lieu of Taxes	-	-	(6,250,000)	-	(6,250,000)	-
Other Receipts	-	-	-	358,193	358,193	-
Net Cash Provided by Operating Activities	1,274,957	8,252,382	48,733,000	1,810,734	60,071,073	2,648,122
Cash Flows from Noncapital Financing Activities						
Occupation Tax	-	-	-	2,176,512	2,176,512	-
Transfers from Other Funds	-	-	-	568,625	568,625	78,150
Transfers to Other Funds	-	-	(1,146,000)	(712,385)	(1,858,385)	(33,175)
Advances from General Fund	-	-	-	741,806	741,806	-
Repayment of Advances from General Fund	-	-	-	(362,801)	(362,801)	-
Advances to Other Funds	(2,834,928)	(3,265,734)	-	(972,668)	(7,073,330)	(1,487,837)
Payments from Other Funds	-	-	-	29,480	29,480	193,958
Interest Paid	-	-	(11,000)	(36,334)	(47,334)	-
Federal Grant Revenue	650,300	-	-	-	650,300	-
Net Cash Provided (Used) by Noncapital Financing Activities	(2,184,628)	(3,265,734)	(1,157,000)	1,432,235	(5,175,127)	(1,248,904)
Cash Flows from Capital and Related Financing Activities						
Additions to Capital Assets	(31,065,092)	(7,286,398)	(68,371,000)	(985,759)	(107,708,249)	(2,712,630)
Proceeds from Sale of Capital Assets	-	-	-	37,527	37,527	266,367
Proceeds from Long-Term Debt	18,215,479	41,273,287	-	-	59,488,766	292,417
Net Proceeds of Retiring Plant	-	-	13,950,000	-	13,950,000	-
Principal Payments of Capital Lease	-	-	-	(417,962)	(417,962)	(13,594)
Principal Payments of Long-Term Debt	(1,500,000)	(4,895,000)	(12,980,000)	(1,435,000)	(20,810,000)	-
Interest and Fiscal Charges Paid	(1,032,957)	(3,132,487)	(22,635,000)	(999,543)	(27,799,987)	(2,340)
Net Cash Provided (Used) by Capital and Related Financing Activities	(15,382,570)	25,959,402	(90,036,000)	(3,800,737)	(83,259,905)	(2,169,780)
Cash Flows from Investing Activities						
Proceeds from Sale and Maturities of Investments	19,982,260	-	275,378,000	3,167,357	298,527,617	3,515,148
Purchases of Investments	(5,234,636)	(23,848,871)	(235,875,000)	(2,226,663)	(267,185,170)	(2,216,362)
Interest and Other Receipts	1,277,712	1,433,604	2,560,000	437,034	5,708,350	475,484
Net Cash Provided (Used) by Investing Activities	16,025,336	(22,415,267)	42,063,000	1,377,728	37,050,797	1,774,270
Net Increase (Decrease) in Cash and Cash Equivalents	(266,905)	8,530,783	(397,000)	819,960	8,686,838	1,003,708
Cash and Cash Equivalents - Beginning	10,553,449	3,320,310	593,000	3,296,726	17,763,485	3,242,799
Cash and Cash Equivalents - Ending	$ 10,286,544	11,851,093	196,000	4,116,686	26,450,323	4,246,507
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities						
Operating Income (Loss)	$ 1,555,979	5,196,025	21,697,000	(2,825,230)	25,623,774	(101,937)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	4,946,618	6,020,484	26,632,000	3,508,324	41,107,426	2,144,337
Changes in Assets and Liabilities:						
Accounts Receivable and Unbilled Revenues	84,816	(1,556,155)	(1,720,000)	305,191	(2,886,148)	28,101
Due from Other Funds	-	-	-	9,799	9,799	264,994
Due from Other Governments	-	-	-	995	995	89,477
Inventories	(34,223)	49,011	(1,193,000)	16,357	(1,161,855)	(7,032)
Plant Operation Assets	-	-	(998,000)	-	(998,000)	-
Prepaid Expenses	-	-	(242,000)	32,102	(209,898)	3,412
Other Assets	-	-	(751,000)	-	(751,000)	-
Accounts Payable	(5,357,039)	(1,658,524)	5,010,000	(118,254)	(2,123,817)	149,773
Accrued Liabilities	39,259	154,703	-	27,484	221,446	34,961
Accrued Compensated Absences	39,547	46,838	-	21,513	107,898	151,331
Due to Other Funds	-	-	-	27,078	27,078	2,814
Due to Other Governments	-	-	-	(62,122)	(62,122)	(2,549)
Unearned Revenue	-	-	-	107,497	107,497	(240,870)
Claims	-	-	-	-	-	131,310
In Lieu of Taxes	-	-	153,000	-	153,000	-
Other Current Liabilities	-	-	262,000	-	262,000	-
Deferred Credits and Other Liabilities	-	-	(117,000)	-	(117,000)	-
Accrued Landfill Closure/Postclosure Care Costs	-	-	-	760,000	760,000	-
Total Adjustments	(281,022)	3,056,357	27,036,000	4,635,964	34,447,299	2,750,059
Net Cash Provided by Operating Activities	$ 1,274,957	8,252,382	48,733,000	1,810,734	60,071,073	2,648,122
Supplemental Disclosure of Noncash Investing, Capital, and Financing Activities:						
Contribution of Capital Assets	$ 3,992,211	3,677,860	-	108,217	7,778,288	278,580
Purchase of Capital Assets on Account	3,709,474	788,699	-	-	4,498,173	-
Change in Fair Value of Investments	(351,387)	(415,864)	-	(124,586)	(891,837)	(137,234)

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, 2005

	Police & Fire Pension Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ 517,757	5,874,289
Investments:		
Pooled Investment Funds	944,119	-
U.S. Agency Obligations	5,927,900	931,480
Corporate Bonds	4,895,000	-
Mortgage-Backed Securities	2,002,500	-
Municipal Bonds	1,075,000	-
Mutual Funds	123,989,176	-
Real Estate Limited Partnership	22,074,501	-
Debt Private Placement	2,000,000	-
Total Investments	162,908,196	931,480
Receivables:		
Contributions	326,775	-
Accrued Interest	603,424	14,165
Other	-	56,441
Due from Other Governments	153	-
Contractor Retainage	-	871,919
Total Assets	164,356,305	7,748,294
LIABILITIES		
Warrants Payable	-	2,598,986
Accounts Payable	61,406	56,418
Accrued Liabilities	4,730	-
Accrued Compensated Absences	10,887	-
Due to Other Governments	-	3,390,937
Due to Contractors	-	1,518,397
Due to Joint Venture	-	171,183
Due to Bondholders	-	12,373
Total Liabilities	77,023	7,748,294
NET ASSETS		
Held in Trust for Pension Benefits	$ 164,279,282	-

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, 2005

	Police & Fire Pension Trust Fund
Additions:	
Contributions:	
Employer	$ 2,594,434
Employee	1,874,182
Total Contributions	4,468,616
Investment Earnings:	
Interest	749,229
Dividends	3,178,831
Net Increase in Fair Value of Investments	15,167,995
Net Investment Earnings	19,096,055
Total Additions	23,564,671
Deductions:	
Benefit Payments	6,946,307
Refunds of Contributions	587,880
Administrative Costs	227,680
Total Deductions	7,761,867
Change in Net Assets	15,802,804
Net Assets Held in Trust for Pension Benefits - Beginning	148,476,478
Net Assets Held in Trust for Pension Benefits - Ending	$ 164,279,282

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

NOTES TO THE FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The accompanying financial statements present the government of the City of Lincoln, Nebraska (City). Based upon the criteria identified in Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, and Statement 39, *Determining Whether Certain Organizations are Component Units*, none of the City's significant potential component units are required to be included as part of the reporting entity. 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.

FISCAL YEAR-END

All fund types of the City, with the exception of Lincoln Electric System (LES), are reported as of and for the year ended August 31, 2005. 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, 2004. The amounts included in the City's 2005 financial statements for LES are figures as of and for the year ended December 31, 2004.

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. 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. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *total economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have

been met. Agency funds, reporting only assets and liabilities, have no measurement focus but use the accrual basis of accounting.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, including interest on long-term debt, as well as expenditures related to compensated absences and claims and judgements are recorded only when payment is due.

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

The City reports the following major governmental funds:

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

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

The Federal Grants Fund accounts for the costs of providing services under the City's Community Development Block Grant Program with funding provided by grants from the Department of Housing and Urban Development; monies received from various federal and state agencies under several small categorical grants and the City's matching funds to provide services as stipulated in the individual grant agreements; costs of providing services under the Workforce Investment Act with funding provided by grants from the Department of Labor; and reimbursements from the Federal Emergency Management Agency due to disasters caused by storm and flood damage with funds used to reimburse other funds for related costs and to pay disaster related expenses.

The Community Health Permanent Endowment Fund accounts for the cash proceeds realized by the City from the sale of Lincoln General Hospital together with any interest or other investment income earned. The endowment may be increased by donations, bequests, or appropriations to the fund. Monies in the fund are used for funding health and health-related programs that further the health, safety, or welfare of the citizens of Lincoln.

The City reports the following major enterprise funds:

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

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

ASSETS, LIABILITIES, AND NET ASSETS OR FUND EQUITY

Deposits and Investments

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

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

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

In accordance with authorized investment laws, the Pension Trust Fund of the City is allowed to invest in various mortgage-backed securities, such as collateralized mortgage obligations. They are reported in aggregate as mortgage-backed securities in the disclosure of custodial credit risk (see Note 4).

Receivables and Payables

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent current assets. Recognition of governmental fund type revenues represented by noncurrent receivables generally is deferred until they become current receivables.

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

Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. When certain payments are made that have benefit to future accounting periods and are funded by interfund borrowings, they are recorded as prepayments, with a like amount of interfund liability reflected. The prepayments are charged to expenditures on the governmental fund financial statements over the period of their economic benefit.

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

Restricted Assets

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

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

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

A recap of restrictions and related balances at August 31, 2005 are as follows:

Fund Account	Golf	Parking Facilities	Pershing Municipal Auditorium	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Totals
Principal and Interest	$ -	266,661	-	-	-	10,791,000	11,057,661
Reserve	316,500	1,815,575	-	3,856,012	8,190,046	14,590,000	28,768,133
Surplus	-	-	-	1,359,963	-	-	1,359,963
Depreciation and Replacement	100,000	682,850	-	-	-	-	782,850
Construction	-	295,178	-	27,997,015	32,280,661	20,291,000	80,863,854
Capital Improvements	3,525	-	130,714	-	-	-	134,239
Self-Funded Claims	-	-	-	-	-	61,000	61,000
	$ 420,025	3,060,264	130,714	33,212,990	40,470,707	45,733,000	123,027,700

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.

Investment in Joint Venture

Investment in joint venture consists of the City's interest in the Joint Antelope Valley Authority (see Note 19), a joint administrative entity carried on the equity method of accounting.

Capital Assets

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

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

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

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

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

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

Compensated Absences

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

Employees earn sick leave at the rate of one day per month with total accumulation limits established by the employees' bargaining unit. Upon retirement, an employee is reimbursed for one-fourth or one-half of accumulated sick leave, with maximums depending on the employees' bargaining unit contract. In some cases payment may be placed directly in a medical spending account rather than reimbursing the employee directly. Police union employees who leave the City's service in good standing after giving two weeks notice of termination of employment are compensated for one-fourth of accumulated sick leave to the date of separation. 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. Such accruals are based on current salary rates and include salary-related payments directly and incrementally associated with payments made for compensated absences on termination.

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

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as defered charges and amortized over the term of the related debt using the bonds-outstanding method.

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

Fund Equity

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

The City has established a policy providing for an unreserved fund balance in the City's General Fund. To meet excess cash flow needs, no less than twenty percent of the ensuing year's General Fund budget is to be set aside as an unrestricted reserve. Currently $22,480,670 of the General Fund's unreserved fund balance of $29,467,581 meets the requirements of this policy, leaving an additional unreserved balance of $6,986,911.

Net Assets Classification

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

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation, and unamortized bond issuance costs 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), contributors, or law or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

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

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

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

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

8) Budgets are adopted by resolution for the following fund types: general, special revenue, debt service, capital projects, permanent, enterprise, internal service, and pension trust. Legally adopted annual budgets are not established for certain special revenue (Advance Acquisition, Tax Sales Revolving, Police & Fire Pension Contributions, Special Assessment, Property Tax Refunds, Impact Fees, Parks & Recreation Special Projects, and Commission on Aging Gift Trust), debt service (Special Assessment), permanent (J.J. Hompes), and agency funds. In addition, capital project funds are budgeted on a project rather than an annual basis.

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, 2004, 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.

(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 that "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds." The details of the $136,232,407 difference are as follows:

Bonds Payable	$ 114,228,349
Less deferred charge for issuance costs	(950,813)
Less issuance discounts	(24,870)
Plus issuance premiums	2,295,506
Capital Leases Payable	9,195,871
Accrued Interest Payable	1,141,697
Net Pension Obligation	2,491,580
Compensated Absences	7,855,087
Net difference	$ 136,232,407

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 that "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 $30,487,785 difference are as follows:

Capital outlay	$	48,374,442
Depreciation expense		(17,886,657)
Net difference	$	30,487,785

Another element of that reconciliation states that "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 $(6,242,635) difference are as follows:

Debt issued or incurred:		
Issuance of general obligation storm sewer refunding and construction bonds	$	(16,505,000)
Issuance of tax allocation bonds		(365,035)
Issuance of certificates of participation		(1,785,000)
Deferred charge for issuance costs		259,315
Issuance discounts		16,057
Issuance premiums		(42,635)
Amortization of deferred items		(6,680)
Principal repayments		12,186,343
Net difference	$	(6,242,635)

Another element of that reconciliation states that "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 $(732,130) difference are as follows:

Loss on disposal of capital assets	$	(304,852)
Accrued interest		263,750
Compensated absences		(691,028)
Net difference	$	(732,130)

(3) RECONCILIATION OF BUDGET BASIS TO GAAP

Amounts presented on a non-GAAP budget basis of accounting differ from those presented in accordance with GAAP due to the treatment afforded accruals, encumbrances, and funds for which legally adopted annual budgets are not established. A reconciliation for the year ended August 31, 2005, which discloses the nature and amount of the adjustments necessary to convert the actual GAAP data to the budgetary basis, is presented below:

	General Fund	Street Construction Fund	Federal Grants Fund
Net Change in Fund Balances:			
Balance on a GAAP basis	$(4,570,145)	(9,931,562)	(1,792,776)
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.	51,173	(859,586)	(1,053,541)
Entity differences occur when the budget excludes programs or entities that fall within the financial reporting entity as defined by GAAP.	-	26,570,773	-
Balance on a budget basis	$(4,518,972)	15,779,625	(2,846,317)

(4) DEPOSITS AND INVESTMENTS

In 2005, the City adopted the provisions of GASB Statement 40, *Deposit and Investment Risk Disclosures*. This new standard revised the existing requirements regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Adoption of GASB 40 had no effect on net assets and change in net assets in the prior or current year.

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 give 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).

At August 31, 2005, the City's cash deposits or certificates of deposit, in excess of the $100,000 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

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. None of the underlying securities for the City's investments at August 31, 2005 are subject to custodial credit risk, as they are held in an account in the City's name, and by an agent who is not the counterparty to the investment transactions.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2005

At August 31, 2005, the City had the following investments, maturities and credit ratings:

	August 31, 2005					
		Maturities in Years				
Type	Carrying Value	Less than 1	1-5	6-10	More than 10	Credit Rating Moody / S&P
General City:						
U.S. Treasury Obligations	$ 11,106,560	364,191	7,482,323	3,260,046	-	N/A
U.S. Sponsored Agency Obligations	194,975,311	66,416,366	124,702,932	3,856,013	-	Aaa / AAA
Collateralized Repurchase Agreements	3,000,000	3,000,000	-	-	-	N/A
Collateralized Investment Agreements	4,930,000	-	-	-	4,930,000	Aaa / AAA
Collateralized Investment Agreements	1,120,000	-	-	-	1,120,000	Aaa / A
Money Market Mutual Funds - U.S. Treasury	216,512	216,512	-	-	-	N/A
Money Market Mutual Funds - U.S. Agencies	65,259,692	65,259,692	-	-	-	Aaa / AAA
Money Market Mutual Funds	8,052,497	8,052,497	-	-	-	Not Rated
Corporate Bonds	76,673	25,059	20,820	30,794	-	Aa / AA
Corporate Bonds	16,011	-	-	16,011	-	A / A
External Investment Funds	3,865,000	3,865,000	-	-	-	Not Rated
Tax Increment Financing Investments	533,349	-	133,849	34,465	365,035	Not Rated
Total General City	293,151,605	80,418,760	154,669	81,270	6,415,035	
Community Health Endowment:						
U.S. Treasury Obligations	2,461,080	339,507	1,001,766	528,731	591,076	N/A
U.S. Sponsored Agency Obligations	438,588	-	438,588	-	-	Aaa / AAA
Pooled Funds Invested in U.S. Agency Obligations	4,009,983	79,542	2,642,265	1,288,176	-	Not rated
Money Market Mutual Funds - U.S. Treasury	436,597	436,597				N/A
Money Market Mutual Funds	2,590,809	2,590,809	-	-	-	Not rated
Asset-backed Securities	1,623,715	956,848	611,722	55,145	-	Aaa / AAA
Asset-backed Securities	39,511	39,511	-	-	-	Aa / AA
Asset-backed Securities	72,970	-	-	72,970	-	Baa / BBB
Mortgage-backed Securities	2,395,113	326,044	1,591,979	477,090	-	Aaa / AAA
Mortgage-backed Securities	212,351	-	99,315	63,545	49,491	Not rated
Corporate Bonds	659,103	88,016	379,077	143,445	48,565	Aa / AA
Corporate Bonds	1,954,143	479,570	412,844	834,062	227,667	A / A
Corporate Bonds	151,755	-	105,340	46,415	-	A / BBB
Corporate Bonds	458,329	-	54,817	230,548	172,964	Baa / A
Corporate Bonds	2,088,466	124,855	345,319	1,343,087	275,205	Baa / BBB
Foreign Obligations	33,216	-	33,216	-	-	Aa / A
Foreign Obligations	56,320	-	39,828	16,492	-	A / A
Foreign Obligations	164,000	-	-	164,000	-	Baa / BBB
Mutual Funds -- Fixed Income	25,325,823	25,325,823	-	-	-	Not rated
Securities Lending Collateral	3,674,279	3,674,279	-	-	-	Not rated
Total Community Health Endowment:	48,846,151	34,461,401	7,756,076	5,263,706	1,364,968	
Police & Fire Pension Trust:						
U.S. Sponsored Agency Obligations	5,927,900	-	-	3,954,400	1,973,500	Aaa / AAA
Corporate Bonds	975,000	-	-	975,000	-	Aa / AA
Corporate Bonds	3,920,000		1,922,500	-	1,997,500	A / A
Mortgage-backed Securities	2,002,500	-	1,006,250	996,250	-	Not Rated
Money Market Mutual Funds	72,107	72,107	-	-	-	Not Rated
Tax Exempt Bonds	1,075,000	-	1,075,000	-	-	Not Rated
Mutual Funds - Fixed Income	24,496,629	24,496,629	-	-	-	Not Rated
Private Placement Debt Obligations	2,000,000	-	2,000,000	-	-	Not Rated
	40,469,136	24,568,736	6,003,750	5,925,650	3,971,000	
Mutual Funds	99,492,547					
Real Estate Limited Partnerships	22,074,501					
Total Police & Fire Pension Trust	162,036,184					
Total Primary Government	$ 504,033,940					

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.

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 interest rate is guaranteed by the issuer. 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. The following investment types must be rated at the minimum rates noted below:

Money Markets	Aa / AA
Corporate Notes	Aa3 / AA-
Investment Agreements	Aa3 / AA-

The $8,052,497 non-rated money market funds are held in the LES and J.J. Hompes funds. The money market funds are comprised of highly rated securities. The external investment funds are held in the City's idle fund pool and is 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.

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

Type	Portfolio Composition	Policy Limits on Issuer
U.S. agency obligations:		
Federal Home Loan Bank	42.58 %	40.00 %
Federal Home Loan Mortgage Corporation	5.62	40.00
Federal National Mortgage Association	8.85	40.00

Community Health Endowment (CHE) Policy

CHE may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury, U.S. agencies, instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds, bankers' acceptance, mutual funds, and investment agreements.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, CHE's investment policy limits all bond investments to a maximum maturity of 30 years. Mutual 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 U.S. treasury and U.S. agency obligations to issues with at Baa / BBB ratings. Short-term fixed income issues should have a minimum A-1 / P-1 rating. Investments in corporate debt, bank loan portfolios, and associated high yield fixed income mutual funds must have a minimum average credit rating of B-.

Concentration of Credit Risk. CHE limits the percentage of cost that may be invested in any one industry, company and issuer by an investment manager. The limits vary depending on the type of investment. Investments by an investment manager in any one company are limited to 5% of portfolio cost. Except for U.S. treasury and U.S. agency obligations, investments in any one issuer are also limited to 5% of portfolio cost. Industry limits are 15% or 35% of portfolio cost depending on the investment type. Investments in Distressed/Mezzanine corporate debt or related mutual funds should have a minimum diversification of at least twenty different company investments. At August 31, 2005, CHE's investment in Federal National Mortgage Association constituted 6% of its total investments.

Foreign Currency Risk. This risk related to adverse affects on the fair value of an investment from changes in exchange rates. CHE's investment policy states investments in developed country and corporate foreign debt may not exceed 25% of total investment portfolio. CHE had no investment denominated in foreign currency at August 31, 2005.

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, and other alternative investments.

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, 2005:

	Totals
Investments	$ 504,033,940
Deposits and Cash on Hand	47,531,404
	$ 551,565,344

	Government-wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	Totals
Cash and Cash Equivalents	$ 63,777,456	6,392,046	70,169,502
Investments	154,426,972	163,839,676	318,266,648
Invested Securities Lending	3,674,279	-	3,674,279
Restricted Assets:			
Cash and Cash Equivalents	835,586	-	835,586
Investments	158,619,329	-	158,619,329
	$ 381,333,622	170,231,722	551,565,344

Securities Lending Transactions

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

Either CHE or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had an average duration of 63 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. Loss indemnification is provided to the Fund by the contract with the custodian.

(5) RECEIVABLES

Receivables at August 31, 2005, consist of the following (in thousands):

Fund	Taxes	Accounts	Contributions	Special Assessment Current	Special Assessment Deferred	Accrued Interest	Gross Receivables	Allowance For Uncollectibles	Net
General	$ 3,304	1,174	-	-	-	99	4,577	-	4,577
Street Construction	-	120	-	-	-	173	293	-	293
Federal Grants	-	12	-	-	-	2	14	-	14
Community Health Endowment	-	-	-	-	-	142	142	-	142
Wastewater System	-	3,566	-	-	-	270	3,836	-	3,836
Water System	-	6,463	-	-	-	340	6,803	-	6,803
Electric System	-	17,072	-	-	-	592	17,664	-	17,664
Nonmajor -									
Special Revenue	1,505	527	-	-	-	155	2,187	-	2,187
Debt Service	1,077	-	-	407	2,223	148	3,855	197	3,658
Capital Projects	-	-	-	-	-	175	175	-	175
Enterprise	-	2,890	-	-	-	99	2,989	739	2,250
Internal Service	-	297	-	-	-	106	403	-	403
Fiduciary	-	56	327	-	-	618	1,001	-	1,001
	$ 5,886	32,177	327	407	2,223	2,919	43,939	936	43,003

Enterprise funds customer accounts receivable include unbilled charges for services.

Delinquent special assessment receivables at August 31, 2005, were $213,369.

No other receivables are expected to be uncollected within one year.

(6) DUE FROM OTHER GOVERNMENTS

The total of Due From Other Governments of $35,045,066 includes the following significant items:

Fund/Fund Type	Amount	Service
General/General	$ 9,013,831	State of Nebraska, July/August Sales and Use Tax
	427,941	August Motor Vehicle Taxes Collected by Lancaster County
	104,822	Federal Government, Cost Reimbursements
	91,454	Lancaster County, Cost Reimbursements
Street Construction/Special Revenue	2,753,806	State of Nebraska, July/August Highway User Fees
	2,178,200	State of Nebraska, Cost Reimbursements
	13,827,608	Federal Government, Cost Reimbursements
	25,000	Lancaster County, Cost Reimbursements
Federal Grants/Special Revenue	4,334,611	Federal Government, Cost Reimbursements
Lincoln Area Agency on Aging/Special Revenue	68,314	Federal Government, Cost Reimbursements
Lincoln/Lancaster Co. Health/Special Revenue	383,755	Lancaster County, Cost Reimbursements
Snow Removal/Special Revenue	101,785	August Motor Vehicle Taxes Collected by Lancaster County
Antelope Valley/Tax Supported Bonds/Debt Service	166,167	State of Nebraska, July/August Development Fund Disbursements
Storm Sewer Construction/Capital Projects	79,561	Federal Government, Cost Reimbursements
Vehicle Tax/Capital Projects	794,296	August Motor Vehicle Taxes Collected by Lancaster County
Storm Sewer Bonds/Capital Projects	222,330	Federal Government, Cost Reimbursements
Information Services/Internal Service	213,650	Lancaster County Billings
Engineering Revolving/Internal Service	205,593	State of Nebraska, Cost Reimbursements
Subtotal	34,992,724	
All other	52,342	
Total Due From Other Governments	$ 35,045,066	

(7) CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2005, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	$ 44,757,798	5,380,191	-	50,137,989
Construction in Progress	85,135,927	34,995,577	23,928,032	96,203,472
Total Capital Assets, not being Depreciated	129,893,725	40,375,768	23,928,032	146,341,461
Capital Assets, being Depreciated:				
Buildings	66,875,268	853,430	202,865	67,525,833
Improvements Other Than Buildings	48,686,568	2,854,708	58,259	51,483,017
Machinery and Equipment	65,515,482	6,182,543	6,848,661	64,849,364
Infrastructure	302,390,848	53,836,644	134,688	356,092,804
Total Capital Assets, being Depreciated	483,468,166	63,727,325	7,244,473	539,951,018
Less Accumulated Depreciation for:				
Buildings	22,161,969	1,673,532	103,435	23,732,066
Improvements Other Than Buildings	17,336,270	1,518,161	48,983	18,805,448
Machinery and Equipment	34,577,690	5,785,651	6,604,929	33,758,412
Infrastructure	100,605,762	11,053,650	18,303	111,641,109
Total Accumulated Depreciation	174,681,691	20,030,994	6,775,650	187,937,035
Total Capital Assets, being Depreciated, Net	308,786,475	43,696,331	468,823	352,013,983
Governmental Activities Capital Assets, Net	$ 438,680,200	84,072,099	24,396,855	498,355,444

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type Activities:				
Capital Assets, not being Depreciated:				
Land	$ 14,652,983	497,875	380	15,150,478
Construction in Progress	139,089,872	114,957,964	134,392,335	119,655,501
Total Capital Assets, not being Depreciated	153,742,855	115,455,839	134,392,715	134,805,979
Capital Assets, being Depreciated:				
Buildings	194,208,397	7,044,168	6,322,734	194,929,831
Improvements Other Than Buildings	349,990,820	42,875,186	2,987,167	389,878,839
Machinery and Equipment	25,948,515	1,137,986	4,934,062	22,152,439
Utility Plant	768,971,000	92,129,000	22,277,000	838,823,000
Total Capital Assets, being Depreciated	1,339,118,732	143,186,340	36,520,963	1,445,784,109
Less Accumulated Depreciation for:				
Buildings	57,298,161	4,269,101	6,322,734	55,244,528
Improvements Other Than Buildings	94,426,334	8,332,639	2,987,166	99,771,807
Machinery and Equipment	15,224,299	1,873,686	4,901,595	12,196,390
Utility Plant	267,503,000	26,632,000	7,989,000	286,146,000
Total Accumulated Depreciation	434,451,794	41,107,426	22,200,495	453,358,725
Total Capital Assets, being Depreciated, Net	904,666,938	102,078,914	14,320,468	992,425,384
Business-type Activities Capital Assets, Net	$ 1,058,409,793	217,534,753	148,713,183	1,127,231,363

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:		
General Government	$	899,996
Public Safety		1,548,559
Streets and Highways, including Infrastructure		10,667,900
Culture and Recreation		3,297,366
Economic Opportunity		60,626
Health and Welfare		146,314
Mass Transit		1,265,896
Internal Service Funds Capital Assets Depreciation is charged to the various functions based on usage of the assets.		2,144,337
Total Depreciation Expense - Governmental	$	20,030,994
Business-type Activities:		
Parking Lots	$	28,688
Golf		614,187
Parking Facilities		1,044,310
Pershing Municipal Auditorium		147,327
Sanitary Landfill		1,514,733
Emergency Medical Services		159,079
Wastewater System		4,946,618
Water System		6,020,484
Lincoln Electric System		26,632,000
Total Depreciation Expense - Business-type	$	41,107,426

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	$	2,280,164	497,860	-	2,778,024
Construction in Progress		32,311,329	34,642,375	36,814,344	30,139,360
Total Capital Assets, not being Depreciated		34,591,493	35,140,235	36,814,344	32,917,384
Capital Assets, being Depreciated:					
Buildings		49,837,322	6,549,868	2,143,459	54,243,731
Improvements Other Than Buildings		129,204,882	33,683,233	1,027,644	161,860,471
Machinery and Equipment		9,258,658	579,952	3,024,661	6,813,949
Total Capital Assets, being Depreciated		188,300,862	40,813,053	6,195,764	222,918,151
Less Accumulated Depreciation for:					
Buildings		18,021,360	1,329,587	2,143,459	17,207,488
Improvements Other Than Buildings		39,057,037	3,130,991	1,027,644	41,160,384
Machinery and Equipment		5,259,476	486,040	3,024,661	2,720,855
Total Accumulated Depreciation		62,337,873	4,946,618	6,195,764	61,088,727
Total Capital Assets, being Depreciated, Net		125,962,989	35,866,435	-	161,829,424
Wastewater System Capital Assets, Net	$	160,554,482	71,006,670	36,814,344	194,746,808

	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Water System:				
Capital Assets, not being Depreciated:				
Land	$ 4,712,695	15	380	4,712,330
Construction in Progress	1,994,124	8,589,253	3,114,371	7,469,006
Total Capital Assets, not being Depreciated	6,706,819	8,589,268	3,114,751	12,181,336
Capital Assets, being Depreciated:				
Buildings	95,362,620	483,726	4,179,275	91,667,071
Improvements Other Than Buildings	196,964,100	7,079,741	1,958,523	202,085,318
Machinery and Equipment	7,124,745	278,907	1,771,189	5,632,463
Total Capital Assets, being Depreciated	299,451,465	7,842,374	7,908,987	299,384,852
Less Accumulated Depreciation for:				
Buildings	23,619,607	1,790,195	4,179,275	21,230,527
Improvements Other Than Buildings	46,153,441	3,820,386	1,958,523	48,015,304
Machinery and Equipment	5,021,593	409,903	1,760,452	3,671,044
Total Accumulated Depreciation	74,794,641	6,020,484	7,898,250	72,916,875
Total Capital Assets, being Depreciated, Net	224,656,824	1,821,890	10,737	226,467,977
Water System Capital Assets, Net	$ 231,363,643	10,411,158	3,125,488	238,649,313

	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Electric System:				
Capital Assets, not being Depreciated:				
Construction in Progress	$ 102,833,000	71,255,000	92,359,000	81,729,000
Capital Assets, being Depreciated:				
Utility Plant	768,971,000	92,129,000	22,277,000	838,823,000
Less Accumulated Depreciation	267,503,000	26,632,000	7,989,000	286,146,000
Total Capital Assets, being Depreciated, Net	501,468,000	65,497,000	14,288,000	552,677,000
Electric System Capital Assets, Net	$ 604,301,000	136,752,000	106,647,000	634,406,000

During 2005, Lincoln Wastewater System incurred $2,376,839 of interest cost, of which $1,370,562 was capitalized into construction in progress. Lincoln Water System incurred $3,402,912 of interest cost, of which $385,444 was capitalized into construction in progress. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

Lincoln Electric System utility plant includes an allowance for funds used during construction of projects costing in excess of $2 million. The allowance for funds used during construction consists of the plant balance times the weighted-average interest rate on debt based on FERC accounting method. The weighted-average rate for 2004 was 4.9%.

(8) 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 2004 tax levy, for the 2004-2005 fiscal year, was $56,077,695 below the legal limit, with a tax rate per $100 valuation of $0.29498. The assessed value upon which the 2004 levy was based was $13,138,516,226.

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.

Property taxes levied for 2004-2005 are recorded as revenue when expected to be collected within 60 days after August 31, 2005. Prior-year levies were recorded using these same principles, and remaining receivables are re-evaluated annually. Property taxes expected to be collected after 60 days are recorded as deferred revenue on the fund balance sheets.

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

(9) LONG-TERM DEBT

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 $6,633,214, $3,204,933, and $5,580,997, are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, and Tax Allocation Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

The City has entered into lease agreements for financing the acquisition of land, buildings, 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	$ 42,000	$ 210,000
Buildings	6,350,750	-
Machinery and Equipment	795,171	2,736,012
Less Accumulated Depreciation, (where applicable)	(787,357)	(1,158,741)
Total	$ 6,400,564	$ 1,787,271

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

In 2005, the City issued $6,555,000 in general obligation refunding bonds with interest rates ranging from 2.5% to 4.375% to refund $6,390,000 in outstanding Storm Sewer and Drainage Bonds, Series 1997. The refunding resulted in an cash flow differential of $418,000, and an economic gain of $331,000.

In prior years, the City defeased certain bonds by placing the proceeds of the refunding bonds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On August 31, 2005, the following bonds outstanding are considered defeased:

08/15/80	Lincoln Wastewater Revenue Bonds	$ 5,000
08/15/97	General Obligation Storm Sewer and Drainage	6,390,000

Established by City Ordinance, LES may borrow up to $125 million under a commercial paper note program. At December 31, 2004, LES had $90.2 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, 2004, was 1.8 percent. The annual requirement to pay interest on this outstanding debt is approximately $1.6 million. The outstanding commercial paper notes are secured by a revolving credit agreement which provides for borrowings up to $125 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement LES refinances the commercial paper upon maturity.

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
General Obligation Bonds:							
General Bonds:							
14,435	03/01/99	Various Purpose Series A	3.000 - 4.600	Ser. '00 to '14	2009	Semiannually	$ 9,685
7,365	03/01/99	Various Purpose Series A	4.750	Term '15 to '19	2009	"	7,365
8,220	03/01/99	Various Purpose Series B	3.000 - 4.250	Ser. '99 to '11	2007	"	3,830
7,500	05/29/02	Storm Sewer and Drainage	3.000 - 5.000	Ser. '04 to '22	2010	"	7,235
15,595	06/24/03	Various Purpose	2.625 - 3.750	Ser. '04 to '17	2013	"	12,585
3,710	06/24/03	Various Purpose	4.000 - 4.125	Term '18 to '23	2013	"	3,710
35,000	03/03/04	Highway Allocation Fund	2.000 - 5.000	Term '07 to '23	2014	"	35,000
6,555	05/01/05	Storm Sewer Refunding	2.500 - 4.375	Ser. '05 to '17	2011	"	6,555
9,950	05/25/05	Storm Sewer Construction	3.250 - 4.250	Ser. '06 to '25	2015	"	9,950
	Total General Bonds						$ 95,915
Tax Allocation Bonds:							
1,310	11/15/92	Tax Allocation Bonds	3.250 - 6.200	Ser. '93 to '06	1997	Semiannually	$ 115
105	11/15/92	Tax Allocation Bonds	6.350	Term '93 to '06	1997	"	25
90	11/15/92	Tax Allocation Bonds	6.300	Term '93 to '05	1997	"	15
232	04/21/00	Tax Allocation Bonds	6.390	Ser. '00 to '10	2000	"	134
42	06/01/03	Tax Allocation Bonds	4.060	Ser. '04 to '11	Anytime	"	34
1,035	04/06/04	Tax Allocation Bonds	2.000 - 3.200	Ser. '04 to '11	2008	"	910
5,500	04/07/04	Tax Allocation Bonds	3.000 - 4.800	Ser. '04 to '15	2010	"	5,255
365	08/15/05	Tax Allocation Bonds	4.750	Ser. '06 to '18	Anytime	"	365
	Total Tax Allocation Bonds						$ 6,853
	Total General And Tax Allocation Bonds						$ 102,768
Municipal Infrastructure Redevelopment Bonds:							
3,200	06/13/00	Municipal Infrastructure Redevelopment	4.750 - 5.100	Ser. '01 to '09	2005	Semiannually	$ 1,770
	TOTAL GENERAL OBLIGATION BONDS						$ 104,538
Tax-Supported Revenue Bonds:							
11,080	2/27/02	Antelope Valley Project	1.500 - 5.000	Ser. '02 to '16	2012	Semiannually	$ 9,690
Revenue Bonds:							
15,765	07/31/03	Wastewater Revenue	2.000 - 5.000	Ser. '04 to '23	2013	Semiannually	$ 12,515
39,235	07/31/03	Wastewater Revenue	4.625 - 5.000	Term '24 to '28	2013	"	39,235
18,000	08/03/05	Wastewater Revenue	4.000 - 5.000	Ser. '06 to '30	2015	"	18,000
	Total Wastewater Bonds						$ 69,750
11,850	11/22/02	Water Revenue	2.750 - 5.000	Ser. '05 to '17	2012	Semiannually	$ 11,115
6,660	11/22/02	Water Revenue	5.000	Term '18 to '22	2012	"	6,660
32,180	05/20/03	Water Revenue	5.000	Ser. '04 to '12	-	"	25,800
40,000	11/16/04	Water Revenue	3.000 - 5.000	Ser. '05 to '25	2014	"	39,105
	Total Water Bonds						$ 82,680
6,815	09/08/99	Parking Revenue Series A	4.000 - 5.000	Ser. '00 to '09	2009	Semiannually	$ 4,135
6,695	09/08/99	Parking Revenue Series A	5.375	Term '10 to '14	2009	"	6,695
6,000	12/05/01	Parking Revenue	3.750 - 5.125	Ser.'02 to '21	2011	"	5,070
	Total Parking Bonds						$ 15,900
3,165	10/23/01	Golf Course Revenue Refunding	2.300 - 4.050	Ser. '02 to '11	2008	Semiannually	$ 1,995
45,560	02/15/98	Electric Revenue Bonds '98 Series A	4.500 - 5.000	Ser. '98 to '18	2008	Semiannually	$ 34,810
141,150	08/15/01	Electric Revenue Bonds '01	4.000 - 5.250	Ser. '06 to '20	2011	"	141,150
148,190	10/01/02	Electric Revenue Bonds '02	4.000 - 5.000	Ser. '04 to '25	2012	"	139,805
93,045	10/01/03	Electric Revenue Bonds '03	3.000 - 5.000	Ser. '04 to '26	2014	"	90,195
33,265	10/01/03	Electric Revenue Bonds '03	4.750	Term '28	2014	"	33,265
	Total Electric Bonds						$ 439,225
	TOTAL REVENUE BONDS						$ 609,550

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

Year Ended August 31	General Obligation Bonds		Tax-Supported Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 5,191	4,264	580	409	753	353
2007	4,913	4,100	595	392	732	336
2008	5,176	3,927	615	372	761	315
2009	6,049	3,741	635	350	777	292
2010	5,182	3,521	660	326	715	266
2011 - 2015	30,181	14,106	3,730	1,170	3,528	942
2016 - 2020	29,091	7,322	2,875	173	1,599	379
2021 - 2025	18,755	1,790	-	-	610	45
	$ 104,538	42,771	9,690	3,192	9,475	2,928

Fiscal Year Ended August 31	Business-Type Activities			
	Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2006	$ 19,230	29,287	432	44
2007	19,950	28,608	323	26
2008	23,670	27,712	333	12
2009	24,685	26,677	23	3
2010	25,780	25,559	25	1
2011 - 2015	134,380	108,941	-	-
2016 - 2020	166,110	72,896	-	-
2021 - 2025	117,200	34,373	-	-
2026 - 2030	78,545	9,557	-	-
	$ 609,550	363,610	1,136	86

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

Fiscal Year Ended August 31	Major Funds					
	Wastewater System		Water System		Electric System	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	$ 2,065	3,045	5,130	3,834	10,545	21,534
2007	2,005	3,082	5,340	3,612	11,050	21,103
2008	2,055	3,024	5,555	3,376	14,430	20,570
2009	2,110	2,966	5,795	3,128	15,085	19,916
2010	2,165	2,898	6,050	2,874	15,780	19,201
2011 - 2015	11,965	13,044	20,550	10,686	94,470	83,613
2016 - 2020	14,415	10,014	17,370	6,502	132,420	55,967
2021 - 2025	17,900	6,220	16,890	2,154	81,970	25,976
2026 - 2030	15,070	1,724	-	-	63,475	7,833
	$ 69,750	46,017	82,680	36,166	439,225	275,713

Long-term liability activity for the year ended August 31, 2005, was as follows (in thousands of dollars):

	09/01/04 Beginning Balance	Additions	Reductions	08/31/05 Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
General Obligation Bonds	$ 89,650	16,505	(10,240)	95,915	4,250
Tax Allocation Bonds	7,075	365	(587)	6,853	606
Municipal Infrastructure Redevelopment Bonds	2,090	-	(320)	1,770	335
Special Assessment Debt with Government Commitment	100	-	(100)	-	-
Tax-Supported Antelope Valley Project Bonds	10,255	-	(565)	9,690	580
Capital Leases	7,785	2,078	(388)	9,475	753
Gross Bonds and Leases Payable	116,955	18,948	(12,200)	123,703	6,524
Deferred Amounts:					
For Issuance Premiums	2,283	42	(29)	2,296	-
For Issuance Discounts	(9)	(16)	-	(25)	-
Net Bonds and Leases Payable	119,229	18,974	(12,229)	125,974	6,524
Other Liabilities:					
Compensated Absences	7,916	6,437	(5,595)	8,758	5,406
Claims and Judgements	4,995	2,474	(2,343)	5,126	2,378
Net Pension Obligation	1,430	3,623	(2,562)	2,491	-
Governmental Activity Long-Term Liabilities	$ 133,570	31,508	(22,729)	142,349	14,308
Business-Type Activities:					
Bonds, Notes and Leases Payable:					
Wastewater Revenue Bonds	$ 53,250	18,000	(1,500)	69,750	2,065
Water Revenue Bonds	47,575	40,000	(4,895)	82,680	5,130
Parking Revenue Bonds	17,040	-	(1,140)	15,900	1,185
Golf Course Revenue Bonds	2,290	-	(295)	1,995	305
Electric System Revenue Bonds	452,205	-	(12,980)	439,225	10,545
Commercial Paper Notes	90,173	-	-	90,173	-
Capital Leases	1,554	-	(418)	1,136	432
Gross Bonds, Notes and Leases Payable	664,087	58,000	(21,228)	700,859	19,662
Deferred Amounts:					
For Issuance Premiums	21,432	1,978	(2,654)	20,756	-
For Issuance Discounts	(23,499)	-	4,091	(19,408)	-
For Refunding	(4,200)	-	523	(3,677)	-
Net Bonds, Notes and Leases Payable	657,820	59,978	(19,268)	698,530	19,662
Other Liabilities:					
Compensated Absences	1,096	878	(770)	1,204	759
Accrued Landfill Closure/Postclosure Care Costs	7,238	1,186	(426)	7,998	-
Business-Type Activity Long-Term Liabilities	$ 666,154	62,042	(20,464)	707,732	20,421

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 claims and judgements liability will generally be liquidated through the City's Insurance Revolving Internal Service Fund, which will finance the payment of those claims by charging other funds based on management's assessment of the relative insurance risk that should be assumed by individual funds. The net pension obligation will be liquidated through the Police & Fire Pension Contributions Special Revenue Fund with financing provided by an annual property tax levy.

Long-term liability activity for the major enterprise funds for the year ended August 31, 2005, was as follows (in thousands of dollars):

	09/01/04 Beginning Balance	Additions	Reductions	08/31/05 Ending Balance	Due Within One Year
Lincoln Wastewater System:					
Bonds Payable:					
Wastwater Revenue Bonds	53,250	18,000	(1,500)	69,750	2,065
Deferred For Issuance Premiums	1,928	322	(82)	2,168	-
Net Bonds Payable	55,178	18,322	(1,582)	71,918	2,065
Other Liabilities:					
Compensated Absences	371	295	(256)	410	254
Total Long-Term Liabilities	$ 55,549	18,617	(1,838)	72,328	2,319
Lincoln Water System:					
Bonds Payable:					
Water Revenue Bonds	$ 47,575	40,000	(4,895)	82,680	5,130
Deferred for Issuance Premiums	2,186	1,656	(316)	3,526	-
Deferred for Refunding	(1,080)	-	136	(944)	-
Net Bonds Payable	48,681	41,656	(5,075)	85,262	5,130
Other Liabilities:					
Compensated Absences	475	335	(288)	522	287
Total Long-Term Liabilities	$ 49,156	41,991	(5,363)	85,784	5,417
Lincoln Electric System:					
Bonds and Notes Payable:					
Electric System Revenue Bonds	$ 452,205	-	(12,980)	439,225	10,545
Commercial Paper Notes	90,173	-	-	90,173	-
Deferred for Issuance Premiums	17,318	-	(2,256)	15,062	-
Deferred for Issuance Discounts	(23,499)	-	4,091	(19,408)	-
Deferred for Refunding	(3,084)	-	382	(2,702)	-
Total Long-Term Liabilities	$ 533,113	-	(10,763)	522,350	10,545

(10) FAIR VALUE OF FINANCIAL INSTRUMENTS

In the opinion of management, the carrying value of financial instruments, including commercial paper notes, of the City's utility proprietary funds (Lincoln Wastewater, Lincoln Water, and Lincoln Electric Systems) is presented in the City's financial statements at values which approximated fair value at August 31, 2005, (December 31, 2004 for Lincoln Electric System), with the exception of LES' long-term debt for which the estimated fair value is $468,000,000.

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.

(11) SEGMENT INFORMATION

The City has issued revenue bonds and other debt instruments to finance capital construction and acquisitions for both the Parks and Recreation and Public Works/Utilities Departments. The Golf Division of the Parks and Recreation Department operates the City's golf courses and is accounted for in the Golf Fund. The Parking Facilities Division of the Public Works/Utilities Department operates the City's downtown parking garages and is accounted for in the Parking Facilities Fund. Summary financial information for these two divisions as of and for the year ended August 31, 2005, is presented as follows:

	Golf	Parking Facilities
CONDENSED STATEMENT OF NET ASSETS		
Assets:		
Current Assets	$ 62,185	3,284,673
Due from Other Funds	28,438	302,425
Restricted Assets	391,587	2,992,604
Deferred Charges	48,471	460,219
Capital Assets	7,345,531	35,362,485
Total Assets	7,876,212	42,402,406
Liabilities:		
Current Liabilities	829,882	1,425,575
Due to Other Funds	138,169	3,777
Noncurrent Liabilities	1,876,843	14,719,746
Total Liabilities	2,844,894	16,149,098
Net Assets:		
Invested in Capital Assets, Net of Related Debt	5,017,219	19,922,704
Restricted	416,500	3,026,946
Unrestricted	(402,401)	3,303,658
Total Net Assets	$ 5,031,318	26,253,308
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating Revenues	$ 3,135,521	5,214,542
Depreciation Expense	(614,187)	(1,044,310)
Other Operating Expenses	(2,568,462)	(2,972,709)
Operating Income (Loss)	(47,128)	1,197,523
Nonoperating Revenues (Expenses):		
Investment Earnings	354	170,393
Loss on Disposal of Capital Assets	(100)	-
Interest Expense and Fiscal Charges	(112,931)	(886,319)
Capital Contributions	75,688	-
Transfers	17,595	-
Change in Net Assets	(66,522)	481,597
Beginning Net Assets	5,097,840	25,771,711
Ending Net Assets	$ 5,031,318	26,253,308
CONDENSED STATEMENT OF CASH FLOWS		
Net Cash Provided (Used) by:		
Operating Activitites	$ 580,610	2,067,959
Noncapital Financing Activities	774	(302,425)
Capital and Related Financing Activities	(617,969)	(2,025,590)
Investing Activities	56,676	433,545
Net Increase in Cash	20,091	173,489
Beginning Balance	105,509	1,317,571
Ending Balance	$ 125,600	1,491,060

(12) DEFICIT NET ASSETS

The following funds had a net asset or fund balance deficit as of August 31, 2005:

Major Governmental -	Federal Grants Fund	$ (2,121,468)
Special Revenue -	Impact Fees Fund	(8,217)
Enterprise -	Emergency Medical Services Fund	(642,159)
Internal Service -	Engineering Revolving Fund	(245,703)

(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, 2005, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	334
Terminated plan members entitled to but not yet receiving benefits	25
Active plan members (non-DROP)	533
DROP members	55
Total	947
Number of participating employers	1

Funding Policy - The contribution requirements of plan members and the City are established by City Ordinance #15728 dated September 24, 1990, and may be amended by the City Council. Plan members are required to contribute between 7% and 8% of their annual covered salary based on an election made by the employee. The City is required to contribute at an actuarially determined rate; the rate for fiscal year 2005 was 12.86% of annual covered payroll. Actual contributions by the City were 8.8% of annual covered payroll. Administrative costs of PFDP are financed through investment earnings.

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

(Dollar amounts in thousands)

Annual required contribution	$ 3,684
Interest on net pension obligation	107
Adjustment to annual required contribution	(168)
Annual pension cost	3,623
Contributions made	2,562
Increase in net pension obligation	1,061
Net pension obligation beginning	1,430
Net pension obligation ending	$ 2,491

The annual required contribution for the current year was determined as part of the August 31, 2003, 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 4.5 to 8.5% per year, and (c) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using a four year smoothed market method. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis over a period of ten years.

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
2005	$ 3,623	$ 2,562	71 %	$ 2,491
2004	3,292	1,992	61	1,430
2003	2,287	1,783	78	130

ELECTRIC SYSTEM

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

LES has a defined contribution retirement plan covering all employees upon employment; however, employees are not eligible to receive employer contributions until they have been employed six months. The plan is a straight-money purchase plan, administered by a financial institution. LES' contribution is equal to 200% of the employees' contributions, which range from 2% to 5% of gross wages. This plan and related contribution requirements were authorized by the administrative board of directors under LES' retirement plan, on October 12, 1972, (latest restatement June 15, 1989). Vesting of LES contributions occurs over a five-year period. Employee forfeitures are used to reduce employer contributions. Vested benefits are fully funded. LES incurred contribution expense of approximately $2,718,000 (9.4% of covered payroll) and its employees contributed approximately $1,634,000 (5.6% of covered payroll).

DEPARTMENT DIRECTORS

Directors of City departments are eligible the first of the month following the date employed to be covered by the Director's Money Purchase Plan, established by City Ordinance, and administered by an insurance company. The Plan is a defined contribution plan requiring the City to contribute 6% of the first $4,800 of earned income plus 12% of earned income over $4,800 in one calendar year. Employees covered by the Plan may also make voluntary contributions. Participant accounts are immediately 100% vested. Total and covered payroll for the year ended December 31, 2004, was $1,430,379. City contributions totaled $167,030 or 11.7% of covered payroll. There were no voluntary employee contributions made for the year ended December 31, 2004.

ALL OTHER CITY EMPLOYEES

All other City employees are eligible after 6 months' service and age 19 to be covered under the City's Money Purchase Pension Plan, established by City Ordinance, and administered by an insurance company. Enrollment in the program is mandatory at age 40 with 5 years service. Vesting occurs in increments between 3 and 7 years of enrollment in the plan. The Plan is a defined contribution plan requiring employees to contribute 3% of earnings on the first $4,800 and 6% on the balance of earnings. Currently, the City contributes 200% of the employees' contributions. Employee forfeitures are used to reduce employer contributions. Employees covered by the Plan may also make voluntary contributions. During the year ended December 31, 2004, total payroll was approximately $69,496,000 and covered payroll was approximately $56,012,000. City contributions totaled $6,207,237 or 11.1% of covered payroll and employee contributions totaled $3,167,844 or 5.7% of covered payroll. Employees made $42,833 in voluntary contributions for the year ended December 31, 2004.

(14) 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.

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 an adverse effect on the City's financial condition or results of operations.

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

STREET CONSTRUCTION PROJECTS

The City's Street Construction Capital Projects Fund has commitments under major construction contracts in progress of approximately $17,000,000 as of August 31, 2005, which will be financed primarily through highway user fees, bond proceeds, federal and state grants, and developer contributions.

LINCOLN WASTEWATER SYSTEM

The Lincoln Wastewater System has commitments under major construction contracts in progress of approximately $20,600,000 at August 31, 2005.

Lincoln Wastewater System has commitments to fund Lincoln Water System's purchase of automated meter reading system equipment. Under the agreement, Lincoln Wastewater System will fund approximately $400,000 per year for an additional two years. The maximum remaining commitment is approximately $800,000 at August 31, 2005.

LINCOLN WATER SYSTEM

The Lincoln Water System has commitments under major construction contracts in progress of approximately $4,500,000 as of August 31, 2005.

Lincoln Water System has commitments to purchase approximately $1,000,000 of automated meter reading system equipment for two years. The maximum remaining commitment is approximately $2,000,000 at August 31, 2005.

LINCOLN ELECTRIC SYSTEM (LES)

Participation Contracts with NPPD

LES has participating interests in the output of two existing NPPD power plants, a thirty percent (approximately 68 MW) and eight percent (approximately 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 $7,000,000 in 2004. LES recognizes its share of capital acquisition costs and debt service payments as power costs in the period the costs are billed. 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 $16,700,000 in 2004.

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 expected fixed cost payments to NPPD under these contracts, including capital additions and improvements, debt service payments, and fixed costs and credits aggregate approximately $16,300,000, $16,100,000, $16,200,000, $16,900,000, and $17,300,000, respectively, in each of the five years subsequent to December 31, 2004.

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 $48,000,000 are reflected in utility plant at December 31, 2004.

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 approximately $117,300 per month through July 1, 2005, for demand charges. 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. At July 1, 2005, it was determined that the rate would continue at approximately $118,000 per month. 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 notice to terminate the agreement. During 2004, LES billed the County approximately $2,400,000 for demand and energy charges.

(15) INTERFUND BALANCES AND ACTIVITY

Balances Due To/From Other Funds at August 31, 2005, consists of the following:

Due To	Due From						
	General Fund	Street Construction	Federal Grants	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General Fund	$ -	-	3,216,115	165,953	1,582,582	129	4,964,779
Street Construction	1,833,725	-	-	3,459,666	-	-	5,293,391
Federal Grants	-	-	-	-	-	-	-
Community Health Endowment	41,927	-	-	-	-	-	41,927
Nonmajor Governmental	5,126,266	-	4,787	1,397,179	-	-	6,528,232
Lincoln Wastewater System	2,834,929	-	-	259,887	-	-	3,094,816
Lincoln Water System	3,265,734	-	-	1,265,311	-	-	4,531,045
Nonmajor Enterprise	960,820	7,079	-	-	-	-	967,899
Internal Service	1,668,018	6,188	7,507	51,161	23,103	39,036	1,795,013
	$ 15,731,419	13,267	3,228,409	6,599,157	1,605,685	39,165	27,217,102

"Due to" and "Due from" balances are recorded when funds overdraw their share of pooled cash. The total due to the General Fund includes $1,459,486 from the Emergency Medical Services Enterprise Fund for an advance made for cash flow needs. Of this amount, $1,312,659 is not expected to be repaid within one year. Other balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

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

Transfers To/From Other Funds at August 31, 2005, consists of the following:

Transfer To	Transfer From							
	General Fund	Street Construction	Federal Grants	Nonmajor Governmental	Lincoln Electric System	Nonmajor Enterprise	Internal Service	Total
General Fund	$ -	262,950	15,428	291,731	1,146,258	4,000	-	1,720,367
Street Construction	1,707,183	-	-	6,676,211	-	10,785	33,175	8,427,354
Federal Grants	425,097	16,477	-	18,237	-	-	-	459,811
Nonmajor Governmental	18,392,784	3,555,484	161,650	4,587,118	-	697,600	-	27,394,636
Nonmajor Enterprise	525,000	21,595	-	22,030	-	-	-	568,625
Internal Service	66,666	4,834	-	6,650	-	-	-	78,150
Total	$ 21,116,730	3,861,340	177,078	11,601,977	1,146,258	712,385	33,175	38,648,943

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 and (2) use unrestricted revenues in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The variance of $258 on the Statement of Activities transfers 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 in lieu of taxes as an accrued liability at the end of their fiscal year. The City however, receives the transfer before the August 31 fiscal year end, and records the exact amount as a transfer in.

(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. For the year ended August 31, 2005, the City has a self-insured retention for workers' compensation exposures up to $500,000 per individual; building and contents exposures up to $50,000 per occurrence; law enforcement liability exposures up to $350,000 per occurrence; general liability exposures up to $250,000 per occurrence; public officials exposures up to $250,000 per occurrence; public transportation liability exposures up to $250,000 per occurrence; auto liability exposures up to $250,000, and employee long-term disability benefits, all of which are covered under the Insurance Revolving Fund which is included in the internal service funds. The self-insurance programs are administered through the Risk Management Division.

Workers' compensation is covered by a policy which provides statutory limits above the City's retention of $500,000 per individual. Law enforcement liability is covered by a policy which provides limits of $5 million per occurrence and $6 million in annual aggregate. General liability is covered by a policy which provides limits of $5 million per occurrence and $6 million in annual aggregate. Public officials liability is covered by a policy which provides limits of $5 million per occurrence and $5 million in annual aggregate. Auto liability and public transportation liability are covered by a policy which provides a limit of $5 million. The Nebraska Political Tort Claims Act limits the City's liability for tort claims to $1 million per individual and $5 million per occurrence. 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 $5,126,431 were recorded at August 31, 2005. This 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. These liabilities have been discounted using a 3.25% discount rate and a claim payment pattern based on the historical data of the City. 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, 2005 and 2004:

	2005	2004
Balance at September 1	$ 4,995,121	5,143,840
Current year claims and changes in estimates	2,474,465	1,702,660
Claims payments	(2,343,155)	(1,851,379)
Balance at August 31	$ 5,126,431	4,995,121

(17) 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 balance sheet date.

At August 31, 2005, the City had incurred a liability of approximately $5,015,000 for the municipal solid waste landfill which represents the amount of costs reported to date based on the approximately 35 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately $9.3 million, which will be recognized as the remaining capacity is used (estimated to be approximately 24 years).

As of August 31, 2005, the City had incurred a liability of approximately $498,000 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 $503,000, which will be recognized as the remaining capacity is used (estimated to be approximately 17 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, 2005, a liability for closure and postclosure care costs is recorded in the amount of approximately $2,485,000, which is based on appropriations identified in the City's capital improvement projects budgeting process. Additional corrective action costs related to possible landfill gas migration and groundwater conditions may be identified once testing is completed and the state regulatory agency has issued a final determination. These additional potential costs cannot be reasonably estimated and thus no liability has been accrued as of August 31, 2005.

(18) 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, 2005, the City made rental payments of approximately $2 million to the Commission.

As of August 31, 2005, the Commission has bonds outstanding of $48,955,000 attributable to several bond issues. Certain proceeds from the bonds totaling $13,730,000 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 estimated that the City occupies approximately 65% of the new building and 38% of the renovated building (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.

Bonds of $11,295,000 have been issued to acquire land, construct and furnish an addition to the Lincoln-Lancaster County Health Department building, construct additional parking facilities, and renovate and improve the current Health facilities. The City's proportionate share of the Health facilities renovations will be recorded in capital assets and capital leases upon completion, in relation to the ultimate transfer of the asset 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.

(19) JOINT ANTELOPE VALLEY AUTHORITY

Joint Antelope Valley Authority (JAVA) 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. JAVA constitutes a separate administrative entity, exercising the public power granted by the interlocal cooperation agreement on behalf of the three aforementioned "Partners" to coordinate planning and implementation of a public project described in the Antelope Valley Study and the U.S. Army Corps of Engineers Antelope Creek Feasibility Study (the Project). The Project generally includes community revitalization, transportation, and drainage/flood control improvements.

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

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

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.

(20) JOINTLY GOVERNED ORGANIZATIONS

District Energy Corporation

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

The DEC Board of Directors, under a twenty-year management agreement, have appointed LES to supervise and manage the system and business affairs of DEC. LES is reimbursed for these management services based on the allocated actual costs of these services. LES also provides electric energy to DEC at an established interruptible commercial rate. The total amount of payments to LES for management, operations, and maintenance services was approximately $183,000 in 2004. The total amount of payments to LES for energy was approximately $67,000 in 2004.

Nebraska Utility Corporation

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

Operations commenced in January 2002. The NUCorp board of directors, under a twenty-year management agreement, has appointed LES to supervise and manage the system and business affairs of NUCorp. LES is reimbursed for these management services based on the allocated actual costs of these services. LES also provides electric energy to NUCorp on an established rate schedule. The total payment to LES for management, operations, and maintenance services was approximately $81,000 in 2004. The total amount of payments to LES for energy was approximately $5.6 million in 2004.

Required Supplementary Information

Schedule of Funding Progress
(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, 2005	$ 145,730	$ 151,978	$ 6,248	95.9 %	$ 29,029	21.5 %
August 31, 2004	136,974	144,179	7,205	95.0	28,125	25.6
August 31, 2003	132,578	137,508	4,930	96.4	27,415	18.0
August 31, 2002	128,319	130,875	2,556	98.0	26,607	9.6
August 31, 2001	128,070	122,661	(5,409)	104.4	28,216	(19.2)
August 31, 2000	121,404	115,671	(5,733)	105.0	25,808	(22.2)

* Non-DROP payroll in 2002 and later

Schedule of Employer Contributions
(dollar amounts in thousands)

Year Ended August 31	Annual Required Contribution	Annual Pension Contribution	Percentage Contributed
2005	$ 3,684	$ 2,562	70 %
2004	3,297	1,992	60
2003	2,234	1,781	80
2002	1,878	1,542	82
2001	821	1,111	135
2000	92	941	1023

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE LEASE

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THE LEASE

The following is a summary of certain provisions of the Lease. This summary is qualified in all respects by reference to the Lease for a complete description of the rights and obligations of the parties thereto. Copies of the Lease may be obtained from the Registrar. The Lease is entered into by and between the Lessor and the City for the purpose of financing the costs of purchasing a supply of light poles and related equipment for use by the City.

Lease Term

The term of the Lease shall be for a period of nine years, eleven months and four days, commencing April 11, 2007 and ending on March 15, 2017; provided, however, that the lease period for all items of Leased Property shall terminate upon the earliest of any of the following events:

(a) the exercise by the City of the option to purchase the Leased Property granted under the Lease;

(b) a default by the City and the Lessor's election to terminate the Lease; or

(c) the payment by the City of all Rental Payments (hereinafter defined) authorized or required to be paid by the City hereunder.

Rental Payments

The City shall pay to the Lessor basic cash rent (each payment a **"Rental Payment"** and collectively, the **"Rental Payments"**) in the total amount of Six Million Six Hundred Sixty-One Thousand Three Hundred Thirty-One and 47/100 Dollars ($6,661,331.47), a portion of which represents the payment of interest, as set forth in the following schedule:

Lease Payment Date	Principal Installment Due	Interest Installment Due	Total Amount Due
September 15, 2007	$ 0.00	$ 85,809.55	$ 85,809.55
March 15, 2008	480,000.00	100,296.88	580,296.88
September 15, 2008	0.00	91,896.88	91,896.88
March 15, 2009	480,000.00	91,896.88	571,896.88
September 15, 2009	0.00	83,496.88	83,496.88
March 15, 2010	500,000.00	83,496.88	583,496.88
September 15, 2010	0.00	74,746.88	74,746.88
March 15, 2011	515,000.00	74,746.88	589,746.88
September 15, 2011	0.00	65,412.50	65,412.50
March 15, 2012	535,000.00	65,412.50	600,412.50
September 15, 2012	0.00	55,715.63	55,715.63
March 15, 2013	555,000.00	55,715.63	610,715.63
September 15, 2013	0.00	45,656.25	45,656.25
March 15, 2014	575,000.00	45,656.25	620,656.25
September 15, 2014	0.00	34,875.00	34,875.00
March 15, 2015	595,000.00	34,875.00	629,875.00
September 15, 2015	0.00	23,718.75	23,718.75
March 15, 2016	620,000.00	23,718.75	643,718.75
September 15, 2016	0.00	12,093.75	12,093.75
March 15, 2017	645,000.00	12,093.75	657,093.75
TOTAL	$5,500,000.00	$1,161,331.47	$6,661,331.47

The City shall not be required to make a Rental Payment to the extent there are funds on deposit in the **"Payment Fund"** (established in the Lease) which are available and may be applied to such Rental Payment on the date such Rental Payment is due and owing.

Purchase Option; Defeasance

The City has been granted the option under the Lease to purchase the Leased Property at any time, at a purchase price equal to the amount which, together with investment earnings thereon, is sufficient to pay the principal of and interest on the Certificates to maturity or such date of redemption for the Certificates as shall be specified by the City in the notice hereinafter referred to, plus such amount as shall be necessary to pay the Registrar's fees and expenses accrued and to accrue until final payment and redemption of the Certificates. The City shall give notice of its election to purchase the Leased Property granted in the Lease not less than 30 days prior to the day specified in such notice for the closing of the purchase of the Leased Property. Upon the giving of such notice and the deposit of the money required under the Lease, the Lessor shall release and discharge all financing and continuation statements and take all other actions as provided by the Lease.

Covenants of the City

The City has covenanted in the Lease, among other things, as follows:

(a) that the City is duly organized and validly existing and has the power and authority to enter into the Lease, and to carry out the terms of the Lease and to do all other acts necessary or advisable to consummate and effectuate the transaction contemplated by the Lease and to carry out its obligations thereunder.

(b) that the City has authorized the execution and delivery of the Lease and has or will do or cause to be done all things necessary to preserve and keep in full force and effect its existence; that the performance of the City's obligations thereunder have been duly and validly authorized and approved under all laws and regulations and procedures applicable to the City; that the consent of all necessary persons or bodies have been obtained and duly and validly executed and delivered; and that the Lease constitutes a valid, legal and binding obligation of the City enforceable against the City in accordance with its terms.

(c) that the Rental Payments and additional rent payable under the Lease do not exceed any limitation imposed by law, and that such rentals are not such as may reasonably be expected to require the City to levy taxes in excess of any levy or budget limit; that the City shall continue to be responsible to raise funds to pay and to take all actions required to provide funds to make the Rental Payments and pay any additional rent as required in the Lease from any power and source lawfully available to it; and that the City further covenants and agrees that throughout the term of the Lease it will observe all budget and spending limitations now or hereafter imposed by law in such a manner that a sufficient portion of its tax levy or other money shall be lawfully available to pay all rentals due under the Lease.

(d) that the City will refrain from using, and/or prohibit the use of, any proceeds from the sale of the Certificates or any portion of the cash rentals in any manner that would cause either the Lease or any Certificate, which at the time of the issuance thereof was not subject to treatment as an "arbitrage bond," as defined in the Code, to be subject to such treatment under the Code so long as the Lease or any Certificates are outstanding.

Concerning the Equipment

Use and Maintenance of the Equipment. The City will use the Leased Property with due care and for the purpose for which it is intended. The City will maintain the Leased Property in good repair, condition and working order and will furnish all parts and services required therefor, all at its expense.

All such parts when furnished shall immediately become part of the Leased Property for all purposes of the Lease.

Exchange and Disposition of the Leased Property. The City may sell, trade in, exchange or otherwise dispose of any item constituting a part of the Leased Property without any responsibility or accountability to the Lessor therefor, provided that the City substitutes and installs anywhere in the City other property or equipment having equal or greater market value (but not necessarily the same function) in the operation of the City. All such substituted property or equipment shall be free of all liens and encumbrances (other than the lien of the Lease), shall be and become part of the Leased Property, and shall be held by the City on the same terms and conditions as items originally comprising the Leased Property. The City will pay any costs (including reasonable counsel fees) incurred in subjecting to the lien of the Lease any items of equipment or other property that under the provision of this paragraph are to become a part of the Leased Property or in releasing such property or equipment from the lien of the Lease. The City will not remove or permit the removal of any of the Leased Property from the City's control, except in accordance with the provisions of this paragraph.

The eligibility of the Leased Property to be released from the lien of the Lease shall be evidenced by a certificate signed by the City and delivered to the Lessor, confirming the City's compliance with the forgoing paragraph. Upon receipt of such certificates from time to time, the Lessor shall promptly execute and deliver to the City such partial releases, bills of sale and other documents as may be required to vest title to the items of Leased Property so released, free of the lien of any security interest provided for in the Lease, or other purchaser or recipient of such Leased Property.

Title. Title to the Leased Property shall be vested in the City, and the City has granted to the Lessor a security interest in the Leased Property until such time as all obligations of the City thereunder have been satisfied and discharged. The City covenants that it will do, execute, acknowledge, deliver and file of record, or cause to be done, executed, acknowledged, delivered and filed of record, such appropriate Nebraska Uniform Commercial Code (**"U.C.C."**) financing and continuation statements as may be required by law in order to create, vest and perfect in favor of the Lessor a U.C.C. security interest in and to the Leased Property. Upon the termination of the Lease, if the City has made all the payments due to the Lessor under the terms of the Lease, the Lessor will release and discharge such financing and continuation statements of record and shall provide the City with such other evidence as the City shall reasonably request evidencing that the Leased Property is free and clear of all liens and encumbrances, except any encumbrances permitted pursuant to the provisions of the Lease or caused by default of the City thereunder. The Leased Property shall remain personal property regardless of its attachment to realty, and the City agrees to take such action at its expense as may be necessary to prevent any third party from acquiring any interest in the Leased Property as a result of its attachment to realty.

Liens

The City has covenanted to keep the Leased Property free and clear of all levies, liens and encumbrances except those created under the Lease. The City has further covenanted to comply with all laws and regulations relating to the Leased Property and its use and shall promptly pay, if and when due, all sales, use, property, excise and other taxes and all license and registration fees now or hereafter imposed by any governmental body or agency upon the Leased Property or its use or the rentals thereunder excluding, however, any taxes on or measured by the Lessor's net income. Upon request by the Lessor, the City is required by the Lease to prepare and file all tax returns relating to taxes for which the City is responsible thereunder which the City is permitted to file under the laws of the applicable taxing jurisdiction.

Insurance

The City shall obtain and maintain on or with respect to the Leased Property at its own expense (a) liability insurance against liability for bodily injury and (b) property damage with a minimum limit of $1,000,000 combined single limit and physical damage insurance insuring against loss or damage to the

Leased Property in an amount not less than the full replacement value of the Leased Property. The City shall furnish the Lessor with a certificate of insurance evidencing the issuance of a policy or policies to the City in at least the minimum amounts required in the Lease, naming the Lessor as an additional insured thereunder for the liability coverage and as loss payee for the property damage coverage. Each such policy shall be in such form and with such insurers as may be satisfactory to the Lessor, and shall contain a clause requiring the insurer to give to the Lessor at least 10 days prior written notice of any alteration in the terms of such policy or the cancellation thereof, and a clause specifying that no action or misrepresentation by the City shall invalidate such policy. The Lessor shall be under no duty to ascertain the existence of or to examine any such policy or to advise the City in the event any such policy shall not comply with the requirements of the Lease. In the event that the City has been permitted to self-insure, the City will furnish the Lessor with a letter or certificate to such effect.

Loss, Damage or Destruction

In the event the Leased Property shall become lost, stolen, destroyed, damaged beyond repair or rendered permanently unfit for use for any reason, or in the event of condemnation or seizure of the Leased Property, the City shall promptly pay to the Registrar for the account of the Lessor the amount of all rent and other amounts payable by the City thereunder due but unpaid at the date of such payment plus such amount as shall be necessary to provide for the payment of the principal of and interest on the Certificates to maturity or earlier redemption as shall be determined by the City. Upon payment of such amount to the Registrar, the Leased Property shall become the property of the City, the Lessor will transfer to the City, without recourse or warranty, all of the Lessor's right, title and interest therein, and the rent thereunder shall terminate. The City shall pay any sales and use taxes due on such transfer. Any insurance or condemnation proceeds received shall be credited to the City's obligation under this paragraph and the City shall be entitled to any surplus.

Events of Default

Under the Lease, each of the following events shall constitute an **"Event of Default"**:

(a) the City fails to make each Rental Payment when due;

(b) the City fails to observe or perform any other agreement to be observed or performed by the City thereunder and the continuance thereof for 10 calendar days following written notice thereof by the Lessor to the City;

(c) the City makes an assignment for the benefit of creditors;

(d) the City files voluntarily, or has filed against it involuntarily, a petition for liquidation, reorganization, adjustment of debt, or similar relief under the federal Bankruptcy Code or any other present or future federal or state bankruptcy or insolvency law, or a trustee, receiver, or liquidator shall be appointed of it or all or a substantial part of its assets; and

(e) an event of default occurs under any other obligation of the City (or an assignee of the City) owed to the Lessor (or an assignee of the Lessor).

Damages and Remedies

The Lessor and the City have agreed that the Lessor's damages suffered by reason of an Event of Default are uncertain and not capable of exact measurement at the time the Lease is executed because the value of the Leased Property at the expiration of the Lease is uncertain, and therefore have agreed that the **"Lessor's Loss"** as of any date shall be the sum of the following: (a) the amount of all rent and other amounts payable by the City thereunder due but unpaid as of such date plus (b) such amount as shall be necessary to provide for the payment of the principal of and interest on the Certificates to maturity or earlier redemption as shall be determined by the Lessor.

Upon the occurrence of an Event of Default and at any time thereafter, the Lessor may exercise any one or more of the remedies listed in (1) through (5) below as the Lessor in its sole discretion may lawfully elect; provided, however, that upon the occurrence of an Event of Default specified in subsection (d) of **"Events of Default"** above, an amount equal to the Lessor's Loss as of the date of such occurrence shall automatically be and become immediately due and payable without notice or demand of any kind.

(1) The Lessor may, by written notice to the City, terminate the Lease and declare an amount equal to the Lessor's Loss as of the date of such notice to be immediately due and payable, and the same shall thereupon be and become immediately due and payable without further notice or demand, and all rights of the City to use the Leased Property shall terminate but the City shall be and remain liable as provided in this subsection. The City shall at its expense promptly deliver the Leased Property to the Lessor at a location or locations designated by the Lessor. The Lessor may also enter upon the premises where the Leased Property is located and take immediate possession of and remove the same with or without instituting legal proceedings.

(2) The Lessor may proceed by appropriate court action to enforce performance by the City of the applicable covenants of the Lease or to recover, for breach of the Lease, the Lessor's Loss as of the date the Lessor's Loss is declared due and payable thereunder; provided, however, that upon recovery of the Lessor's Loss from the City in any such action without having to repossess and dispose of the Leased Property, the Lessor shall transfer the Leased Property to the City at its then location upon payment of any additional amount due under subsections (3), (4) or (5) below.

(3) In the event the Lessor repossesses the Leased Property, the Lessor shall either retain the Leased Property in full satisfaction of the City's obligation thereunder or sell or lease each item of Leased Property in such manner and upon such terms as the Lessor may in its sole discretion determine. The proceeds of such sale or lease shall be applied to reimburse the Lessor for the Lessor's Loss and any additional amount due under subsections (4) or (5) below. The Lessor shall be entitled to any surplus and the City shall remain liable for any deficiency. For purposes of this subsection, the proceeds of any lease of all or any part of the Leased Property by the Lessor shall be the amount reasonably assigned by the Lessor as the cost of such Leased Property in determining the rent under such Lease.

(4) The Lessor may recover interest on the unpaid balance of the Lessor's Loss from the date it becomes payable until fully paid at the rate of 10% per annum.

(5) The Lessor may exercise any other right or remedy available to it by law or by agreement, and may in any event recover legal fees and other expenses incurred by reason of an Event of Default or the exercise of any remedy thereunder, including expenses of repossession, repair, storage, transportation and disposition of the Leased Property.

No remedy given under the Lease is intended to be exclusive, and each shall be cumulative but only to the extent necessary to permit the Lessor to recover amounts for which the City is liable thereunder. No express or implied waiver by the Lessor of any Event of Default shall constitute a waiver of any other Event of Default.

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APPENDIX C

FORM OF
DISCLOSURE DISSEMINATION AGENT AGREEMENT

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DISCLOSURE DISSEMINATION AGENT AGREEMENT

This **DISCLOSURE DISSEMINATION AGENT AGREEMENT** (the **"Disclosure Agreement"**), dated April 11, 2007, is executed and delivered by **THE CITY OF LINCOLN, NEBRASKA**, (the **"Lessee"**) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the **"Disclosure Dissemination Agent"** or **"DAC"**) for the benefit of the Holders (hereinafter defined) of the Certificates (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Certificates in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the **"Rule"**).

Section 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

"Annual Filing Date" means the date, set in **Sections 2(a)** and **(f)**, by which the Annual Report is to be filed with the Repositories.

"Annual Financial Information" means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in **Section 3(a)**.

"Annual Report" means an Annual Report described in and consistent with **Section 3**.

"Audited Financial Statements" means the financial statements (if any) of the Lessee for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in **Section 3(b)**.

"Certificates" means the Certificates as listed on the attached **Exhibit A**, with the 9-digit CUSIP numbers relating thereto.

"Certification" means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Voluntary Report or Notice Event notice delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Voluntary Report or Notice Event notice required to be submitted to the Repositories under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Lessee and include the full name of the Certificates and the 9-digit CUSIP numbers for all Certificates to which the document applies.

"Disclosure Dissemination Agent" means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Lessee pursuant to **Section 9**.

"Disclosure Representative" means the Finance Director, or his or her designee, or such other person as the Lessee shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

"Holder" means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through

nominees, depositories or other intermediaries) or (b) treated as the owner of any Certificates for federal income tax purposes.

"Information" means the Annual Financial Information, the Audited Financial Statements (if any) the Notice Event notices, and the Voluntary Reports.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

"National Repository" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The list of National Repositories maintained by the United States Securities and Exchange Commission shall be conclusive for purposes of determining National Repositories. Currently, the following are National Repositories:

1. DPC Data Inc.
   One Executive Drive
   Fort Lee, NJ 07024
   (201) 346-0701 (phone)
   (201) 947-0107 (fax)
   Email: nrmsir@dpcdata.com

2. FT Interactive Data
   Attn: NRMSIR
   100 William Street, 15th Floor
   New York, NY 10038
   (212) 771-6999; (800) 689-8466 (phone)
   (212) 771-7390 (fax)
   Email: NRMSIR@Interactivedata.com

3. Bloomberg Municipal Repository
   100 Business Park Drive
   Skillman, NJ 08558
   (609) 279-3225 (phone)
   (609) 279-5962 (fax)
   Email: Munis@Bloomberg.com

4. Standard & Poor's Securities Evaluations, Inc.
   55 Water Street
   45th Floor
   New York, NY 10041
   (212) 438-4595 (phone)
   (212) 438-3975 (fax)
   Email: nrmsir_repository@sandp.com

"Notice Event" means an event listed in **Sections 4(a)**.

"Official Statement" means that Official Statement prepared by the Lessee in connection with the Certificates, as listed on **Exhibit A**.

"Registrar" means the institution identified as such in the document under which the Certificates were issued.

"Repository" means the MSRB, each National Repository and the State Depository (if any).

"State Depository" means any public or private depository or entity designated by the State of Nebraska as a state information depository (if any) for the purpose of the Rule. The list of state information depositories maintained by the United States Securities and Exchange Commission shall be conclusive as to the existence of a State Depository. Currently, the following depositories are listed by the Securities and Exchange Commission as available State Depositories:

1. Municipal Advisory Council of Michigan
   1445 First National Building
   Detroit, MI 48226-3517
   (313) 963-0420 (phone)
   (313) 963-0943 (fax)
   MAC@macmi.com

2. Municipal Advisory Council of Texas
   PO Box 2177
   Austin, TX 78768-2177
   (512) 476-6947 (phone)
   (512) 476-6403 (fax)
   mac@mactexas.com

3. Ohio Municipal Advisory Council
   9321 Ravenna Road, Unit K
   Twinsburg, OH 44087-2445
   (330) 963-7444 (phone)
   (800) 969-OMAC (6622) (phone)
   (330) 963-7553 (fax)
   sid_filings@ohiomac.com

"Voluntary Report" means the information provided to the Disclosure Dissemination Agent by the Lessee pursuant to **Section 7**.

Section 2. Provision of Annual Reports.

(a) The Lessee shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than 30 days prior to the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to each National Repository and the State Depository (if any) not later than May 1 of each year commencing May 1, 2008. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in **Section 3**.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Lessee of its undertaking to provide the Annual Report pursuant to **Section 2(a)**. Upon such reminder, the Disclosure Representative shall either (1) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification) no later than two (2) business days prior to the Annual Filing Date, or (2) instruct the Disclosure Dissemination Agent in writing that the Lessee will not be able to file the Annual Report within the time required hereunder,

state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Notice Event as described in **Section 4(a)(12)** has occurred and to immediately send a notice to each National Repository or the MSRB and the State Depository (if any) in substantially the form attached as **Exhibit B**.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 12:00 noon on the first business day following the Annual Filing Date for the Annual Report, a Notice Event described in **Section 4(a)(12)** shall have occurred and the Lessee irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to each National Repository or the MSRB and the State Depository (if any) in substantially the form attached as **Exhibit B**.

(d) If Audited Financial Statements of the Lessee are prepared but not available prior to the Annual Filing Date, the Lessee shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certificate, together with a copy for the Trustee, for filing with each National Repository and the State Depository (if any).

(e) The Disclosure Dissemination Agent shall:

(1) determine the name and address of each Repository each year prior to the Annual Filing Date;

(2) upon receipt, promptly file each Annual Report received under **Section 2(a)** with each National Repository, and the State Depository, (if any);

(3) upon receipt, promptly file each Audited Financial Statement received under **Section 2(d)** with each National Repository, and the State Depository (if any);

(4) upon receipt, promptly file the text of each disclosure to be made with each National Repository and the State Depository (if any) together with a completed copy of the Event Notice Cover Sheet in the form attached as **Exhibit C**, describing the event by checking the box indicated below when filing pursuant to the Section of this Disclosure Agreement indicated:

A. "Principal and interest payment delinquencies," pursuant to **Sections 4(a)(1)** and **4(c)**;

B. "Non-Payment related defaults," pursuant to **Sections 4(a)(2)** and **4(c)**;

C. "Unscheduled draws on debt service reserves reflecting financial difficulties," pursuant to **Sections 4(a)(3)** and **4(c)**;

D. "Unscheduled draws on credit enhancements reflecting financial difficulties," pursuant to **Sections 4(a)(4)** and **4(c)**;

E. "Substitution of credit or liquidity providers, or their failure to perform," pursuant to **Sections 4(a)(5)** and **4(c)**;

F. "Adverse tax opinions or events affecting the tax-exempt status of the security," pursuant to **Sections 4(a)(6)** and **4(c)**;

G. "Modifications to rights of securities holders," pursuant to **Sections 4(a)(7)** and **4(c)**;

H. "Certificate calls," pursuant to **Sections 4(a)(8)** and **4(c)**;

I. "Defeasances," pursuant to **Sections 4(a)(9)** and **4(c)**;

J. "Release, substitution, or sale of property securing repayment of the securities," pursuant to **Sections 4(a)(10)** and **4(c)**;

K. "Ratings changes," pursuant to **Sections 4(a)(11)** and **4(c)**;

L. "Failure to provide annual financial information as required," pursuant to **Section 2(b)(ii)** or **Section 2(c)**, together with a completed copy of **Exhibit B** to this Disclosure Agreement;

M. "Other material event notice (specify)," pursuant to **Section 7**, together with the summary description provided by the Disclosure Representative.

(5) provide the Lessee evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Lessee may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent and the Repositories, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

Section 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Lessee, including such information as the City provides in its Comprehensive Annual Financial Report.

(b) Audited Financial Statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to **Section 2(d)**.

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Lessee is an "obligated person" (as defined by the Rule), which have been previously filed with each of the National Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Lessee will clearly identify each such document so incorporated by reference.

Section 4. Reporting of Notice Events.

(a) The occurrence of any of the following events, if material, with respect to the Certificates constitutes a Notice Event:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements relating to the Certificates reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions or events affecting the tax-exempt status of the Certificates;

7. Modifications to rights of Certificate holders;

8. Certificate calls;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the Certificates;

11. Rating changes on the Certificates; and

12. Failure to provide annual financial information as required.

The Lessee shall promptly notify the Disclosure Dissemination Agent in writing upon the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to **Section 4(c)**. Such notice shall be accompanied with the text of the disclosure that the Lessee desires to make, the written authorization of the Lessee for the Disclosure Dissemination Agent to disseminate such information, and the date the Lessee desires for the Disclosure Dissemination Agent to disseminate the information.

(b) The Disclosure Dissemination Agent is under no obligation to notify the Lessee or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within five business days of receipt of such notice, instruct the Disclosure Dissemination Agent that (1) a Notice Event has not occurred and no filing is to be made or (2) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to **Section 4(c)**, together with the text of the disclosure that the Lessee desires to make, the written authorization of the Lessee for the Disclosure Dissemination Agent to disseminate such information, and the date the Lessee desires for the Disclosure Dissemination Agent to disseminate the information.

(c) If the Disclosure Dissemination Agent has been instructed by the Lessee as prescribed in **Sections 4(a)** or **4(b)(2)** to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the State Depository (if any) and (1) each National Repository, or (2) the MSRB in accordance with **Section 2(e)(4)**.

Section 5. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, notices of Notice Events, and Voluntary Reports filed pursuant to **Section 7(a)**, the Lessee shall indicate the full name of the Certificates and the 9-digit CUSIP numbers for the Certificates as to which the provided information relates.

Section 6. Additional Disclosure Obligations. The Lessee acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Lessee, and that the failure of the Disclosure Dissemination Agent to so advise the Lessee shall not constitute a breach by the Disclosure Dissemination Agent of any of its duties and responsibilities under this Disclosure Agreement. The Lessee acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

Section 7. Voluntary Reports.

(a) The Lessee may instruct the Disclosure Dissemination Agent to file information with the Repositories, from time to time pursuant to a Certification of the Disclosure Representative accompanying such information (a **"Voluntary Report"**).

(b) Nothing in this Disclosure Agreement shall be deemed to prevent the Lessee from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice, in addition to that required by this Disclosure Agreement. If the Lessee chooses to include any information in any Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice in addition to that which is specifically required by this Disclosure Agreement, the Lessee shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Annual Financial Statement, Voluntary Report or Notice Event notice.

Section 8. Termination of Reporting Obligation. The obligations of the Lessee and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Certificates upon the legal defeasance, prior redemption or payment in full of all of the Certificates, when the Lessee is no longer an obligated person with respect to the Certificates, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized Certificate counsel to the effect that continuing disclosure is no longer required.

Section 9. Disclosure Dissemination Agent. The Lessee has appointed DAC as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Lessee may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Lessee or DAC, the Lessee agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Certificates. Notwithstanding any replacement or appointment of a successor, the Lessee shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Lessee.

Section 10. Remedies in Event of Default. In the event of a failure of the Lessee or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders'

rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Certificates or under any other document relating to the Certificates, and all rights and remedies shall be limited to those expressly stated herein.

Section 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Lessee has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Lessee and shall not be deemed to be acting in any fiduciary capacity for the Lessee, the Holders of the Certificates or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Lessee's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Lessee has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Lessee at all times.

TO THE EXTENT PERMITTED BY LAW, THE LESSEE AGREES TO INDEMNIFY AND SAVE THE DISCLOSURE DISSEMINATION AGENT AND ITS RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS, HARMLESS AGAINST ANY LOSS, EXPENSE AND LIABILITIES WHICH THEY MAY INCUR ARISING OUT OF OR IN THE EXERCISE OR PERFORMANCE OF THEIR POWERS AND DUTIES HEREUNDER, INCLUDING THE COSTS AND EXPENSES (INCLUDING ATTORNEYS FEES) OF DEFENDING AGAINST ANY CLAIM OF LIABILITY, BUT EXCLUDING LIABILITIES DUE TO THE DISCLOSURE DISSEMINATION AGENT'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

The obligations of the Lessee under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Certificates.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and neither of them shall incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The fees and expenses of such counsel shall be payable by the Lessee.

Section 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Lessee and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Lessee and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Certificates and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Lessee or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Lessee. No such amendment shall become effective if the Lessee shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Lessee, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of Florida (other than with respect to conflicts of laws).

Section 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The Disclosure Dissemination Agent and the Lessee have caused this Disclosure Dissemination Agent Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C., Disclosure Dissemination Agent

By: _____
Name: _____
Title: _____

THE CITY OF LINCOLN, NEBRASKA, Lessee

By: _____
Name: Don Herz
Title: Finance Director

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Lessee: **The City of Lincoln, Nebraska**

Name of Issue: **Certificates of Participation – Lease Rentals (Series 2007)**

Date of Issuance: **April 11, 2007**

NOTICE IS HEREBY GIVEN that the Lessee has not provided an Annual Report with respect to the above named Certificates as required by the Disclosure Agreement, dated as of April 11, 2007 between the Lessee and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Lessee has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____.

Dated: _____

Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent, on behalf of the Lessee

_____

cc: Lessee

APPENDIX D

BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

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

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 Certificates. The Certificates 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 Certificates, 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 Standard & Poor's highest rating: AAA. 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 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate (**"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 Certificates 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 Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates 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 Certificates 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 Certificates; 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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of the Certificates may wish to ascertain that the nominee holding the Certificates 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 Certificates 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 Certificates 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 Certificates 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 Certificates 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 detail 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 Certificates 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 Certificates 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, Certificate 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, Certificates 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 Certificates from DTC (or such successor securities depository), Certificates may be delivered to Beneficial Owners upon compliance with DTC's withdrawal procedures then in effect.

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APPENDIX E

FORM OF OPINION OF SPECIAL TAX COUNSEL

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April ___, 2007

Union Bank & Trust Company
Lincoln, Nebraska

Morgan Stanley DW Inc.
Purchase, New York

RE: Lease-Purchase Agreement dated April 11, 2007 (the "Lease") by and between Union Bank & Trust Company (the "Lessor") and The City of Lincoln, Nebraska (the "City")

Ladies and Gentlemen:

We have acted as special tax counsel in connection with the execution and delivery of the Lease and the issuance of Certificates of Participation (the "Certificates"), evidencing proportionate interests of the owners thereof in Rental Payments to be made by the City under the Lease. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Lease.

We have examined (a) the Lease, (b) certifications of officers and officials of the City and others, and (c) the form of the Certificates. In addition, we have reviewed and considered the Internal Revenue Code of 1986, as amended (the "Code"), and the applicable regulations thereunder promulgated by the United States Treasury Department.

In rendering the opinions set forth herein, we have assumed without undertaking to verify the same by independent investigation, (a) as to questions of fact, the accuracy of all representations of the Lessor and the City set forth in the Lease and all certificates of and officials of the Lessor, the City and others examined by us, and (b) the conformity to original documents of all documents submitted to us as copies and the authenticity of such original documents and all documents submitted to us as originals.

Based upon and subject to the foregoing, we are of the opinion, under existing law, as follows:

1. The Lease has been duly authorized, executed and delivered by the City and constitutes a legal, valid and binding agreement of the City, enforceable in accordance with its terms.

2. The Certificates have been duly authorized, executed and delivered in accordance with the Lease, are entitled to the benefits and security of the Lease and evidence interests in the right to

receive Rental Payments under the Lease, which right to receive Rental Payments is enforceable against the City in accordance with the terms of the Certificates and the Lease.

3. The interest portion of each Rental Payment represented by the Certificates is excluded from gross income for federal and Nebraska income tax purposes and is not an item of tax preference for purposes of federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest portions are taken into account in determining adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the execution and delivery of the Lease and the Certificates in order that the interest portions of Rental Payments represented by the Certificates be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest portions of Rental Payments in gross income for federal and Nebraska income tax purposes retroactive to the date of execution and delivery of the Lease. The City's obligation to pay Rental Payments under the Lease has not been designated as a "qualified tax-exempt obligation" for purposes of Section 265(b)(3) of the Code. We express no opinion regarding other federal tax consequences arising with respect to the Certificates.

We express no opinion as to the title to or the description of the property subject to the Lease.

The rights of the owners of the Certificates and the enforceability of the Certificates and the Lease may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent applicable and their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Certificates (except to the extent, if any, stated in the Official Statement) and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

Very truly yours,