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 deferred 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.

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

Type	Carrying Value	August 31, 2005 Maturities in Years 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.

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

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

The Police & Fire Pension Trust is allowed to invest in domestic and international equity funds, domestic and foreign bonds, real estate, 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	General Obligation Bonds		Tax-Supported Revenue Bonds		Capital Leases	
August 31	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	Business-Type Activities			
	Revenue Bonds		Capital Leases	
August 31	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	Major Funds					
	Wastewater System		Water System		Electric System	
August 31	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.