

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

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

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

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

OFFICIAL STATEMENT
\$8,295,000
THE CITY OF LINCOLN, NEBRASKA
GENERAL OBLIGATION STORMWATER DRAINAGE
AND FLOOD MANAGEMENT SYSTEM BONDS
SERIES 2007

Dated: date of delivery

Due: June 1, as shown below

The Bonds are issuable in fully registered form and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Bonds. Purchases of the Bonds will be originally made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC participants. Beneficial owners of the Bonds will not receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Bonds. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal or redemption price of and interest on the Bonds will be made directly to DTC. Interest is payable on June 1 and December 1 of each year, beginning December 1, 2007. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of the DTC participants. Wells Fargo Bank, National Association, Lincoln, Nebraska, is bond registrar and paying agent for the Bonds (the "Registrar"). For terms relating to principal and interest payments made to DTC or its nominee or in the event that the use of book-entry form is discontinued, see "THE BONDS - Book-Entry System."

The Bonds are being issued to provide a portion of the funds necessary to (a) pay the costs of designing, engineering, acquiring, constructing and and/or furnishing extensions of and improvements to the City's stormwater drainage and flood management system and (b) pay certain costs of issuing the Bonds. See "THE PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The full faith and credit of the City is pledged to the prompt payment of the principal or redemption price of and interest on the Bonds. The Bonds are payable from ad valorem taxes, unlimited as to rate and amount, levied by the against all taxable property in the City. See "SECURITY" and "NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION."

The Bonds maturing on or after June 1, 2018 are subject to optional redemption prior to maturity at any time on or after June 1, 2017 as set forth herein. See "THE BONDS - Optional Redemption."

MATURITY SCHEDULE

<u>Maturity (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u>	<u>Maturity (June 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u>
2008	\$255,000	5.000%	3.82%	101.062%	534238 3W 8	2018	\$420,000	5.000%	4.35%*	105.191%	534238 4G 2
2009	245,000	5.000	3.90	102.020	534238 3X 6	2019	435,000	5.000	4.39*	104.862	534238 4H 0
2010	260,000	5.000	3.98	102.789	534238 3Y 4	2020	455,000	5.000	4.43*	104.535	534238 4J 6
2011	270,000	5.000	4.04	103.451	534238 3Z 1	2021	470,000	4.625	4.61*	100.115	534238 4K 3
2012	330,000	5.000	4.09	104.021	534238 4A 5	2022	490,000	4.750	4.61*	101.101	534238 4L 1
2013	345,000	5.000	4.13	104.530	534238 4B 3	2023	515,000	4.750	4.66*	100.705	534238 4M 9
2014	360,000	5.000	4.17	104.946	534238 4C 1	2024	535,000	4.750	4.69*	100.468	534238 4N 7
2015	370,000	5.000	4.20	105.344	534238 4D 9	2025	560,000	4.750	4.72*	100.232	534238 4P 2
2016	385,000	5.000	4.24	105.596	534238 4E 7	2026	585,000	4.750	4.74*	100.075	534238 4Q 0
2017	400,000	5.000	4.29	105.687	534238 4F 4	2027	610,000	4.750	4.75	100.000	534238 4R 8

*Yield to date of earliest optional redemption.

The Bonds are offered when, as, and if issued, subject to the approval of legality by Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel. It is expected that the Bonds will be available for delivery through DTC on or about June 27, 2007.

PRAGER, SEALY & CO., LLC

AMERITAS INVESTMENT CORP.
has acted as Financial Advisor

The date of this Official Statement is June 13, 2007

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

Christopher J. Beutler, Mayor

City Council Members

Dan Marvin (Chair)

Robin Eschliman (Vice Chair)
Jon Camp
Jonathan Cook

Doug Emry
John Spatz
Ken Svoboda

City Department Heads

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

Peggy Watchorn, Controller

Financial Advisor

Ameritas Investment Corp.
Lincoln, Nebraska

Bond Counsel

Gilmore & Bell, P.C.
Lincoln, Nebraska

Paying Agent And Registrar

Wells Fargo Bank, National Association
Lincoln, Nebraska

Independent Auditors

BKD, LLP
Lincoln, Nebraska

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

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THIS OFFICIAL STATEMENT IS NOT, AND MAY NOT BE CONSTRUED AS, A CONTRACT WITH THE PURCHASERS OF THE BONDS. STATEMENTS CONTAINED IN THE OFFICIAL STATEMENT WHICH INVOLVE ESTIMATES, FORECASTS, OR MATTERS OF OPINION, WHETHER OR NOT EXPRESSLY SO DESCRIBED HEREIN, ARE INTENDED SOLELY AS SUCH AND ARE NOT TO BE CONSTRUED AS A REPRESENTATION OF FACTS.

THE UNDERWRITER INTENDS TO OFFER THE BONDS INITIALLY AT THE OFFERING PRICES SET FORTH ON THE COVER PAGE OF THIS OFFICIAL STATEMENT, WHICH MAY SUBSEQUENTLY CHANGE WITHOUT ANY REQUIREMENT OF PRIOR NOTICE. IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET, AND SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT.

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OFFICIAL STATEMENT

\$8,295,000

THE CITY OF LINCOLN, NEBRASKA GENERAL OBLIGATION STORMWATER DRAINAGE AND FLOOD MANAGEMENT SYSTEM BONDS SERIES 2007

INTRODUCTION

This Official Statement, including the preceding pages and appendices hereto, is furnished by The City of Lincoln, Nebraska (the “City”), a home rule city of the primary class and political subdivision of the State of Nebraska (the “State”), to provide information about the City, certain improvements to and extensions of the City’s stormwater drainage and flood management system, and the City’s \$8,295,000 General Obligation Stormwater Drainage and Flood Management System Bonds, Series 2007 (the “Bonds”). See “**THE PROJECT**” for a discussion of the stormwater drainage and flood management system improvements being constructed with the proceeds of the Bonds. Wells Fargo Bank, National Association, Lincoln, Nebraska is bond registrar and paying agent for the Bonds (the “**Registrar**”).

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

AUTHORITY

The City is issuing the Bonds under the authority of Sections 15-244 and 18-506, Reissue Revised Statutes of Nebraska, as amended, Article IX, Sections 39 to 43, inclusive, of the Home Rule Charter of the City, and Ordinance No. 18931 duly passed by the Council on June 11, 2007 and approved by the Mayor on June 13, 2007 (the “**Bond Ordinance**”). A proposition authorizing the issuance of general obligation bonds of the City in an amount not to exceed \$8,500,000 for the purpose of paying the costs of the stormwater drainage and flood management system improvements was approved by a vote of 24,593 in favor of (approximately 53.78%) and 21,138 opposed to the question at an election held in the City on May 1, 2007.

SECURITY

The full faith and credit of the City has been pledged to the payment of the principal or redemption price of and interest on the Bonds. The City has the power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property subject to taxation by the City sufficient to pay the principal or redemption price of and interest on the Bonds, which taxes shall be in excess of and in addition to all other taxes now or hereafter authorized to be levied by the City. See “**NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION.**”

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

NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION

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

The City’s tax base growth has exceeded the base limitation of 2.5% each year the Budget Limitations have been in effect. For the 2006-2007 fiscal year, the City was permitted to increase its appropriation of restricted funds under the Budget Limitations by 2.8%. Unused restricted fund authority from prior years can be carried over into future fiscal years to use in addition to the annual increases allowed. As of August 31, 2006, the City had accumulated \$5,276,335 of unused restricted funds authority which would be available for future fiscal years.

The Legislature has also enacted Section 77-3442, Reissue Revised Statutes of Nebraska, as amended, and related sections (collectively, the “**Levy Limitations**”), to provide overall limitations on the property tax levies of political subdivisions, including the City. The Levy Limitations expressly exclude any property taxes levied for bonded indebtedness. The maximum levy for the City is presently set at 45¢ per \$100 of taxable valuation with an additional 5¢ per \$100 of taxable valuation available to provide for the City’s share of revenue required under any agreement executed by the City with another governmental unit pursuant to the Interlocal Cooperation Act or the Joint Public Agency Act. The City’s current levy (excluding its bond levy) is 24.57¢ per \$100 of taxable valuation on all the taxable property within the City.

Ad valorem taxes levied to pay debt service on the Bonds are not subject to either the Budget Limitations or the Levy Limitations. The City is authorized to levy ad valorem taxes without limitation as to rate or amount upon all of the taxable property in the City sufficient to pay the principal or redemption price of and interest on the Bonds, which taxes may be in excess of and in

addition to all other taxes now or hereafter authorized to be levied by the City. The authority of the City to levy such taxes with respect to the Bonds is not subject to any charter, statutory or constitutional limitations.

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

THE PROJECT

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

- Design and construction of 10 urban storm drainage projects.
- Design and/or construction for six project in master planned basins
- Engineering and projects for floodplain and areas prone to flooding
- Stream rehabilitation on City park property
- Water quality projects incorporating best management practices
- Preliminary engineering for urban drainage deficiencies for future project planning
- Preliminary engineering for basin master plans to model drainage and future project planning

ESTIMATED SOURCES AND USES OF FUNDS

SOURCES OF FUNDS:

Principal Amount of Bonds	\$8,295,000.00
Plus Original Issue Premium	<u>212,389.05</u>
TOTAL SOURCES:	<u>\$8,507,389.05</u>

USES OF FUNDS:

Project Costs	\$8,437,170.68
Underwriter’s Discount and Costs of Issuance	<u>70,218.37</u>
TOTAL USES:	<u>\$8,507,389.05</u>

THE BONDS

General

The Bonds will be initially issued in fully registered, book-entry form, in denominations of \$5,000 or any integral multiple thereof, will have a date of original issue (the “**Date of Original Issue**”) of the date of delivery thereof, will bear interest from the Date of Original Issue payable on June 1 and December 1 of each year, commencing December 1, 2007, will mature on June 1 in the years and in the principal amounts, and will bear interest at the rates (calculated on the basis of a 30-day month and a 360-day year)

as set forth on the cover page of this Official Statement. Each installment of interest will be payable by check or draft mailed by the Registrar on the due date thereof (or on the next business day if such due date falls on a Saturday, Sunday or bank holiday applicable to the Registrar) to the registered owner of a Bond as shown on the bond registration records of the City maintained by the Registrar as of the Record Date (hereinafter defined). The principal of each Bond will be payable upon the surrender of such Bond to the Registrar. The **“Record Date”** for each installment of interest shall be the 15th day (whether a business day or not) of the calendar month next preceding such interest payment date.

Book-Entry System

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

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

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

Interchangeability and Transfer

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

In all cases in which the privilege of exchanging or transferring the Bonds is exercised, the City shall execute and the Registrar shall deliver the Bonds in accordance with the Bond Ordinance. For every such transfer or exchange of Bonds, the Registrar shall require the payment by the registered owner requesting such transfer or exchange of any tax or other governmental charges payable with respect thereto, and may charge a sum not exceeding the actual cost for each new Bond.

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

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

Optional Redemption

Bonds maturing on or prior to June 1, 2017 are not subject to redemption prior to their stated maturities. Bonds maturing on or after June 1, 2018 are subject to redemption prior to maturity at the option of the City in whole or in part, at any time on or after June 1, 2017 in such principal amounts and from such maturity or maturities as the City shall specify and by lot in integral multiples of \$5,000 within a maturity at a redemption price equal to 100% of the principal amount then being redeemed, together with accrued interest on such principal amount to the date fixed for redemption.

Notice and Effect of Call for Redemption

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

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

RATINGS

Moody's Investors Service has assigned the Bonds the rating of "Aaa" and Standard & Poor's, a division of The McGraw-Hill Companies, has assigned the Bonds the rating of "AAA." Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained from Moody's Investors Service, 99 Church Street, New York, New York 10007, telephone (212) 553-0300, and Standard & Poor's Ratings Services, 55 Water Street, New York, New York, 10041, telephone (212) 438-2124.

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

TAX MATTERS

General

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

Bonds Purchased at a Premium. Bonds maturing in the years 2008 to 2026, inclusive, have an initial offering price that exceeds the stated redemption price of the Bond at maturity. The excess of the purchase price of a Bond over its stated redemption price at maturity constitutes premium on such Bond. A purchaser of a Bond must amortize any premium over such Bond’s term using constant yield principles, based on the purchaser’s yield to maturity. As premium is amortized, the amount of tax-exempt interest deemed received by the purchaser and the purchaser’s basis in such Bond are both reduced by a corresponding amount. The adjustment to a purchaser’s tax basis will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed.

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

Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Bonds.

Other Tax Consequences

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

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

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

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

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

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

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

Constitutional Challenge of Kentucky State Income Tax Exemption for Interest Paid on Tax-Exempt Bonds

On May 21, 2007, the U.S. Supreme Court agreed to review a decision by a Kentucky state court regarding a statute that exempts interest on bonds issued by the state of Kentucky and political subdivisions of Kentucky but does not extend that exemption to interest on bonds issued by other states and political subdivisions. The court concluded that the exemption for interest on Kentucky bonds violated the Commerce Clause in the U.S. Constitution, as the state statute did not extend the exemption to interest paid on bonds issued in other states.

Bond Counsel will render its opinion that the interest on the Bonds is exempt from income taxation by the State of Nebraska. Nebraska law is similar to the Kentucky statute that is being challenged, and exempts interest on Nebraska bonds, but not the interest on bonds issued in other states.

The City cannot predict either the outcome of the Kentucky case to be heard by the Supreme Court or what impact that case might have on the exemption from Nebraska income tax of interest on the Bonds. Purchasers of the Bonds should consult their own tax advisors as to the potential impact on the Bonds of a decision by the U.S. Supreme Court in this matter.

No Additional Interest or Mandatory Redemption upon Event of Taxability

The Ordinance does not provide for the payment of additional interest or penalty on the Bonds or the mandatory redemption thereof if the interest thereon becomes includable in gross income for federal income tax purposes. Likewise, the Ordinance does not provide for the payment of any additional interest or penalty on the Bonds if the interest thereon becomes includable in gross income for Nebraska income tax purposes.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City by not later than May 1 of each year (the “**Annual Report**”), commencing May 1, 2008, and to provide notices of the occurrence of certain enumerated events, if material, using the services of Digital Assurance Certification, L.L.C. as dissemination agent (the “**Dissemination Agent**”). The Annual Report will be filed by the Dissemination Agent with each Nationally Recognized Municipal Securities Information Repository. Notices of material events will be

filed by the Dissemination Agent with the Municipal Securities Rulemaking Board. The proposed form of the Dissemination Agent Agreement between the City and the Dissemination Agent is attached to this Official Statement as **“APPENDIX C – FORM OF DISCLOSURE DISSEMINATION AGENT AGREEMENT.”** These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5) (the **“Rule”**).

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

LITIGATION

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the City, nor the title of the members of the Council or other officers of the City to their respective offices is being contested or questioned.

There is no litigation pending that in any manner questions the right of the City to pass the Bond Ordinance pursuant to which the Bonds are being issued.

LEGAL MATTERS

All legal matters incident to the authorization and issuance of the Bonds are subject to the approval of Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel. Bond Counsel has participated in the preparation of this Official Statement, but the factual and financial information appearing herein has been supplied or reviewed by certain officials of the City and certified public accountants, as referred to herein, and Bond Counsel expresses no opinion as to the accuracy or sufficiency thereof except for the information under **“THE BONDS,” “LEGAL MATTERS”** and **“TAX MATTERS.”**

INDEPENDENT AUDITORS

The financial statements and schedules of the City for the year ended August 31, 2006, included in **“APPENDIX B – FINANCIAL STATEMENTS,”** have been audited by BKD LLP, independent auditors, as stated in their report appearing herein.

MISCELLANEOUS

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

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

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APPENDIX A

THE CITY OF LINCOLN

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THE CITY OF LINCOLN

General

Lincoln, the capital of Nebraska, is located in southeastern Nebraska near the center of population of the state. The City was originally incorporated in 1869. It is approximately midway between Chicago and Denver. It has an area of 85.76 square miles, and in its growth and development has annexed five other municipalities so that the City includes most of the urban area of Lancaster County. It enjoys a unique position in Nebraska as the center of the state governmental and educational activities. It is currently one of the fastest growing non-Sunbelt cities in the U.S. and one of the fastest growing metro areas in the Midwest.

Population

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

City Government

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

City government has a broad range of responsibilities, including electric, water, and sanitary sewer systems, and an impressive park and playground system of over 6,114 acres maintained for public use, eleven public swimming pools, and five public golf courses. The City has cooperated actively with the county government in several joint governmental buildings, and in other specific areas of responsibility, including health, planning, civil defense, data processing, tax collection, parks, and jail facilities. There are cooperative agreements with the United States government on parks and flood control, with the University of Nebraska on planning and property transfer, with the area Watershed District on flood control, and with the Lincoln School District on recreation.

Transportation

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

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

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

Government Center

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

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

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

Education

The University of Nebraska, with approximately 21,000 students, Nebraska Wesleyan University, with approximately 1,950 students, Union College, with approximately 800 students, Hamilton College, with approximately 500 students and Southeast Community College, with approximately 10,000 students and with a number of facilities for both full-time and part-time occupational training, are in the City of Lincoln. The City's modern and progressive school system, with an enrollment of over 32,000 is served by 6 senior high schools, 10 middle schools, and 36 elementary schools. Lincoln is home to nearly 30 private and parochial schools. Lincoln's private school offerings range from pre-K to high school institutions. Affiliations include Roman Catholic, Lutheran, SDA, and nondenominational Christian.

Building Permits and Property Values

LAST TEN YEARS

FISCAL YEAR	COMMERCIAL 1 CONSTRUCTION		RESIDENTIAL 1 CONSTRUCTION		PROPERTY VALUE 2		TOTALS
	# PERMITS	VALUE	# PERMITS	VALUE	COMMERCIAL	RESIDENTIAL	
2006	1,088	\$ 263,006,153	3,150	\$ 195,885,622	\$ 3,814,534,869	\$ 9,083,290,211	\$ 12,897,825,080
2005	1,092	\$ 204,677,969	3,387	\$ 277,158,200	\$ 3,694,097,147	\$ 8,727,702,573	\$ 12,421,799,720
2004	1,061	258,670,339	3,846	321,126,701	3,598,787,015	8,402,403,364	12,001,190,379
2003	1,036	269,298,229	3,913	315,666,242	3,094,988,486	7,255,640,292	10,350,628,778
2002	1,013	245,476,386	3,405	262,293,941	2,855,200,333	7,048,688,380	9,903,888,713
2001	1,017	215,856,679	3,212	231,390,626	2,540,905,431	6,273,610,610	8,814,516,041
2000	1,069	181,983,107	3,385	225,622,611	2,356,367,014	6,067,493,586	8,423,860,600
1999	1,148	186,569,754	3,235	206,065,342	2,132,780,337	5,726,511,673	7,859,292,010
1998	1,093	119,532,867	3,109	185,894,741	2,001,814,878	4,863,604,491	6,865,419,369
1997	1,107	90,599,429	3,284	191,975,903	1,834,275,313	4,676,645,258	6,510,920,571

¹ City of Lincoln, Building and Safety Department.

² Lancaster County Assessor.

Police and Fire Protection

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

City Employee Information

For the 2006-2007 fiscal year, contracts have been signed with all of our unions. Unions include: the Lincoln Police Union (LPU) representing police officers; the International Association of Firefighters (IAF) representing firefighters, the Amalgamated Transit Union (ATU) representing transit workers, the Public Association of Government Employees (PAGE) representing labor, trades, and clerical personnel, and the City Employees Association (CEA) representing supervisory, highly technical, and professional personnel. The LPU, IAF, CEA and PAGE contracts expire at the end of August, 2008; and the ATU contract expires at the end of August, 2009.

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

SELECTED ECONOMIC INDICATORS

LINCOLN SMSA (LANCASTER COUNTY) NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

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

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

LINCOLN SMSA (LANCASTER COUNTY LABOR FORCE DATA 1997-2006) (For the Calendar Year Indicated)

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

STATE OF NEBRASKA

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

Source: State of Nebraska, Department of Labor

**DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

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

Sources:

1 Lincoln/Lancaster Planning Department.

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

Per Capital Income is based on Lincoln Metropolitan Statistical Area, which includes all of Lancaster and Seward Counties

Per Capita Income for 2005 and 2006 is unavailable.

3 Lincoln Public Schools.

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

**LINCOLN UTILITY CUSTOMERS
LAST TEN YEARS**

<u>Year</u>	<u>Water Customers</u>	<u>Gas Customers</u>	<u>Electricity Customers</u>
2006	75,919	92,824	123,376
2005	74,649	92,152	121,508
2004	73,059	91,046	119,456
2003	72,260	89,642	116,974
2002	69,704	89,085	114,388
2001	68,187	87,749	112,247
2000	66,956	86,501	110,414
1999	65,823	85,156	108,194
1998	64,423	80,770	105,970
1997	63,241	79,490	103,616

Source: Indicated Utility Companies

SELECTED FINANCIAL STATISTICS

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION ¹ LAST TEN FISCAL YEARS

Fiscal Year	General Government	Public Safety	Streets And Highways	Culture And Recreation	Economic Opportunity	Health And ³ Welfare	Mass ² Transit	Debt Service	Totals
2006	\$ 34,666,641	60,064,604	16,928,575	20,938,212	12,623,307	25,566,267	8,901,327	11,016,269	190,705,202
2005	32,532,685	58,669,932	17,064,845	21,669,847	14,870,592	19,126,931	8,306,921	10,562,993	182,804,746
2004	30,884,544	55,272,920	13,633,902	22,308,940	14,728,510	18,544,667	10,525,090	7,914,521	173,813,094
2003	28,938,852	50,933,285	12,317,663	19,935,823	16,469,645	17,614,751	7,996,019	8,507,223	162,713,261
2002	27,237,134	49,913,169	10,833,055	16,974,798	14,017,601	17,989,603	12,691,837	7,411,878	157,069,075
2001	23,821,580	48,122,074	11,175,059	14,806,760	12,559,336	15,862,462	-	7,742,690	134,089,961
2000	23,529,495	44,042,882	9,039,840	13,958,414	11,204,029	13,974,690	-	7,924,295	123,673,645
1999	21,891,174	41,555,922	9,406,531	13,254,994	10,215,261	11,709,801	-	9,181,071	117,214,754
1998	30,170,768	41,140,827	8,992,439	13,111,328	12,009,990	10,979,131	-	9,651,132	126,055,615
1997	17,791,275	35,073,010	10,348,129	12,655,548	8,581,741	9,491,687	-	7,807,532	101,748,922

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

² StarTran added as a Governmental Fund in 2002.

³ Community Health Permanent Endowment Fund added as a Governmental Fund in 1999.

GENERAL REVENUES BY SOURCE ¹ LAST TEN FISCAL YEARS

Fiscal Year	Taxes And Special Assessment	Inter-Governmental	Permits And Fees	Reimbursement For Services	Investment Earnings	Other	Totals
2006	\$ 121,857,986	60,757,501	18,423,079	7,063,192	4,082,196	7,886,377	220,070,331
2005	119,318,079	63,180,171	16,535,049	6,936,334	4,327,311	12,028,417	222,325,361
2004	114,756,962	58,619,699	15,593,326	6,322,870	5,207,711	10,188,520	210,689,088
2003	107,114,577	52,773,424	12,679,623	6,097,336	4,353,336	8,234,138	191,252,434
2002 ²	105,139,052	59,029,609	12,449,879	5,605,557	4,606,825	10,325,634	197,156,556
2001	95,016,014	48,619,317	9,638,475	5,071,766	8,005,027	9,146,189	175,496,788
2000	92,305,453	35,807,100	9,838,029	4,896,203	9,330,374	10,246,196	162,423,355
1999 ³	88,259,613	35,600,952	8,685,268	4,366,482	8,016,026	7,684,411	152,612,752
1998	84,391,111	41,035,908	9,131,287	3,709,572	4,726,874	9,389,155	152,383,907
1997	82,736,034	27,424,737	7,903,461	5,094,910	3,849,287	7,268,050	134,276,479

¹ Includes General, Special Revenue and Debt Service Funds.

² StarTran added as a Governmental Fund in 2002.

³ Community Health Permanent Endowment Fund added as a Governmental Fund in 1999.

**SPECIAL ASSESSMENT COLLECTIONS
LAST TEN YEARS ¹**

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

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

Authority to Levy Taxes

Article IX, Section 3 of the Home Rule Charter of the City provides that the City shall have power to levy a tax each year for general revenue purposes upon all property subject to taxation; provided that the maximum amount of taxes that can be levied by the City in any one year for general revenue purposes shall not exceed an amount known as the City tax limit. The City tax limit is a tax ceiling established by using the September 1, 1966 City dollar tax limit as an initial tax limit, and increasing that tax limit each year following 1966 by 7% so that in each fiscal year thereafter, the amount of the City tax limit shall be the amount of the city tax limit for the previous year, plus 7% thereof. In addition, the City also has the power to levy taxes each year sufficient to pay any judgment existing against the City and the interest on bonded debt and the principal on any bonded debt maturing during the fiscal year or within six months thereafter, as well as taxes authorized by state law. The City is also authorized to receive all taxes collected and distributed pursuant to state law and in lieu of tax payments imposed by law. The 2006 tax levy for the 2006-2007 fiscal year is \$68,512,344 below the legal limit, a tax rate per \$100 valuation of .28337. The assessed value upon which the 2006 levy is based is \$15,342,163,788. Only 90% of the property tax levy may be appropriated, by charter.

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

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

The fiscal year of the City begins September 1 and ends August 31. Taxes are levied in October. First installments of real estate taxes are delinquent the following April 1, second installments delinquent August 1; personal property taxes are delinquent April 1 and August 1. Delinquent taxes bear 14 percent interest. The figures below include interest and penalties.

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

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

TEN LARGEST TAXPAYERS

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

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

CITY SALES TAX INFORMATION

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

SALES AND USE TAX COLLECTIONS LAST TEN YEARS

<u>Year Ended</u> <u>August 31</u>	<u>Amount</u>
2006	\$ 54,270,346
2005	53,781,209
2004	51,869,477
2003	48,657,268
2002	45,393,491
2001	44,486,127
2000	43,608,313
1999	41,642,771
1998	37,479,413
1997	36,549,194

GENERAL FUND TAX COLLECTIONS LAST TEN YEARS

<u>Fiscal</u> <u>Year</u>	<u>Property and</u> <u>Motor Vehicle</u> <u>Taxes</u>	<u>Sales and</u> <u>Use Taxes</u>	<u>Insurance</u> <u>Taxes</u>	<u>Sundry</u> <u>Taxes</u>	<u>Taxes</u> <u>In Lieu</u>	<u>Occupation</u> <u>Taxes</u>	<u>Total</u>
2006	\$ 28,366,526	54,270,346		9,526	1,315,038	8,936,502	92,897,938
2005	26,727,618	53,781,209		12,445	1,159,742	9,169,791	90,850,805
2004	24,546,532	51,869,477		9,263	1,144,747	9,037,781	86,607,800
2003	22,780,085	48,657,268		10,876	1,199,507	8,831,712	81,479,448
2002	23,353,414	45,393,491		8,403	1,163,468	9,097,442	79,016,218
2001	20,284,364	44,486,127		8,497	1,107,183	5,889,097	71,775,268
2000	19,487,198	43,608,313		8,522	1,043,287	5,651,371	69,798,691
1999	20,741,154	41,642,771		17,516	1,080,495	5,721,321	69,203,257
1998	18,953,860	37,479,413	889,226	8,647	944,612	4,743,649	63,019,407
1997	19,642,898	36,549,194	921,550	14,903	960,260	4,783,841	62,872,646

**TAXABLE ASSESSED VALUATION
LAST TEN YEARS ¹**

Tax Year		Real Estate	All Other	Total
2006	\$	12,897,825,080	685,425,215	13,583,250,295
2005		12,421,799,720	716,716,506	13,138,516,226
2004		12,001,190,379	742,915,013	12,744,105,392
2003		10,350,628,778	779,959,389	11,130,588,167
2002		9,903,888,713	820,797,124	10,724,685,837
2001		8,814,516,041	806,431,814	9,620,947,855
2000		8,423,860,600	716,780,457	9,140,641,057
1999		7,859,292,010	660,609,204	8,519,901,214
1998		6,865,419,369	637,669,384	7,503,088,753
1997		6,510,920,571	525,762,951	7,036,683,522

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

**TOTAL PROPERTY TAX LEVIES
ALL OVERLAPPING GOVERNMENTS
LAST TEN YEARS ***

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

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

DEBT MANAGEMENT

OUTSTANDING INDEBTEDNESS AS OF AUGUST 31, 2006

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

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

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

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

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

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

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

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

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

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

Established by City Ordinance, LES may borrow up to \$150 million under a commercial paper note program. At December 31, 2005, LES had \$90.0 million of tax exempt commercial paper notes outstanding. The notes mature at various dates but not more than 270 days after the date of issuance. The weighted-average interest rate for the year ended December 31, 2005, was 2.3 percent. The annual requirement to pay interest on this outstanding debt is approximately \$2.0 million. The outstanding commercial paper notes are secured by a revolving credit agreement which provides for borrowings up to \$150 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement LES can either settle or refinance the commercial paper upon maturity.

The general obligation debt of all local governmental units which provide services within the City's boundaries and which debt must be borne by properties in the City (commonly called overlapping debt) as of August 31, 2006, is summarized below (unaudited):

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

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

Debt Payment Record

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

Contingencies

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

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

Fiscal Year	Principal	Interest ³	Total Debt Service	Total General Governmental Expenditures ^{1,2,4}	Ratio Of Debt Service To Total General Expenditures
2006	\$ 5,770,794	\$ 4,670,734	\$ 10,441,528	\$ 190,705,202	5.48 %
2005	5,421,699	4,860,926	10,282,625	182,804,746	5.62
2004	4,934,224	2,893,437	7,827,661	173,813,094	4.50
2003	5,435,370	2,986,634	8,422,004	162,713,261	5.18
2002	4,921,172	2,421,303	7,342,475	157,069,075	4.67
2001	4,966,405	2,753,247	7,719,652	134,089,961	5.76
2000	5,125,296	2,772,021	7,897,317	123,673,645	6.39
1999	4,209,267	2,301,745	6,511,012	117,214,754	5.55
1998	4,927,317	2,329,696	7,257,013	126,055,615	5.76
1997	5,469,089	2,274,947	7,744,036	101,748,922	7.61

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

² Community Health Permanent Endowment Fund added as a Governmental Fund in 1999.

³ Does not include fiscal and miscellaneous charges.

⁴ StarTran added as a Governmental Fund in 2002.

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

Fiscal Year	General Obligation Bonded Debt	Sinking Funds	Net General Obligation Bonded Debt	Population ¹	Net G.O. Bonded Debt Per Capita	Assessed Valuation Real And Personal ²	Ratio Of Net Debt To Assessed Valuation Real & Personal	Assessed Valuation Of Taxable Real Property ²	Ratio Of Net Debt To Estimated Valuation Of Taxable Real Property
2006	99,347,000	\$ 9,733,000	\$ 89,614,000	239,213	\$ 374.62	\$ 13,583,250,295	0.66 %	\$ 12,897,825,080	0.69 %
2005	104,538,000	13,364,000	91,174,000	238,625	382.08	13,138,516,226	0.69	12,421,799,720	0.73
2004	98,915,000	20,509,000	78,406,000	236,146	332.02	12,744,105,392	0.62	12,001,190,379	0.65
2003	61,759,000	17,083,000	44,676,000	235,565	189.65	11,130,588,167	0.40	10,350,628,778	0.43
2002	56,997,000	15,847,000	41,150,000	231,800	177.52	10,724,685,837	0.38	9,903,888,713	0.42
2001	54,418,000	11,243,000	43,175,000	225,588	191.39	9,620,947,855	0.45	8,814,516,041	0.49
2000	58,814,000	9,739,000	49,075,000	218,497	224.60	9,140,641,057	0.54	8,423,860,600	0.58
1999	60,508,000	12,182,000	48,326,000	217,537	222.15	8,519,901,214	0.57	7,859,292,010	0.61
1998	40,492,000	17,707,000	22,785,000	215,000	105.98	7,503,088,753	0.30	6,865,419,369	0.33
1997	47,665,000	16,121,000	31,544,000	209,192	150.79	7,036,683,522	0.45	6,510,920,571	0.48

¹ Source: Lincoln/Lancaster Planning Department.

² Assessed valuation is 100% of actual.

**REVENUE BOND COVERAGE
LAST TEN FISCAL YEAR**

	Gross Revenue	Direct Operating Expenses	Net Revenue Available For Debt Service	Debt Service Requirements			Coverag
				Principal	Interest	Total	
<u>Wastewater System</u>							
2006	\$ 19,305,465	11,125,819	8,179,646	2,065,000	3,043,500	5,108,500	1.60
2005	18,526,816	10,482,955	8,043,861	1,500,000	2,403,519	3,903,519	2.06
2004	19,071,798	10,042,919	9,028,879	1,750,000	2,133,704	3,883,704	2.32
2003	15,785,843	9,086,469	6,699,374	1,032,500	266,722	1,299,222	5.16
2002	15,731,749	8,632,287	7,099,462	992,500	316,847	1,309,347	5.42
2001	16,663,975	8,087,688	8,576,287	952,500	364,972	1,317,472	6.51
2000	16,741,692	7,707,242	9,034,450	912,500	411,097	1,323,597	6.83
1999	16,286,632	7,591,990	8,694,642	1,255,000	474,743	1,729,743	5.03
1998	15,873,036	7,512,753	8,360,283	1,217,500	554,216	1,771,716	4.72
1997	15,521,150	7,339,135	8,182,015	1,120,000	627,402	1,747,402	4.68
<u>Water System</u>							
2006	\$ 27,297,378	13,808,214	13,489,164	5,130,000	3,834,301	8,964,301	1.50
2005	25,600,740	13,145,665	12,455,075	4,895,000	3,517,932	8,412,932	1.48
2004	22,940,862	12,477,486	10,463,376	3,115,000	2,411,632	5,526,632	1.89
2003	21,533,965	11,631,496	9,902,469	3,010,000	2,898,489	5,908,489	1.68
2002	22,687,789	11,474,433	11,213,356	2,880,000	2,110,590	4,990,590	2.25
2001	22,287,139	10,960,315	11,326,824	2,755,000	2,240,075	4,995,075	2.27
2000	23,823,957	9,812,147	14,011,810	2,640,000	2,361,515	5,001,515	2.80
1999	20,787,797	9,067,262	11,720,535	2,530,000	2,514,373	5,044,373	2.32
1998	21,009,615	8,894,295	12,115,320	2,435,000	2,621,365	5,056,365	2.40
1997	20,426,318	8,161,529	12,264,789	2,345,000	2,730,407	5,075,407	2.42
<u>Parking Facilities</u> ^{1, 2}							
2006	\$ 6,785,593	2,775,122	4,010,471	1,185,000	799,931	1,984,931	2.02
2005	6,219,935	2,972,709	3,247,226	1,140,000	850,501	1,990,501	1.63
2004	6,299,598	2,733,492	3,566,106	1,145,000	908,456	2,053,456	1.74
2003	5,988,240	2,304,632	3,683,608	1,085,000	962,829	2,047,829	1.80
2002	5,483,546	1,964,389	3,519,157	1,115,000	924,470	2,039,470	1.73
2001	5,172,264	2,127,350	3,044,914	795,000	787,419	1,582,419	1.92
2000	4,853,708	1,393,637	3,460,071	455,000	761,521	1,216,521	2.84
1999	4,209,988	2,329,165	1,880,823	585,000	640,712	1,225,712	1.53
1998	4,068,991	1,340,709	2,728,282	455,000	651,694	1,106,694	2.47
1997	3,623,705	1,110,085	2,513,620	435,000	670,847	1,105,847	2.27
<u>Golf</u>							
2006	\$ 2,993,961	2,467,141	526,820	305,000	74,973	379,973	1.39
2005	3,135,875	2,568,462	567,413	295,000	83,823	378,823	1.50
2004	2,899,670	2,467,141	432,529	290,000	91,653	381,653	1.13
2003	2,648,552	2,408,947	239,605	280,000	98,513	378,513	0.63
2002	2,673,078	2,141,707	531,371	305,000	75,628	380,628	1.40
2001	2,626,592	2,140,853	485,739	230,000	239,088	469,088	1.04
2000	2,934,568	1,952,906	981,662	215,000	252,310	467,310	2.10
1999	2,527,564	1,656,746	870,818	200,000	264,310	464,310	1.88
1998	2,337,800	1,493,277	844,523	190,000	275,520	465,520	1.81
1997	2,414,843	1,620,120	794,723	180,000	285,960	465,960	1.71

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

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

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

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

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

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

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

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APPENDIX B

FINANCIAL STATEMENTS

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CITY OF LINCOLN
NEBRASKA

MAYOR COLEEN J. SENG

lincoln.ne.gov

Office of the Mayor
555 South 10th Street
Suite 208

Lincoln, Nebraska 68508
402-441-7511

fax: 402-441-7120
mayor@lincoln.ne.gov

December 30, 2006

Dear Citizens and Public Officials:

I am pleased to provide the City of Lincoln's Comprehensive Annual Financial Report for the fiscal year ended August 31, 2006.

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

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

City Departments do an excellent job of meeting the high demand for city services with limited resources. City government is prudent in its use of taxpayers' funds, as evidenced by the significant reduction in the city property tax rate in 2006 and as well as the past ten years.

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

Sincerely,

Coleen J. Seng
Mayor of Lincoln

December 29, 2006

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

Both the City Charter and State law require an annual audit of the City's funds and accounts be made by a recognized independent and qualified accountant covering all financial transactions, affairs, and financial condition of the City, with the audit report published within six months after the close of the fiscal year. Pursuant to this requirement, the Comprehensive Annual Financial Report (CAFR) of the City of Lincoln, Nebraska for the fiscal year ended August 31, 2006, is hereby submitted.

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

As a recipient of federal, state and local financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. The federal government, under the revised OMB Circular A-133, requires local governments that expend \$500,000 or more in federal funds in any fiscal year to have a financial and compliance audit performed. As part of the City's Single Audit, tests were made of the City's internal control structure over compliance and its compliance with applicable laws and regulations, including those related to major federal financial assistance programs. The Single Audit for the year ended August 31, 2006, disclosed no material internal control weaknesses. The independent accountants' reports are included in the Single Audit section found at the end of the CAFR.

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

A firm of licensed certified public accountants has audited the City's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City are free of material misstatement. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent accountants concluded, based upon the audit, that there was a reasonable basis for rendering unqualified opinions that the City's financial statements for the fiscal year ended August 31, 2006, are fairly presented in conformity with GAAP.

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

Profile of the City

The City of Lincoln, capital city of Nebraska, was originally incorporated on April 7, 1869. Lincoln is located in the southeastern corner of the state, is midway between Chicago and Denver, and is currently one of the fastest growing metro areas in the Midwest. It occupies a land area of approximately 80 square miles, serves a population of over 239,000, and in its growth and development has annexed five other municipalities so that the City includes most of the urban area of Lancaster County. It enjoys a unique position in Nebraska as the center of the state's governmental and educational activities.

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

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

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

The annual budget serves as the basis for the City of Lincoln's financial planning and control. Following public hearings and not later than five days prior to the beginning of the fiscal year, the budget is legally adopted by resolution of the City Council. Appropriation controls are required at the department level, however, as a matter of policy and practice, appropriations generally are controlled at the next level of organization (division) or by fund within a department. The Mayor has the authority to transfer balances within a department as well as lower appropriations in any fund where actual revenues are less than appropriated in order to avoid incurring a budget deficit for the year. Appropriation transfers between departments may only be authorized by resolution of the City Council. The Council may not make any appropriations in addition to those authorized in the annual budget, except in the event of an emergency threatening serious loss of life, health, or property in the community.

Economic Condition And Outlook

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

The Lincoln metropolitan area population base (Lancaster County) continues to demonstrate a pattern of sustained growth. According to the U. S. Census figures, the Lincoln metropolitan area population grew over 17% between 1990 and 2000, adding over 3,350 people to the community each year. The 1990

population of 213,641 reached 250,291 persons with the 2000 census, setting the County's annualized rate of population growth for the 1990's at 1.6 percent.

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

Despite a slow national and regional economy, Lincoln's growth has continued. Lincoln's unemployment rate at August 31, 2006 was 2.8%, well below the national average of 4.7%, with employment strongest in the categories of government, educational & health services, and retail trade. Lincoln's current construction permit activity is comparable to levels 5 years ago, with an increase in the value of construction permits of over \$11.6 million.

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

Current net sales and use tax revenue increased 1.1% over the previous fiscal year. Tax collections have been impacted by a slowed local economy and exemptions to the sales tax base related to manufacturing equipment.

Long-Term Planning And Major Initiatives

Urban Development

The City anticipates approximately \$24 million of public expenditures funded through various urban development projects and programs over the next three years. These projects are varied in type and size and are located in the Downtown and Haymarket areas, North 27th Street area, Havelock and University Place business areas, Focus Area neighborhoods, the Antelope Valley project area, 48th and O, West O Street, North 56th and Arbor Road, West Cornhusker Highway, and in low - moderate income areas throughout the City.

Financing will be provided by a variety of sources, including CDBG, HOME, and Nebraska Affordable Housing Trust Fund grants, Tax Increment Financing, Advanced Land Acquisition funds, Special Assessments, and General Fund. Funding is often combined with developer, grant or other private sector funds.

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

Ongoing and anticipated projects include:

- ◆ Downtown Redevelopment Projects:
 - 1) Downtown I-180 entryway improvements.
 - 2) Redevelopment of Douglas III theater.
 - 3) Assist the Planning Department and Downtown Lincoln Association to implement the Downtown Master Plan catalyst projects.
- ◆ The North 27th Street Corridor redevelopment projects include:
 - 1) Construction of the pedestrian trail bridge at X Street.
- ◆ Implementation of selected Antelope Valley community revitalization catalyst projects as identified in the Antelope Valley Redevelopment Plan.
- ◆ Havelock Redevelopment on-going projects include streetscape improvements, pedestrian walkway and public parking lot redevelopment and beautification, alley resurfacing and/or repair.

- ◆ University Place Redevelopment includes streetscape improvements, the North 48th/University Place Concept Plan implementation, and redevelopment of the former Green's Plumbing site.
- ◆ 48th and O North side redevelopment.
- ◆ West O Street redevelopment.
- ◆ North 56th and Arbor Road redevelopment.
- ◆ NW Corridor redevelopment (West Cornhusker Highway).
- ◆ Housing rehabilitation and development programs:
 - 1) Continuation of First-time Homebuyer, Housing Development, and Owner-Occupied housing rehabilitation loan programs.
 - 2) Development of residential housing in Antelope Valley with the neighborhood "champion" for Antelope Valley, NeighborWorks of Lincoln.
 - 3) Continue development of future phases of the affordable housing project, Old Mill Village, with Nebraska Housing Resource and plan the development of the next affordable housing project.
 - 4) Sustain the existing affordable rental housing stock by assisting on-going non-profit and tax credit projects.
- ◆ Housing Rehabilitation and Real Estate Division projects also include:
 - 1) Planning and negotiation for acquisition of park sites.
 - 2) Acquisition and negotiation projects –

<ul style="list-style-type: none"> ✓ 14th and Warlick intersection improvements. ✓ Antelope Valley storm water management and transportation projects. ✓ Upper Beal Sough relief trunk sewer. ✓ SE Upper Salt Creek storm sewer. ✓ South 27th Street, Porter Ridge Road to Yankee Hill Road. ✓ Stevens Creek sanitary sewer. ✓ Special assessment, executive order, and arterial rehab projects. ✓ Salt Valley trunk sewer phase V. ✓ Harris Overpass. ✓ Fletcher Avenue, 14th to 27th. 	<ul style="list-style-type: none"> ✓ Pine Lake Road, 84th to 98th. ✓ LWS, Greenwood transmission main. ✓ 98th Street, Highway 2 to Pine Lake Road. ✓ West Denton, Folsom to Amaranth. ✓ Alvo Road, NW 20th to 1st Street. ✓ West Adams, NW 56th to 48th Street. ✓ Adams, 75th to 84th Street. ✓ Various projects in Public Works/Utilities 6-year program. ✓ Other Parks and Recreation projects city-wide. ✓ Antelope Valley redevelopment plan catalyst projects.
---	--
 - 3) Acquisition and disposition of surplus properties including tax sale lots, street and alley vacation, surplus park sites, surplus right-of-way, and other miscellaneous properties.
 - 4) Relocation projects including Antelope Valley Storm Management, Transportation, and Community Revitalization.
- ◆ Neighborhood Revitalization projects include: Focus Areas – Implementation of focus area public improvements. The focus areas are located in the Woods Park, Near South, Malone, Everett, Clinton, Downtown, North Bottoms, South Salt Creek and Hartley neighborhoods.
- ◆ The Workforce Investment Act (WIA) is federal legislation which took effect on July 1, 2000. Under this legislation, the Mayor of Lincoln is the designated Chief Elected Official working in conjunction with a 47 member Workforce Investment Board. This Board is constituted by law with a business majority. Other members represent community based organizations, education, economic development, organized labor, and program partner agencies. The Board and the Mayor developed a local plan to implement WIA that was approved by the State of Nebraska.

WIA services are provided from the One Stop Career Center, located in downtown Lincoln. During the year, over 23,000 customer visits are made to the Center. Dislocated worker services are made available to individuals laid off from area employers. Recent examples are: TGI Fridays, Experian, Square D, and Alltel. Efforts are underway to further align WIA services with local economic development plans and to increase the level of services to businesses in the workforce area.

Antelope Valley Project

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

The stormwater and transportation portions of the project are scheduled for completion in 2012. Redevelopment projects have begun and will progress as flood control work is completed. The entire project is projected to cost \$238 million of which nearly 52 percent has been spent or is under contract.

Projects completed include Fleming Field; Military, Y Street, and Vine Street Bridges and Roadways; the BNSF overpass near Devaney Center; and channel work between Salt Creek and Y Street. The BNSF also completed a railroad bridge project over Antelope Creek in 2005. Landscaping work was completed on the Military, Y Street and Vine Street Roadway projects in 2006. Landscaping work will be done on the BNSF overpass project in 2007.

Work on the P and Q Street Bridges and Roadways began in the fall of 2006 and will be completed by the fall of 2007. Work on the East Leg Bridge and Roadway project, which is a BNSF railroad overpass on the east-west roadway along the south side of State Fair Park, and the O Street Bridge and Roadway are planned to start in the fall of 2007.

The Corps of Engineers is also planning to continue channel work south of Y Street in 2007.

By the end of 2007, it is expected that nearly 75 percent of the cost of the Antelope Valley project will have been spent or be under contract.

Wastewater System

The Lincoln Wastewater System is projecting a capital improvements program in the amount of approximately \$78,234,000 over the 6-year period of fiscal year 2006-07 through fiscal year 2011-12. Of that total, approximately \$65,367,000 will be financed by revenue bonds, approximately \$3,020,000 will be financed by impact fees, \$2,780,000 from TIF funding, with the remaining \$7,067,000 to come from utility revenue fees. The majority of these dollars are needed for replacement and maintenance of existing infrastructure, new infrastructure to serve development in various basins throughout the City, and improvements to both the Theresa Street and Northeast treatment plants.

Water System

The Lincoln Water System is projecting a capital improvements program in the amount of approximately \$107,839,000 over the 6-year period of fiscal year 2006-07 through 2011-12. Of these dollars, approximately \$85,185,000 will be financed through revenue bonds, approximately \$159,000 will be financed through developer contributions, approximately \$6,960,000 will be financed through impact fees, with the balance of \$15,535,000 coming from utility revenue fees. The major projects contributing to these total dollars include the installation of transmission lines, replacement mains, replacement and new wells, and additional storage reservoirs.

Streets And Highways

The 2007-2012 Streets and Highways capital improvements program and Transportation improvement program identify average annual expenditures of over \$31.8 million for the next six years. Funding for these projects includes \$105 million in City revenues, \$64 million in federal aid, and \$27 million in other funds.

Infrastructure Impact Fees

The City's growth in both population and employment have created demands for new residential and nonresidential development, which in turn creates the need for additional public facilities, including water and wastewater systems, arterial streets, and neighborhood parks and trails. The City's laws, taxes, fees, utility

charges, and other forms of revenue generated from new development do not provide sufficient funds to finance these new facilities.

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

Property Tax Collections

As of August 31, 2006, current tax collections by the County Treasurer were 96.83% of the tax levy, an increase of .03% from last year. Allocations of property tax levy by purpose are as follows:

<u>City Tax Levy By Purpose</u>	<u>2005-2006</u>	<u>2004-2005</u>	<u>2003-2004</u>
General Fund	.1955	.1706	.1692
Library	.0488	.0490	.0485
Social Security	.0139	.0149	.0143
Police and Fire Pension	.0219	.0182	.0149
General Obligation Debt	<u>.0208</u>	<u>.0423</u>	<u>.0434</u>
	.3009	.2950	.2903

Parking Facilities

The City of Lincoln operates the following parking garages:

	<u>Number of Stalls</u>	<u>Date Opened</u>
Center Park	1,048	November, 1978
Cornhusker Square	405	December, 1983
University Square	436	April, 1990
Que Place	773	October, 1994
Carriage Park	710	February, 1995
Market Place	433	August, 2000
Haymarket	420	August, 2002

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

Revenue generated by the parking facilities and on-street parking meters, as well as unappropriated street construction funds, are pledged for debt service of both the 2001 Parking Revenue Bonds and the 1999 Parking Revenue and Refunding Bonds. Comparative data for the past two fiscal years are presented in the following table:

	<u>2005-2006</u>	<u>2004-2005</u>
Operating Revenue	\$ 5,697,352	5,214,542
Operating Income Before Depreciation	2,922,230	2,241,833
On-Street Parking Meter Revenue	835,000	835,000
Street Construction Funds	-	164,142
Revenue Available For Debt Service	3,757,230	3,240,975
Debt Service	2,160,650	2,160,650
Debt Service Coverage Ratio	1.74	1.50

Solid Waste Management

The City of Lincoln owns and operates a municipal solid waste landfill and a construction and demolition debris landfill that are subject to the U.S. Environmental Protection Agency rule *Solid Waste Disposal Facility Criteria*, which establishes closure and postclosure care requirements. As of August 31, 2006, the City estimates that it will incur costs approximating \$15 million to adhere to such requirements (see Note 17 of Notes to the Financial Statements).

Water And Wastewater System

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

<u>Water System</u>	<u>2005-2006</u>	<u>2004-2005</u>
Operating Revenue	\$25,599,610	24,362,174
Operating Income	5,392,459	5,196,025
Revenue Available For Debt Service	13,489,164	12,455,075
Debt Service	8,964,301	8,412,932
Debt Service Coverage Ratio	1.50	1.48

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

<u>Wastewater System</u>	<u>2005-2006</u>	<u>2004-2005</u>
Operating Revenue	\$17,997,650	16,985,552
Operating Income	1,030,996	1,559,979
Revenue Available For Debt Service	8,179,646	8,043,861
Debt Service	5,108,500	3,903,519
Debt Service Coverage Ratio	1.60	2.06

Lincoln Electric System (LES)

The City owns and operates its own electric utility system that is managed by an administrative board. Actions of the board with regard to rates, budgets, and long-term financing are subject to final review and approval by the City Council. In accordance with Section 4.24.090 of the Lincoln Municipal Code, LES operates on a January 1 - December 31, fiscal year. Audited financial information as of and for LES' fiscal year ended December 31, 2005, is included in the City's August 31, 2006, financial statements.

Certificate Of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lincoln, Nebraska, for its comprehensive annual financial report for the fiscal year ended August 31, 2005. This was the twenty-third consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgments

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

Respectfully submitted,

Don Herz
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lincoln
Nebraska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2005

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



President

Executive Director

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FINANCIAL SECTION

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Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Nebraska as of and for the year ended August 31, 2006, which collectively comprise the City of Lincoln's basic financial statements. These financial statements are the responsibility of the City of Lincoln's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lincoln Electric System which represent 57%, 31% and 75%, respectively, of the total assets, net assets and revenues of the business-type activities. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Lincoln Electric System is based solely on the report of the other accountants. The prior-year summarized comparative financial information in these statements, before restatement for the matter described in Note 23, has been derived from the City's basic financial statements as of and for the year ended August 31, 2005, and in our report dated December 30, 2005, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

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

In our opinion, based on our audit and the report of the other accountants, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Nebraska as of August 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund, street construction fund and federal grants fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 23, in 2006 the City changed its method of accounting for rehabilitation and redevelopment loans by retroactively restating prior years' financial statements.

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The accompanying management's discussion and analysis and the schedules of funding progress and employer contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other accountants have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lincoln's basic financial statements. The accompanying introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

BKD, LLP

December 29, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Lincoln, Nebraska (the City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended August 31, 2006. Please consider this discussion in conjunction with the additional information provided in the Letter of Transmittal (beginning on page vii) and the transactions, events and conditions reflected in the City's financial statements (beginning on page 18).

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at August 31, 2006, by \$1,320,073,572 (net assets). Of this amount, \$147,880,201 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$38,142,176. Of this amount, \$27,590,731, or 72 percent, was an increase in governmental activities and \$10,551,445, or 28 percent, related to business-type activities.
- As of August 31, 2006, the City's governmental funds reported combined ending fund balances of \$172,772,372, a decrease of \$20,767,173 in comparison with the prior year. Of this total fund balance, 60 percent, or \$103,520,893, is available for spending at the City's discretion (unreserved fund balance).
- As of August 31, 2006, unreserved fund balance for the general fund was \$27,463,451, or 29 percent of total general fund expenditures.
- The City's total bonded debt increased by \$93,999,000 (13 percent) during the current fiscal year. The key factor in this increase was the issuance of \$115,000,000 in revenue bonds by Lincoln Electric System.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

The statement of activities presents information showing how the City's net assets changed during the year ended August 31, 2006. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general administrative services, public safety, streets and highways, health, planning and zoning, parks and recreation, libraries, aging services, job programs, urban development, mass transportation, engineering, self-insurance, and fleet management. The business-type activities of the City include water, wastewater and electric utilities; ambulance transport; solid waste management; golf courses; auditorium; and parking.

The government-wide financial statements can be found on pages 18-19 of this report.

FUND FINANCIAL STATEMENTS

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

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

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

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

The City adopts an annual appropriated budget for its general fund and most other governmental funds. A budgetary comparison statement has been provided for the General, Street Construction, and Federal Grants major funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 20-27 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 28-30 of this report.

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

The fiduciary fund financial statements can be found on pages 31-32 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33-68 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its police and fire employees. Required supplementary information can be found on page 69 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,320,073,572 at August 31, 2006.

By far the largest portion of the City's net assets (72 percent) reflects its investment in capital assets (e.g., land, buildings, improvements, utility plant, infrastructure, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City Of Lincoln
Condensed Statements of Net Assets
August 31, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$ 295,093,325	310,881,420	289,911,082	269,056,883	585,004,407	579,938,303
Capital Assets	541,860,899	498,355,444	1,226,525,652	1,127,231,363	1,768,386,551	1,625,586,807
Total Assets	<u>836,954,224</u>	<u>809,236,864</u>	<u>1,516,436,734</u>	<u>1,396,288,246</u>	<u>2,353,390,958</u>	<u>2,205,525,110</u>
Long-Term Liabilities Outstanding	147,861,604	142,349,895	809,509,376	707,732,364	957,370,980	850,082,259
Other Liabilities	17,206,826	22,591,906	58,739,580	50,919,549	75,946,406	73,511,455
Total Liabilities	<u>165,068,430</u>	<u>164,941,801</u>	<u>868,248,956</u>	<u>758,651,913</u>	<u>1,033,317,386</u>	<u>923,593,714</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	417,745,982	399,561,548	536,166,169	509,989,903	953,912,151	909,551,451
Restricted	194,881,737	184,367,499	23,399,483	16,626,836	218,281,220	200,994,335
Unrestricted	59,258,075	60,366,016	88,622,126	111,019,594	147,880,201	171,385,610
Total Net Assets, as restated	<u>\$ 671,885,794</u>	<u>644,295,063</u>	<u>648,187,778</u>	<u>637,636,333</u>	<u>1,320,073,572</u>	<u>1,281,931,396</u>

An additional portion of the City's net assets (17 percent) represents resources that are subject to external restrictions on their use. The remaining balance of unrestricted net assets (11 percent) may be used to meet the government's ongoing obligations to citizens and creditors.

At August 31, 2006, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City Of Lincoln
Condensed Statements of Activities
For the Years Ended August 31, 2006 and 2005

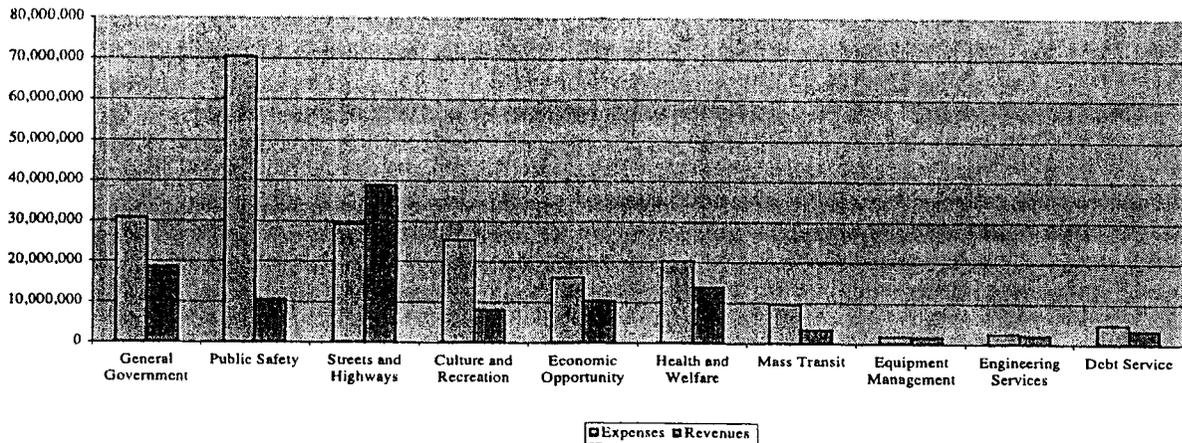
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	\$ 41,550,491	38,715,953	250,009,120	227,024,882	291,559,611	265,740,835
Operating Grants and Contributions	45,068,631	36,666,428	-	650,300	45,068,631	37,316,728
Capital Grants and Contributions	24,519,249	48,270,586	11,092,348	9,703,652	35,611,597	57,974,238
General Revenues:						
Property Tax	43,081,366	40,877,070	-	-	43,081,366	40,877,070
Sales and Use Tax	54,348,587	53,741,266	-	-	54,348,587	53,741,266
Other Taxes	22,760,713	22,893,674	2,232,680	2,111,731	24,993,393	25,005,405
Unrestricted Grants and Contributions	1,589,033	1,577,852	-	-	1,589,033	1,577,852
Unrestricted Investment Earnings	3,650,661	2,800,970	6,187,797	3,986,941	9,838,458	6,787,911
Other	1,671,705	3,899,801	277,850	210,321	1,949,555	4,110,122
Total Revenues	238,240,436	249,443,600	269,799,795	243,687,827	508,040,231	493,131,427
Expenses:						
General Government	30,781,582	27,955,407	-	-	30,781,582	27,955,407
Public Safety	70,390,835	70,432,578	-	-	70,390,835	70,432,578
Streets and Highways	29,293,980	20,620,140	-	-	29,293,980	20,620,140
Culture and Recreation	25,379,286	23,827,670	-	-	25,379,286	23,827,670
Economic Opportunity	16,165,310	15,522,471	-	-	16,165,310	15,522,471
Health and Welfare	20,215,258	18,873,394	-	-	20,215,258	18,873,394
Mass Transit	9,706,032	9,511,096	-	-	9,706,032	9,511,096
Equipment Management	1,789,593	2,012,107	-	-	1,789,593	2,012,107
Engineering Services	2,499,482	2,073,123	-	-	2,499,482	2,073,123
Interest on Long-Term Debt	4,853,854	4,859,767	-	-	4,853,854	4,859,767
Parking	-	-	4,857,024	5,186,283	4,857,024	5,186,283
Golf Courses	-	-	3,169,578	3,295,680	3,169,578	3,295,680
Auditorium	-	-	2,403,906	2,211,685	2,403,906	2,211,685
Solid Waste Management	-	-	6,146,612	6,767,689	6,146,612	6,767,689
Ambulance Transport	-	-	3,793,035	3,828,891	3,793,035	3,828,891
Wastewater	-	-	17,563,692	16,461,078	17,563,692	16,461,078
Water	-	-	23,137,996	22,249,027	23,137,996	22,249,027
Electric	-	-	197,751,000	171,812,000	197,751,000	171,812,000
Total Expenses	211,075,212	195,687,753	258,822,843	231,812,333	469,898,055	427,500,086
Increase in Net Assets Before Transfers	27,165,224	53,755,847	10,976,952	11,875,494	38,142,176	65,631,341
Transfers	425,507	1,290,018	(425,507)	(1,289,760)	-	258
Increase in Net Assets	27,590,731	55,045,865	10,551,445	10,585,734	38,142,176	65,631,599
Net Assets - Beginning, as restated	644,295,063	589,249,198	637,636,333	627,050,599	1,281,931,396	1,216,299,797
Net Assets - Ending, as restated	\$ 671,885,794	644,295,063	648,187,778	637,636,333	1,320,073,572	1,281,931,396

GOVERNMENTAL ACTIVITIES

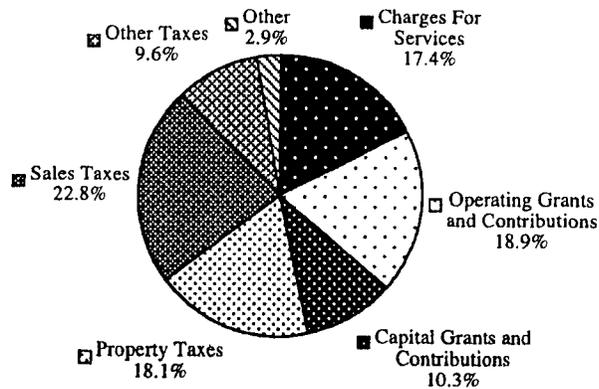
Governmental activities increased the City's net assets by \$27,590,731, accounting for 72 percent of the total growth in the net assets of the City of Lincoln. Key elements of this increase are as follows:

- The City's current year contribution to the Joint Antelope Valley Authority amounted to \$14,646,419.
- Property taxes increased by approximately \$2.2 million (5.4 percent) during 2006. Total growth in the tax base, which includes revaluations, annexations and other adjustments, was 3.8 percent.
- Net sales and use tax increased only by approximately \$600,000 (1.1 percent) during 2006. Legislation passed in 2005 by the Nebraska Legislature exempted manufacturing equipment from both the state and local option sales tax. For the six month period this exemption was in place during the 2006 fiscal year, it is estimated that it reduced Lincoln's sales tax by \$275,000 or .5 percent.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



BUSINESS-TYPE ACTIVITIES

Business-type activities increased the city's net assets by \$10,551,445, accounting for 28 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

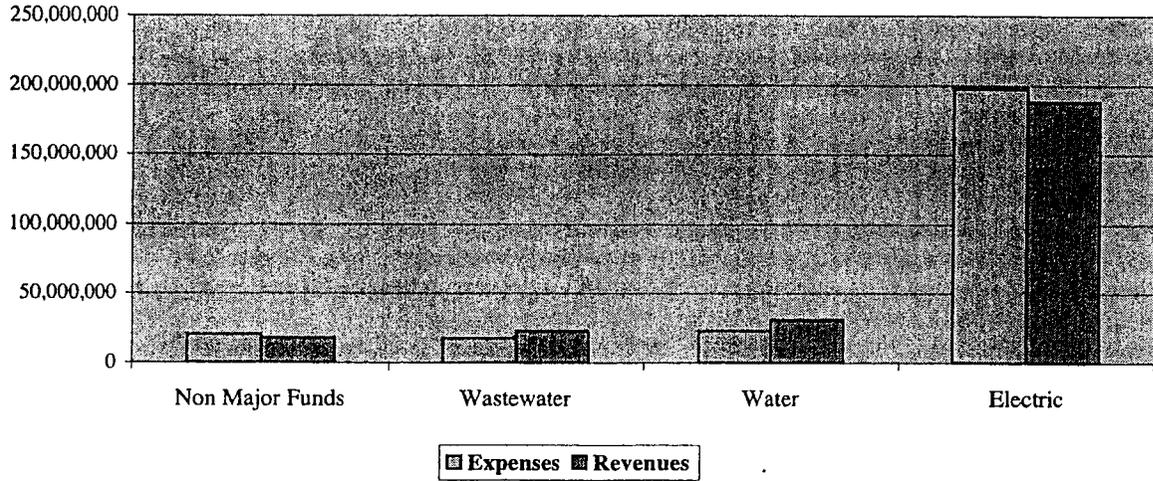
- Charges for services increased by approximately \$23 million, or 10 percent. The Water System revenues increased by \$1.2 million (5 percent) due to a user fee increase of 7 percent implemented with the water billings beginning in February of 2006. Total water pumpage for 2006 exceeded 2005 usage by 1.5 percent. Water pumpage for fiscal year 2006 was the highest of the top five water-use years.

Wastewater revenues are also based on water usage. Increased usage plus an increase of 9 percent in user fees implemented in February 2006 resulted in an operating revenue increase of over \$1 million (6 percent).

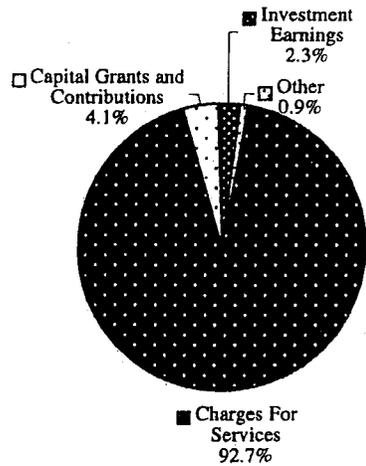
Operating revenues increased 11.8 percent for the Electric System in 2005 primarily due to a 3 percent rate increase effective October 2004 and a 9 percent rate increase effective August 2005. The increased revenues were more than offset by increased operating expenses due to sharply higher natural gas costs,

higher wholesale power prices and a doubling of rail delivery costs to Laramie River Station. The cost increases caused power costs in 2005 to increase \$24.7 million over the prior year.

Expenses And Program Revenues - Business-type Activities



Revenues By Source - Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

GOVERNMENTAL FUNDS

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

As of August 31, 2006, the City's governmental funds reported combined ending fund balances of \$172,772,372, a decrease of \$20,767,173 in comparison with the prior year. Of this total amount, 60 percent constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to:

- long-term loans receivable (\$17,497,000),
- pay debt service (\$11,863,224),
- generate income for the purpose of funding health and health-related programs for the citizens of Lincoln (\$37,000,000), and
- a variety of other restricted purposes (\$2,891,255).

The General Fund is the chief operating fund of the City. At August 31, 2006, the unreserved fund balance of the General Fund was \$27,463,451, while total fund balance reached \$29,292,038. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 29 percent of total general fund expenditures, while total fund balance represents 30 percent of that same amount.

The fund balance of the City's General Fund decreased by \$2,111,236 during 2006. The reduction in the fund balance of the General Fund is in compliance with City policy to appropriate balances that are in excess of 20 percent of the ensuing fiscal year's General Fund budget. This is accomplished by appropriating any excess over a 5-year period.

The Street Construction Fund had a total fund balance of \$17,664,311, which is to be used in the construction and maintenance of street and highways. The net decrease in fund balance during 2006 in the Street Construction Fund was \$11,137,072. This decrease was a result of the spend down of bond proceeds received from the issue of \$35,000,000 of general obligation highway allocation bonds. An additional factor is the City's involvement in the Joint Antelope Valley projects and the related capital contributions made.

The Federal Grants Fund had a fund balance of \$17,575,827. Expenditures in the fund decreased by \$681,982 (3 percent), while revenues increased by \$3,489,094 (18 percent). Acceleration in expenditure reimbursements resulted in an approximate \$3 million decrease in borrowing to cover an overdraw of pooled cash.

PROPRIETARY FUNDS

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

Unrestricted net assets of the Wastewater System, Water System, Electric System, and other enterprise funds amounted to \$12,150,833, \$24,090,843, \$49,027,000 and \$3,353,450, respectively, at August 31, 2006. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were relatively minor (decrease of \$25,102 in appropriations) and can be briefly summarized as follows:

- \$(748,343) in miscellaneous decreases in general government activities.
- \$(191,529) in decreases allocated to public safety.
- \$(36,082) in decreases allocated to street maintenance.
- \$(154,824) in decreases allocated to parks and recreation.
- \$1,105,676 in increases allocated for General Fund transfers to other City funds.

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

- \$(1,134,583) negative variance in taxes collected by others. Actual sales tax collections were down 2 percent, attributed to a slow down in both motor vehicle sales and home construction material sales, increased internet sales, and higher gas prices resulting in less disposable income.
- \$1,418,681 positive variance in general government/miscellaneous function expenditures. This variance was the result of better than anticipated insurance and contractual services costs, and contingency funds left unspent.
- \$(1,862,281) negative variance in street lighting function expenditures. This variance was the result of additions related to both normal construction as well as Antelope Valley Project construction.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of August 31, 2006, amounts to \$1,768,386,551 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, streets, bridges, storm sewers, electric plant, and water and sewer plant. The total increase in the City's investment in capital assets for 2006 was 9 percent (a 9 percent increase for both governmental activities and business-type activities).

Major capital asset events during 2006 included the following:

- A variety of street construction widening and expansion projects for existing streets and bridges continued. Along with new construction of streets and drainage projects, construction-in-progress as of August 31, 2006, reached \$97,704,282.
- Major electric plant construction including generation (Salt Valley Generating Station and Council Bluffs #4) transmission, substation and distribution system which totaled over \$81 million in 2005, up \$27 million over 2004.
- An agreement with MidAmerican Energy Company is in place for a 100-mega-watt share of the 790 megawatt Council Bluffs #4 Unit slated to start commercial operation in 2007. Construction costs added \$59 million to the construction work in progress in 2005. LES's estimated cost is \$155 million.
- Wastewater System capital assets increased by approximately \$31,332,000 (16 percent) due to major project additions such as:
 - ✓ Northeast treatment plant - \$5,234,000
 - ✓ Theresa Street treatment plant - \$11,039,000
 - ✓ Transmission mains - \$14,767,000

- Water System capital assets increased by approximately \$11,376,000 (5 percent) due to major project additions such as:
 - ✓ Pumping stations - \$1,789,000
 - ✓ Water distribution mains - \$4,960,000
 - ✓ Water transmission pump station and mains - \$472,000
 - ✓ Selected main replacements - \$2,355,000
 - ✓ Wellfield and water treatment plant - \$1,796,000

City Of Lincoln
Capital Assets (net of depreciation)
August 31, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 57,733,188	50,137,989	17,682,928	15,150,478	75,416,116	65,288,467
Buildings	48,432,468	43,793,767	138,885,792	139,685,303	187,318,260	183,479,070
Improvements Other Than Buildings	32,533,330	32,677,569	329,839,791	290,107,032	362,373,121	322,784,601
Machinery and Equipment	31,524,881	31,090,952	9,265,841	9,956,049	40,790,722	41,047,001
Utility Plant	-	-	555,515,000	552,677,000	555,515,000	552,677,000
Infrastructure	267,683,934	244,451,695	-	-	267,683,934	244,451,695
Construction-in-progress	103,953,098	96,203,472	175,336,300	119,655,501	279,289,398	215,858,973
Total	\$ 541,860,899	498,355,444	1,226,525,652	1,127,231,363	1,768,386,551	1,625,586,807

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

LONG-TERM DEBT

At August 31, 2006, the City of Lincoln had total bonded debt outstanding of \$817,777,000. Of this amount, \$99,347,000 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City Of Lincoln
Outstanding Bonded Debt
(dollar amounts in thousands)
August 31, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	\$ 99,347	104,538	-	-	99,347	104,538
Tax Supported Bonds	9,110	9,690	-	-	9,110	9,690
Revenue Bonds	-	-	709,320	609,550	709,320	609,550
Total	\$ 108,457	114,228	709,320	609,550	817,777	723,778

The City's total bonded debt increased by \$93,999,000 (13 percent) during 2006. The key factor in this increase was the issuance of \$115,000,000 in revenue bonds by Lincoln Electric System to provide funds for improvements to plant.

The City maintains the following credit ratings:

	Moody's Investors <u>Service</u>	Standard And <u>Poor's</u>	Fitch Investors <u>Service</u>
General Obligation Bonds	Aaa	AAA	-
Municipal Infrastructure			
Redevelopment Fund Bonds	Aa2	AAA	-
Antelope Valley Project Bonds	Aa2	AA	-
Water Revenue Bonds	Aa2	AA-	-
Wastewater Revenue Bonds			
MBIA insured	Aaa	AAA	-
Underlying	Aa2	AA+	-
Parking Revenue Bonds	A2	A	-
Lincoln Electric System			
Revenue Bonds	Aa2	AA	AA
2005 Revenue Bonds			
FSA insured	-	AAA	AAA
Commercial Paper – tax exempt	-	A1+	F1+

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

Additional information on the City's long-term debt can be found in Note 9 of the notes to the financial statements on pages 52-57 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Property tax revenue required to fund the 2007 budget increased \$2,341,560 or 6.36 percent over the prior year. Total growth in the tax base is estimated at 12.95 percent of which 2.80 percent is from additions to the tax base and 10.15 percent from revaluation of existing property by the County Assessor.
- Sales tax collections for 2006 were below projections. 2007 projections reflect a 2.5 percent increase over 2006 actual collections. The 2006 Legislature passed a tax reduction package that narrowed the sales tax base by eliminating some services from the tax base. It is estimated this action will reduce 2007 fiscal year collections by \$1,075,000.
- Permits and fees are projected to increase \$979,005 (33.5 percent) because of \$912,000 expected from prior years under collection of the natural gas franchise fee. The revenue from the natural gas franchise fee is a one time funding source that will only be available for 2007.
- Fuel and utility charges are significant cost items within all City operations and have been increasing at a rapid rate. Increases for 2007 are expected as follows: fuel, oil and diesel \$965,228; electricity \$404,464; natural gas \$140,639; and propane \$14,725.
- A 6 percent water rate increase and a 8 percent wastewater rate increase were adopted by the City Council and become effective February 2007. A \$4 per ton Landfill gate fee increase is effective January 1, 2007 and is expected to generate \$1,000,000 annually.
- As part of employment turnover, there is often a time lag in filling positions or starting new employees at a lower rate of pay. The 2007 budget proposes capturing this savings by under-budgeting projected salary amounts by 1 percent in the tax and tax-subsidized funds as well as the Water, Wastewater, Engineering, and Solid Waste Management funds. This action is used to avoid further program and service cuts, reduce property tax requirements, and reduce the amount of utility rate increases.

All of these factors were considered in preparing the City's budget for the 2007 fiscal year.

At August 31, 2006, unreserved fund balance in the general fund amounted to \$27,463,451. The City of Lincoln has appropriated \$2,028,513 of this amount for spending in the 2007 fiscal year budget. The use of available fund balance aids the City in avoiding the need to raise additional property taxes during 2007.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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CITY OF LINCOLN, NEBRASKA
STATEMENT OF NET ASSETS
AUGUST 31, 2006
With Summarized Financial Information as of August 31, 2005

	Governmental Activities	Business-Type Activities	Totals	
			2006	2005 as restated
ASSETS				
Cash and Cash Equivalents	\$ 24,050,053	11,068,888	35,118,941	63,777,456
Investments	86,573,285	48,375,662	134,948,947	154,426,972
Invested Securities Lending Collateral	3,870,941	-	3,870,941	3,674,279
Receivables, (Net of Allowance for Uncollectibles)	31,401,960	30,387,336	61,789,296	58,033,382
Internal Balances	(5,999,396)	5,999,396	-	-
Due from Other Governments	27,363,232	2,812	27,366,044	35,045,066
Inventories	1,887,039	10,326,922	12,213,961	10,892,354
Plant Operation Assets	-	4,886,000	4,886,000	5,093,000
Prepaid Items	703,456	1,601,045	2,304,501	1,643,265
Deferred Charges and Other Assets	940,999	12,431,968	13,372,967	14,765,590
Restricted Assets:				
Cash and Cash Equivalents	-	1,107,660	1,107,660	835,586
Investments	37,160,000	163,118,948	200,278,948	158,619,329
Receivables	-	604,445	604,445	636,687
Investment in Joint Venture	87,141,756	-	87,141,756	72,495,337
Capital Assets:				
Non-depreciable	161,686,286	193,019,228	354,705,514	281,147,440
Depreciable (Net)	380,174,613	1,033,506,424	1,413,681,037	1,344,439,367
Total Assets	836,954,224	1,516,436,734	2,353,390,958	2,205,525,110
LIABILITIES				
Accounts Payable	6,294,062	32,211,735	38,505,797	36,430,971
Accrued Liabilities	3,064,430	9,881,748	12,946,178	15,784,922
Due to Other Governments	291,437	118,039	409,476	560,413
Unearned Revenue	2,424,643	222,850	2,647,493	1,278,969
Obligations under Securities Lending	3,870,941	-	3,870,941	3,674,279
Other Liabilities	-	6,714,000	6,714,000	6,349,000
Matured Bonds and Interest Payable	104,249	-	104,249	104,250
Accrued Interest Payable	1,157,064	9,591,208	10,748,272	9,328,651
Noncurrent Liabilities:				
Compensated Absences:				
Payable within One Year	5,907,220	818,761	6,725,981	6,165,218
Payable in More Than One Year	3,445,713	452,984	3,898,697	3,797,323
Claims and Judgements:				
Payable within One Year	2,746,099	-	2,746,099	2,377,583
Payable in More Than One Year	3,165,285	-	3,165,285	2,748,848
Bonds, Notes and Leases Payable:				
Due within One Year	6,537,484	20,457,891	26,995,375	26,186,777
Due in More Than One Year	122,489,420	779,388,740	901,878,160	798,316,930
Net Pension Obligation	3,570,383	-	3,570,383	2,491,580
Accrued Landfill Closure/Postclosure Care Costs	-	8,391,000	8,391,000	7,998,000
Total Liabilities	165,068,430	868,248,956	1,033,317,386	923,593,714
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	417,745,982	536,166,169	953,912,151	909,551,451
Restricted for:				
Debt Service, Net of Related Debt	8,134,892	19,745,098	27,879,990	25,007,734
Capital Projects	120,790,850	3,508,901	124,299,751	111,098,636
Long-term Loans Receivable	17,497,000	-	17,497,000	16,669,000
Other	587,171	145,484	732,655	528,777
Trust Donations:				
Expendable	1,749,588	-	1,749,588	1,696,118
Nonexpendable	160,000	-	160,000	160,000
Health Care:				
Expendable	8,962,236	-	8,962,236	8,834,070
Nonexpendable	37,000,000	-	37,000,000	37,000,000
Unrestricted	59,258,075	88,622,126	147,880,201	171,385,610
Total Net Assets, as restated for 2005	\$ 671,885,794	648,187,778	1,320,073,572	1,281,931,396

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

CITY OF LINCOLN, NEBRASKA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2006
 With Summarized Financial Information for the Year Ended August 31, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Totals	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	2006	2005
								as restated
Governmental Activities:								
General Government	\$ (30,781,582)	16,478,439	1,515,095	560,365	(12,227,683)	-	(12,227,683)	(11,505,455)
Public Safety	(70,390,835)	5,862,622	4,078,519	630,871	(59,818,823)	-	(59,818,823)	(61,110,995)
Streets and Highways	(29,293,980)	5,774,740	14,794,402	18,394,495	9,669,657	-	9,669,657	36,687,476
Culture and Recreation	(25,379,286)	4,207,617	949,407	3,034,117	(17,188,145)	-	(17,188,145)	(16,844,483)
Economic Opportunity	(16,165,310)	754,096	9,637,659	-	(5,773,555)	-	(5,773,555)	(5,846,746)
Health and Welfare	(20,215,258)	3,133,880	10,665,428	12,935	(6,403,015)	-	(6,403,015)	(4,361,224)
Mass Transit	(9,706,032)	1,469,506	1,908,121	-	(6,328,405)	-	(6,328,405)	(6,399,956)
Equipment Management	(1,789,593)	1,696,937	-	-	(92,656)	-	(92,656)	(606,628)
Engineering Services	(2,499,482)	1,973,997	-	197,033	(328,452)	-	(328,452)	(147,635)
Interest on Long-Term Debt	(4,853,854)	198,657	1,520,000	1,689,433	(1,445,764)	-	(1,445,764)	(1,899,140)
Total Governmental Activities	(211,075,212)	41,550,491	45,068,631	24,519,249	(99,936,841)	-	(99,936,841)	(72,034,786)
Business-Type Activities:								
Parking Lots	(204,531)	218,759	-	-	-	14,228	14,228	(73,070)
Golf	(3,169,578)	2,980,546	-	7,526	-	(181,506)	(181,506)	(85,747)
Parking Facilities	(4,652,493)	5,695,710	-	-	-	1,043,217	1,043,217	306,155
Municipal Auditorium	(2,403,906)	1,884,342	-	50,000	-	(469,564)	(469,564)	(729,517)
Solid Waste Management	(6,146,612)	4,128,830	-	-	-	(2,017,782)	(2,017,782)	(2,753,197)
Emergency Medical Services	(3,793,035)	3,289,202	-	-	-	(503,833)	(503,833)	(496,537)
Wastewater System	(17,563,692)	17,955,248	-	5,102,101	-	5,493,657	5,493,657	5,474,540
Water System	(23,137,996)	25,487,483	-	5,932,721	-	8,282,208	8,282,208	7,248,874
Electric System	(197,751,000)	188,369,000	-	-	-	(9,382,000)	(9,382,000)	(3,325,000)
Total Business-Type Activities	(258,822,843)	250,009,120	-	11,092,348	-	2,278,625	2,278,625	5,566,501
Total Primary Government	\$ (469,898,055)	291,559,611	45,068,631	35,611,597	(99,936,841)	2,278,625	(97,658,216)	(66,468,285)
General Revenues:								
Property Tax					43,081,366	-	43,081,366	40,877,070
Motor Vehicle Tax					4,249,847	-	4,249,847	4,256,521
Wheel Tax					9,250,300	-	9,250,300	9,153,599
Sales and Use Tax					54,348,587	-	54,348,587	53,741,266
Sundry and In Lieu Tax					35,020	-	35,020	31,765
Occupation Tax					9,225,546	2,232,680	11,458,226	11,563,520
Unrestricted Grants and Contributions					1,589,033	-	1,589,033	1,577,852
Unrestricted Investment Earnings					3,650,661	6,187,797	9,838,458	6,787,911
Miscellaneous General Revenues					1,107,132	170,825	1,277,957	1,208,250
Gain on Sale of Capital Assets					564,573	107,025	671,598	2,901,872
Transfers					425,507	(425,507)	-	258
Total General Revenues and Transfers					127,527,572	8,272,820	135,800,392	132,099,884
Change in Net Assets					27,590,731	10,551,445	38,142,176	65,631,599
Net Assets - Beginning, as restated for 2005					644,295,063	637,636,333	1,281,931,396	1,216,299,797
Net Assets - Ending, as restated for 2005					\$ 671,885,794	648,187,778	1,320,073,572	1,281,931,396

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

CITY OF LINCOLN, NEBRASKA
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2006

	General Fund	Street Construction Fund	Federal Grants Fund	Other Governmental Funds	Total
ASSETS					
Cash and Cash Equivalents	\$ 2,795,099	1,892,172	-	16,580,409	21,267,680
Investments	9,335,039	6,648,997	-	94,125,770	110,109,806
Invested Securities Lending Collateral	-	-	-	3,870,941	3,870,941
Receivables, (Net of Allowance for Uncollectibles)	6,906,403	116,749	17,504,721	6,647,761	31,175,634
Due from Other Funds	2,550,403	7,421,871	-	6,517,177	16,489,451
Due from Other Governments	9,674,794	13,710,220	2,006,990	1,545,910	26,937,914
Inventories	410,802	77,770	-	816,173	1,304,745
Prepaid Items	15,082,252	-	-	-	15,082,252
Total Assets	<u>46,754,792</u>	<u>29,867,779</u>	<u>19,511,711</u>	<u>130,104,141</u>	<u>226,238,423</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	829,478	1,708,441	574,302	1,445,619	4,557,840
Contracts Payable	-	867,997	-	82,691	950,688
Accrued Liabilities	1,312,736	64,298	195,154	1,180,796	2,752,984
Due to Other Funds	14,245,656	24,380	379,230	9,760,349	24,409,615
Due to Other Governments	187,941	33	31,676	70,721	290,371
Unearned Revenue	-	-	-	1,865,121	1,865,121
Obligations under Securities Lending	-	-	-	3,870,941	3,870,941
Deferred Revenue	886,943	9,538,319	755,522	3,483,458	14,664,242
Matured Bonds and Interest Payable	-	-	-	104,249	104,249
Total Liabilities	<u>17,462,754</u>	<u>12,203,468</u>	<u>1,935,884</u>	<u>21,863,945</u>	<u>53,466,051</u>
Fund Balances:					
Reserved for:					
Inventories	410,802	77,770	-	816,173	1,304,745
Prepaid Items	354,735	-	-	-	354,735
Improvements	475,879	-	-	8,725	484,604
Long-term Loans Receivable	-	-	17,497,000	-	17,497,000
Restricted Funds	587,171	-	-	-	587,171
Debt Service	-	-	-	11,863,224	11,863,224
Trust Donations (non-expendable)	-	-	-	160,000	160,000
Health Care (non-expendable)	-	-	-	37,000,000	37,000,000
Unreserved, Reported in:					
General Fund:					
Designated for Debt Service	380,060	-	-	-	380,060
Designated for Subsequent Years Expenditures	4,590,398	-	-	-	4,590,398
Designated for Encumbrances	604,388	-	-	-	604,388
Undesignated	21,888,605	-	-	-	21,888,605
Special Revenue Funds:					
Designated for Subsequent Years Expenditures	-	-	-	1,204,394	1,204,394
Designated for Encumbrances	-	10,257,896	78,827	214,689	10,551,412
Undesignated	-	7,328,645	-	19,505,538	26,834,183
Debt Service Funds	-	-	-	8,491,735	8,491,735
Capital Projects Funds:					
Designated for Encumbrances	-	-	-	1,863,162	1,863,162
Undesignated	-	-	-	17,670,985	17,670,985
Permanent Funds	-	-	-	9,441,571	9,441,571
Total Fund Balances, as restated	<u>29,292,038</u>	<u>17,664,311</u>	<u>17,575,827</u>	<u>108,240,196</u>	<u>172,772,372</u>
Total Liabilities and Fund Balances	<u>\$ 46,754,792</u>	<u>29,867,779</u>	<u>19,511,711</u>	<u>130,104,141</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	516,765,675
Investment in joint venture is not a financial resource and, therefore, not reported in the funds.	87,141,756
Other long-term assets are not available to pay for current-period expenditures and, therefore, deferred in the funds.	14,664,242
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	21,613,194
Accrued pension contribution liability requires the use of unavailable financial resources and, therefore, is not reported in the funds.	(82,340)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds.	(140,989,105)
Net assets of governmental activities	<u>\$ 671,885,794</u>

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

CITY OF LINCOLN, NEBRASKA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2006

	General Fund	Street Construction Fund	Federal Grants Fund	Other Governmental Funds	Total
REVENUES					
Taxes:					
Property	\$ 27,123,146	-	-	15,928,319	43,051,465
Motor Vehicle	4,249,847	-	-	-	4,249,847
Wheel	-	-	-	9,250,300	9,250,300
Sales and Use	54,348,587	-	-	-	54,348,587
Sundry and In Lieu Occupation	25,427	-	-	8,663	34,090
Special Assessment	9,232,431	-	-	-	9,232,431
Intergovernmental	85	-	-	1,691,181	1,691,266
Permits and Fees	3,495,804	27,561,761	21,660,870	8,039,066	60,757,501
Reimbursement for Services	3,265,442	4,097,209	558,879	10,501,549	18,423,079
Program Income	5,700,748	18,687	549,715	794,042	7,063,192
Investment Earnings	-	-	26,614	-	26,614
Donations	510,346	458,585	18,226	3,095,039	4,082,196
Keno Proceeds	695,347	-	101,457	265,393	1,062,197
Miscellaneous	-	-	-	2,745,869	2,745,869
	741,593	2,077,764	5,286	1,227,054	4,051,697
Total Revenues	<u>109,388,803</u>	<u>34,214,006</u>	<u>22,921,047</u>	<u>53,546,475</u>	<u>220,070,331</u>
EXPENDITURES					
Current:					
General Government	26,521,402	-	276,948	7,868,291	34,666,641
Public Safety	48,444,530	-	3,219,189	8,400,885	60,064,604
Streets and Highways	8,806,773	5,990,184	-	2,131,618	16,928,575
Culture and Recreation	11,624,341	-	1,130,954	8,182,917	20,938,212
Economic Opportunity	321,743	-	7,827,764	4,473,800	12,623,307
Health and Welfare	465,936	-	7,934,047	17,166,284	25,566,267
Mass Transit	-	-	139,578	8,761,749	8,901,327
Debt Service	-	-	-	11,016,269	11,016,269
Capital Outlay	-	44,959,001	-	20,270,369	65,229,370
Total Expenditures	<u>96,184,725</u>	<u>50,949,185</u>	<u>20,528,480</u>	<u>88,272,182</u>	<u>255,934,572</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>13,204,078</u>	<u>(16,735,179)</u>	<u>2,392,567</u>	<u>(34,725,707)</u>	<u>(35,864,241)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	1,688,599	9,327,405	724,659	27,975,938	39,716,601
Transfers Out	(20,973,005)	(3,729,298)	(88,931)	(13,516,636)	(38,307,870)
Issuance of Debt	3,910,000	-	-	5,690,000	9,600,000
Premium on Debt Issued	7,397	-	-	-	7,397
Sale of Capital Assets	51,695	-	-	4,029,245	4,080,940
Total Other Financing Sources (Uses)	<u>(15,315,314)</u>	<u>5,598,107</u>	<u>635,728</u>	<u>24,178,547</u>	<u>15,097,068</u>
Net Change in Fund Balances	<u>(2,111,236)</u>	<u>(11,137,072)</u>	<u>3,028,295</u>	<u>(10,547,160)</u>	<u>(20,767,173)</u>
Fund Balances - Beginning, as restated	<u>31,403,274</u>	<u>28,801,383</u>	<u>14,547,532</u>	<u>118,787,356</u>	<u>193,539,545</u>
Fund Balances - Ending	<u>\$ 29,292,038</u>	<u>17,664,311</u>	<u>17,575,827</u>	<u>108,240,196</u>	<u>172,772,372</u>

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

CITY OF LINCOLN, NEBRASKA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2006

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

Net change in fund balances - total governmental funds	\$ (20,767,173)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	32,907,375
The net effect of various miscellaneous transactions involving capital contributions is to increase net assets.	12,768,045
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(6,747,789)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(3,116,609)
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.	(2,186,678)
Changes in the net pension asset/obligation do not represent financial activity in governmental funds.	(1,078,803)
Changes in the interest in the underlying net assets of the joint venture do not represent financial activity in governmental funds.	14,646,419
Some pension contribution expenses require the use of unavailable financial resources and, therefore, are not reported as expenditures in governmental funds.	(11,964)
Internal service funds are used by management to charge the costs of certain services to individual funds.	<u>1,177,908</u>
Change in net assets of governmental activities	<u>\$ 27,590,731</u>

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

CITY OF LINCOLN, NEBRASKA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
Revenues:				
Real Estate and Personal Property Tax	\$ 29,331,695	29,331,695	29,231,681	(100,014)
Taxes Collected by Others	55,404,929	55,404,929	54,270,346	(1,134,583)
Sundry Taxes and In Lieu	25,520	25,520	25,564	44
Occupation Taxes	9,795,376	9,795,376	9,202,819	(592,557)
Special Assessment	650	650	250	(400)
Intergovernmental	2,975,676	2,975,676	3,411,902	436,226
Permits and Fees	2,592,195	2,592,195	2,799,791	207,596
Reimbursement for Services	2,165,793	2,165,793	2,241,993	76,200
Court Fees	491,300	491,300	357,054	(134,246)
Recreation Receipts	2,233,870	2,233,870	2,084,987	(148,883)
Investment Earnings	558,667	558,667	541,149	(17,518)
Donations	708,557	708,557	709,461	904
Rental Income	549,699	549,699	548,990	(709)
Parking Revenue	835,000	835,000	835,000	-
Miscellaneous	428,482	428,482	496,807	68,325
Total Revenues	108,097,409	108,097,409	106,757,794	(1,339,615)
Expenditures:				
General Government:				
Legislative	373,376	373,376	276,275	97,101
Executive	1,441,467	1,441,467	1,293,576	147,891
Financial Administration	2,459,907	2,459,907	2,231,522	228,385
Law	2,208,613	2,208,613	2,077,804	130,809
Personnel Administration	915,099	915,099	909,537	5,562
Planning and Zoning	1,680,544	1,680,544	1,601,642	78,902
Building and Plant	-	-	850,000	(850,000)
Urban Development	837,323	837,323	848,826	(11,503)
Miscellaneous	18,898,101	18,149,758	16,731,077	1,418,681
Total General Government	28,814,430	28,066,087	26,820,259	1,245,828
Public Safety:				
Police	29,235,370	28,988,515	28,355,405	633,110
Fire	19,491,056	19,491,056	19,769,121	(278,065)
Building and Safety	7,465	7,465	7,465	-
Traffic Engineering	1,644,627	1,699,953	1,586,995	112,958
Total Public Safety	50,378,518	50,186,989	49,718,986	468,003
Streets and Highways:				
Street Maintenance	2,676,155	2,640,073	3,205,664	(565,591)
Street Lighting	3,651,386	3,651,386	5,513,667	(1,862,281)
Total Streets and Highways	6,327,541	6,291,459	8,719,331	(2,427,872)
Culture and Recreation:				
Parks and Recreation	12,032,203	11,877,379	11,610,372	267,007
Libraries	132,404	132,404	132,404	-
Total Culture and Recreation	12,164,607	12,009,783	11,742,776	267,007
Economic Opportunity:				
Lincoln Area Agency on Aging	327,359	327,359	326,759	600
Health and Welfare:				
Lincoln/Lancaster County Health	477,205	477,205	475,935	1,270
Total Expenditures	98,489,660	97,358,882	97,804,046	(445,164)
Excess of Revenues Over Expenditures	9,607,749	10,738,527	8,953,748	(1,784,779)
Other Financing Sources (Uses):				
Transfers In	1,576,674	1,576,674	1,706,763	130,089
Transfers Out	(20,413,879)	(21,519,555)	(20,973,005)	546,550
Proceeds from Issuance of Debt	-	-	3,910,000	3,910,000
Premium on Debt Issued	-	-	7,397	7,397
Sale of Capital Assets	47,302	47,302	51,694	4,392
Total Other Financing Sources (Uses)	(18,789,903)	(19,895,579)	(15,297,151)	4,598,428
Net Change in Fund Balances	(9,182,154)	(9,157,052)	(6,343,403)	2,813,649
Fund Balances - Beginning	22,946,411	22,946,411	22,946,411	-
Fund Balances - Ending	\$ 13,764,257	13,789,359	16,603,008	2,813,649

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

CITY OF LINCOLN, NEBRASKA
STREET CONSTRUCTION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 16,137,085	16,137,085	14,950,975	(1,186,110)
Permits and Fees	-	-	3,144,487	3,144,487
Reimbursement for Services	400,000	400,000	18,597	(381,403)
Investment Earnings	150,000	150,000	169,026	19,026
Miscellaneous	-	-	1,662	1,662
Total Revenues	<u>16,687,085</u>	<u>16,687,085</u>	<u>18,284,747</u>	<u>1,597,662</u>
Expenditures -- Streets and Highways:				
Personal Services	3,230,236	3,230,236	3,367,421	(137,185)
Materials and Supplies	473,300	523,300	489,327	33,973
Other Services and Charges	2,828,354	2,727,354	1,814,849	912,505
Capital Outlay	86,885	137,885	85,070	52,815
Total Expenditures	<u>6,618,775</u>	<u>6,618,775</u>	<u>5,756,667</u>	<u>862,108</u>
Excess of Revenues Over Expenditures	<u>10,068,310</u>	<u>10,068,310</u>	<u>12,528,080</u>	<u>2,459,770</u>
Other Financing Sources (Uses):				
Transfers In	9,327,405	9,327,405	9,327,405	-
Transfers Out	<u>(3,729,299)</u>	<u>(3,729,299)</u>	<u>(3,729,299)</u>	-
Total Other Financing Sources (Uses)	<u>5,598,106</u>	<u>5,598,106</u>	<u>5,598,106</u>	-
Net Change in Fund Balances	15,666,416	15,666,416	18,126,186	2,459,770
Amount Not Required to be Budgeted	(29,740,271)	(29,740,271)	(29,740,271)	-
Fund Balances - Beginning	<u>25,017,639</u>	<u>25,017,639</u>	<u>25,017,639</u>	-
Fund Balances - Ending	<u>\$ 10,943,784</u>	<u>10,943,784</u>	<u>13,403,554</u>	<u>2,459,770</u>

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

CITY OF LINCOLN, NEBRASKA
FEDERAL GRANTS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 21,926,347	21,926,347	22,838,469	912,122
Permits and Fees	556,371	556,371	556,371	-
Reimbursement for Services	250,123	250,123	255,123	5,000
Client Contributions	243	243	243	-
Program Income	1,084,223	1,084,223	1,258,614	174,391
Recreation Receipts	176,375	176,375	176,375	-
Investment Earnings	16,393	16,393	16,546	153
Donations	103,457	103,457	103,457	-
Rental Income	114,579	114,579	114,857	278
Private Sector Share of Project	1,500	1,500	1,500	-
Miscellaneous	6,047	6,047	6,127	80
Total Revenues	<u>24,235,658</u>	<u>24,235,658</u>	<u>25,327,682</u>	<u>1,092,024</u>
Expenditures:				
General Government:				
Materials and Supplies	648	648	648	-
Other Services and Charges	241,122	241,122	241,122	-
Total General Government	<u>241,770</u>	<u>241,770</u>	<u>241,770</u>	<u>-</u>
Public Safety:				
Personal Services	1,768,988	1,768,988	1,768,988	-
Materials and Supplies	163,115	163,115	163,115	-
Other Services and Charges	1,128,762	1,128,762	1,128,762	-
Capital Outlay	354,967	354,967	354,967	-
Total Public Safety	<u>3,415,832</u>	<u>3,415,832</u>	<u>3,415,832</u>	<u>-</u>
Culture and Recreation:				
Personal Services	637,151	637,151	637,151	-
Materials and Supplies	28,118	28,118	28,118	-
Other Services and Charges	256,983	256,983	256,983	-
Capital Outlay	129,723	129,723	129,723	-
Total Culture and Recreation	<u>1,051,975</u>	<u>1,051,975</u>	<u>1,051,975</u>	<u>-</u>
Economic Opportunity:				
Personal Services	4,021,544	4,021,544	4,012,379	9,165
Materials and Supplies	92,989	92,989	91,922	1,067
Other Services and Charges	1,850,690	1,850,690	1,904,476	(53,786)
Capital Outlay	23,954	23,954	206,969	(183,015)
Loans and Grants	3,776,752	3,776,752	4,053,154	(276,402)
Total Economic Opportunity	<u>9,765,929</u>	<u>9,765,929</u>	<u>10,268,900</u>	<u>(502,971)</u>

(Continued)

(Federal Grants Fund, Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Health and Welfare:				
Personal Services	4,128,413	4,128,413	4,128,413	-
Materials and Supplies	142,302	142,302	142,302	-
Other Services and Charges	3,456,785	3,456,785	3,456,785	-
Capital Outlay	325,273	325,273	325,273	-
Loans and Grants	86,325	86,325	86,325	-
Total Health and Welfare	<u>8,139,098</u>	<u>8,139,098</u>	<u>8,139,098</u>	<u>-</u>
Mass Transit:				
Personal Services	140,000	140,000	140,000	-
Other Services and Charges	3,445	3,445	3,445	-
Total Mass Transit	<u>143,445</u>	<u>143,445</u>	<u>143,445</u>	<u>-</u>
Total Expenditures	<u>22,758,049</u>	<u>22,758,049</u>	<u>23,261,020</u>	<u>(502,971)</u>
Excess of Revenues Over Expenditures	<u>1,477,609</u>	<u>1,477,609</u>	<u>2,066,662</u>	<u>589,053</u>
Other Financing Sources (Uses):				
Transfers In	683,035	683,035	724,659	41,624
Transfers Out	<u>(13,572)</u>	<u>(13,572)</u>	<u>(88,932)</u>	<u>(75,360)</u>
Total Other Financing Sources (Uses)	<u>669,463</u>	<u>669,463</u>	<u>635,727</u>	<u>(33,736)</u>
Net Change in Fund Balances	2,147,072	2,147,072	2,702,389	555,317
Fund Deficits - Beginning	<u>(4,062,667)</u>	<u>(4,062,667)</u>	<u>(4,062,667)</u>	<u>-</u>
Fund Deficits - Ending	<u>\$ (1,915,595)</u>	<u>(1,915,595)</u>	<u>(1,360,278)</u>	<u>555,317</u>

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

CITY OF LINCOLN, NEBRASKA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2006

	Business-Type Activities -- Enterprise Funds				Total	Governmental Activities -- Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds		
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 2,304,158	6,352,912	30,000	2,381,818	11,068,888	2,782,373
Investments	-	-	37,632,000	10,743,662	48,375,662	13,623,479
Restricted Assets:						
Cash and Cash Equivalents	-	-	-	754,102	754,102	-
Investments	-	-	12,457,000	502,602	12,959,602	-
Accounts Receivable, (Net of Allowance for Uncollectibles)	1,557,579	2,893,615	9,607,000	1,749,212	15,807,406	103,217
Accrued Interest Receivable	-	-	783,000	95,490	878,490	123,109
Unbilled Revenues	1,863,030	3,261,410	8,577,000	-	13,701,440	-
Due from Other Funds	1,684,869	4,920,720	-	1,055,871	7,661,460	1,955,475
Due from Other Governments	-	-	-	2,812	2,812	425,318
Inventories	151,657	860,668	9,136,000	178,597	10,326,922	582,294
Plant Operation Assets	-	-	4,886,000	-	4,886,000	-
Prepaid Expenses	-	-	1,575,000	26,045	1,601,045	348,721
Total Current Assets	<u>7,561,293</u>	<u>18,289,325</u>	<u>84,683,000</u>	<u>17,490,211</u>	<u>128,023,829</u>	<u>19,943,986</u>
Noncurrent Assets:						
Restricted Assets:						
Cash and Cash Equivalents	-	-	-	353,558	353,558	-
Investments	17,307,563	39,135,395	89,710,000	4,006,388	150,159,346	-
Accounts Receivable	-	-	-	506	506	-
Accrued Interest Receivable	223,259	338,732	-	41,948	603,939	-
Due from Other Funds	-	-	-	409,128	409,128	-
Total Restricted Assets	<u>17,530,822</u>	<u>39,474,127</u>	<u>89,710,000</u>	<u>4,811,528</u>	<u>151,526,477</u>	<u>-</u>
Deferred Charges	647,175	780,091	10,461,000	543,702	12,431,968	-
Capital Assets:						
Land	2,861,569	4,712,330	-	10,109,029	17,682,928	48,250
Buildings	51,969,327	94,771,662	-	49,269,005	196,009,994	373,146
Improvements Other Than Buildings	193,165,147	219,401,356	-	26,381,924	438,948,427	1,163,159
Machinery and Equipment	7,329,068	5,521,580	-	9,955,295	22,805,943	22,448,009
Utility Plant	-	-	867,075,000	-	867,075,000	-
Construction in Progress	34,995,029	4,573,634	132,770,000	2,997,637	175,336,300	-
Less Accumulated Depreciation	(64,241,546)	(78,954,794)	(311,560,000)	(36,576,600)	(491,332,940)	(13,664,857)
Total Capital Assets, Net	<u>226,078,594</u>	<u>250,025,768</u>	<u>688,285,000</u>	<u>62,136,290</u>	<u>1,226,525,652</u>	<u>10,367,707</u>
Total Noncurrent Assets	<u>244,256,591</u>	<u>290,279,986</u>	<u>788,456,000</u>	<u>67,491,520</u>	<u>1,390,484,097</u>	<u>10,367,707</u>
Total Assets	<u>251,817,884</u>	<u>308,569,311</u>	<u>873,139,000</u>	<u>84,981,731</u>	<u>1,518,507,926</u>	<u>30,311,693</u>
LIABILITIES						
Current Liabilities:						
Accounts Payable	320,756	661,384	15,234,000	2,711,300	18,927,440	785,534
Construction Contracts	5,056,926	1,386,369	6,841,000	-	13,284,295	-
Accrued Liabilities	346,829	665,053	8,669,000	200,866	9,881,748	229,106
Accrued Compensated Absences	277,917	306,575	-	234,269	818,761	592,442
Due to Other Funds	-	-	-	319,350	319,350	34,707
Due to Other Governments	-	-	-	118,039	118,039	1,066
Unearned Revenue	-	-	-	222,850	222,850	559,522
Claims	-	-	-	-	-	2,746,099
Accrued Interest	643,280	152,148	8,753,000	42,780	9,591,208	624
Current Portion of Capital Lease	-	-	-	322,891	322,891	56,954
Current Portion of Long-Term Debt	2,005,000	5,340,000	11,050,000	1,740,000	20,135,000	-
Other	-	-	6,714,000	-	6,714,000	-
Total Current Liabilities	<u>8,650,708</u>	<u>8,511,529</u>	<u>57,261,000</u>	<u>5,912,345</u>	<u>80,335,582</u>	<u>5,006,054</u>
Noncurrent Liabilities:						
Due to Other Funds	-	-	-	1,751,842	1,751,842	-
Accrued Compensated Absences	155,364	243,585	-	54,035	452,984	360,376
Claims	-	-	-	-	-	3,165,285
Long-Term Debt, Net	67,755,231	74,590,829	528,011,000	18,651,063	689,008,123	-
Capital Lease Payable	-	-	-	380,617	380,617	166,784
Commercial Paper Notes Payable	-	-	90,000,000	-	90,000,000	-
Accrued Landfill Closure/Postclosure Care Costs	-	-	-	8,391,000	8,391,000	-
Total Noncurrent Liabilities	<u>67,910,595</u>	<u>74,834,414</u>	<u>618,011,000</u>	<u>29,228,557</u>	<u>789,984,566</u>	<u>3,692,445</u>
Total Liabilities	<u>76,561,303</u>	<u>83,345,943</u>	<u>675,272,000</u>	<u>35,140,902</u>	<u>870,320,148</u>	<u>8,698,499</u>
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	160,423,939	199,305,347	134,191,000	42,245,883	536,166,169	10,143,969
Restricted for:						
Debt Service	2,210,193	253,434	14,649,000	2,632,471	19,745,098	-
Capital Projects	471,616	1,573,744	-	1,463,541	3,508,901	-
Other	-	-	-	145,484	145,484	-
Unrestricted	12,150,833	24,090,843	49,027,000	3,353,450	88,622,126	11,469,225
Total Net Assets	<u>\$ 175,256,581</u>	<u>225,223,368</u>	<u>197,867,000</u>	<u>49,840,829</u>	<u>648,187,778</u>	<u>21,613,194</u>

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

CITY OF LINCOLN, NEBRASKA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2006

	Business-Type Activities -- Enterprise Funds				Total	Governmental Activities -- Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds		
Operating Revenues						
Charges for Services	\$ 17,997,650	25,599,610	188,369,000	3,289,202	235,255,462	30,856,043
Fees	-	-	-	6,816,537	6,816,537	-
Parking Facility Revenue	-	-	-	5,908,352	5,908,352	-
Performance Revenue	-	-	-	1,793,166	1,793,166	-
Other Operating Revenue	-	-	-	413,954	413,954	-
Total Operating Revenues	<u>17,997,650</u>	<u>25,599,610</u>	<u>188,369,000</u>	<u>18,221,211</u>	<u>250,187,471</u>	<u>30,856,043</u>
Operating Expenses						
Personal Services	-	-	-	6,721,906	6,721,906	12,014,102
Contractual Services	-	-	-	3,610,357	3,610,357	-
Operation and Maintenance	9,561,384	11,897,461	10,989,000	5,559,474	38,007,319	17,076,043
Purchased Power	-	-	105,810,000	-	105,810,000	-
Depreciation	5,840,835	6,398,937	28,502,000	3,441,290	44,183,062	2,251,379
Payments in Lieu of Taxes	-	-	7,050,000	-	7,050,000	-
Administrative Costs	1,564,435	1,910,753	22,295,000	-	25,770,188	-
Total Operating Expenses	<u>16,966,654</u>	<u>20,207,151</u>	<u>174,646,000</u>	<u>19,333,027</u>	<u>231,152,832</u>	<u>31,341,524</u>
Operating Income (Loss)	<u>1,030,996</u>	<u>5,392,459</u>	<u>13,723,000</u>	<u>(1,111,816)</u>	<u>19,034,639</u>	<u>(485,481)</u>
Nonoperating Revenues (Expenses)						
Investment Earnings	1,307,815	1,697,768	2,705,000	477,214	6,187,797	527,418
Gain on Disposal of Capital Assets	-	-	-	107,025	107,025	205,614
Occupation Tax	-	-	-	2,232,680	2,232,680	-
Grants	-	-	-	-	-	183,740
Amortization of Deferred Charges	(29,154)	(70,033)	(981,000)	(50,910)	(1,131,097)	-
Interest Expense and Fiscal Charges	(567,884)	(2,860,812)	(22,124,000)	(986,218)	(26,538,914)	(8,524)
Total Nonoperating Revenues (Expenses)	<u>710,777</u>	<u>(1,233,077)</u>	<u>(20,400,000)</u>	<u>1,779,791</u>	<u>(19,142,509)</u>	<u>908,248</u>
Income (Loss) Before Contributions and Transfers	<u>1,741,773</u>	<u>4,159,382</u>	<u>(6,677,000)</u>	<u>667,975</u>	<u>(107,870)</u>	<u>422,767</u>
Capital Contributions	<u>5,102,101</u>	<u>5,932,721</u>	<u>-</u>	<u>1,149,282</u>	<u>12,184,104</u>	<u>639,083</u>
Transfers In	-	-	-	525,000	525,000	116,058
Transfers Out	-	-	(1,299,000)	(750,789)	(2,049,789)	-
Change in Net Assets	<u>6,843,874</u>	<u>10,092,103</u>	<u>(7,976,000)</u>	<u>1,591,468</u>	<u>10,551,445</u>	<u>1,177,908</u>
Net Assets - Beginning	<u>168,412,707</u>	<u>215,131,265</u>	<u>205,843,000</u>	<u>48,249,361</u>	<u>637,636,333</u>	<u>20,435,286</u>
Net Assets - Ending	<u>\$ 175,256,581</u>	<u>225,223,368</u>	<u>197,867,000</u>	<u>49,840,829</u>	<u>648,187,778</u>	<u>21,613,194</u>

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

CITY OF LINCOLN, NEBRASKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2006

	Business-Type Activities -- Enterprise Funds				Total	Governmental Activities -- Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds		
Cash Flows from Operating Activities						
Receipts from Customers and Users	\$ 17,782,996	24,992,562	196,247,000	17,870,936	256,893,494	8,735,292
Receipts from Interfund Services Provided	151,497	614,542	4,200,000	251,806	5,217,845	22,098,603
Payments to Suppliers for Goods and Services	(2,956,312)	(4,284,002)	(126,667,000)	(7,165,753)	(141,073,067)	(14,744,107)
Payments to Employees	(6,578,300)	(7,269,902)	(20,725,000)	(6,816,277)	(41,389,479)	(12,256,098)
Payments for Interfund Services Provided	(1,630,612)	(2,718,624)	(1,707,000)	(1,482,839)	(7,539,075)	(1,916,841)
Payments in Lieu of Taxes	-	-	(6,207,000)	-	(6,207,000)	-
Other Receipts	-	-	-	413,954	413,954	-
Net Cash Provided by Operating Activities	<u>6,769,269</u>	<u>11,334,576</u>	<u>45,141,000</u>	<u>3,071,827</u>	<u>66,316,672</u>	<u>1,916,849</u>
Cash Flows from Noncapital Financing Activities						
Occupation Tax	-	-	-	2,290,410	2,290,410	-
Transfers from Other Funds	-	-	-	525,000	525,000	116,058
Transfers to Other Funds	-	-	(1,299,000)	(750,789)	(2,049,789)	-
Advances from General Fund	-	-	-	696,630	696,630	-
Repayment of Advances from General Fund	-	-	-	(199,468)	(199,468)	-
Advances to Other Funds	-	(81,242)	-	(512,181)	(593,423)	(181,554)
Payments from Other Funds	1,621,675	-	-	2,794	1,624,469	9,013
Capital Contributions	-	-	-	50,000	50,000	-
Interest Paid	-	-	-	(60,321)	(60,321)	-
Federal Grant Revenue	-	-	-	-	-	292,567
Net Cash Provided (Used) by Noncapital Financing Activities	<u>1,621,675</u>	<u>(81,242)</u>	<u>(1,299,000)</u>	<u>2,042,075</u>	<u>2,283,508</u>	<u>236,084</u>
Cash Flows from Capital and Related Financing Activities						
Additions to Capital Assets	(30,723,068)	(11,245,000)	(80,719,000)	(3,121,668)	(125,808,736)	(2,502,635)
Proceeds from Sale of Capital Assets	-	-	-	107,025	107,025	352,200
Proceeds from Long-Term Debt	-	-	136,804,000	4,012,575	140,816,575	-
Cost of Debt Issuance	-	-	-	(75,504)	(75,504)	-
Net Cost of Retiring Plant	-	-	(360,000)	-	(360,000)	-
Principal Payments of Capital Lease	-	-	-	(432,439)	(432,439)	(55,085)
Principal Payments of Long-Term Debt	(2,065,000)	(5,130,000)	(30,718,000)	(1,490,000)	(39,403,000)	-
Interest and Fiscal Charges Paid	(575,246)	(3,070,863)	(23,437,000)	(924,869)	(28,007,978)	(8,663)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(33,363,314)</u>	<u>(19,445,863)</u>	<u>1,570,000</u>	<u>(1,924,880)</u>	<u>(53,164,057)</u>	<u>(2,214,183)</u>
Cash Flows from Investing Activities						
Proceeds from Sale and Maturities of Investments	17,930,426	3,393,784	381,843,000	1,363,091	404,530,301	182,499
Purchases of Investments	(2,216,414)	(2,721,141)	(427,436,000)	(5,769,358)	(438,142,913)	(2,206,854)
Interest and Other Receipts	1,275,972	2,021,705	15,000	590,037	3,902,714	621,471
Net Cash Provided (Used) by Investing Activities	<u>16,989,984</u>	<u>2,694,348</u>	<u>(45,578,000)</u>	<u>(3,816,230)</u>	<u>(29,709,898)</u>	<u>(1,402,884)</u>
Net Decrease in Cash and Cash Equivalents	(7,982,386)	(5,498,181)	(166,000)	(627,208)	(14,273,775)	(1,464,134)
Cash and Cash Equivalents - Beginning	10,286,544	11,851,093	196,000	4,116,686	26,450,323	4,246,507
Cash and Cash Equivalents - Ending	<u>\$ 2,304,158</u>	<u>6,352,912</u>	<u>30,000</u>	<u>3,489,478</u>	<u>12,176,548</u>	<u>2,782,373</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities						
Operating Income (Loss)	\$ 1,030,996	5,392,459	13,723,000	(1,111,816)	19,034,639	(485,481)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	5,840,835	6,398,937	28,502,000	3,441,290	44,183,062	2,251,379
Changes in Assets and Liabilities:						
Accounts Receivable and Unbilled Revenues	(65,907)	(156)	(1,112,000)	343,606	(834,457)	194,042
Due from Other Funds	-	-	-	12,287	12,287	12,078
Due from Other Governments	-	-	-	2,527	2,527	(82,064)
Inventories	(10,209)	(124,233)	(961,000)	(12,438)	(1,107,880)	(123,490)
Plant Operation Assets	-	-	207,000	-	207,000	-
Prepaid Expenses	-	-	(467,000)	19,154	(447,846)	(177,618)
Other Assets	-	-	521,000	-	521,000	-
Accounts Payable	67,961	(178,713)	3,520,000	131,862	3,541,110	(56,606)
Accrued Liabilities	(117,406)	(182,350)	-	(94,335)	(394,091)	(298,634)
Accrued Compensated Absences	22,999	28,632	-	15,778	67,409	49,700
Due to Other Funds	-	-	-	(33,443)	(33,443)	(4,458)
Due to Other Governments	-	-	-	7,290	7,290	(748)
Unearned Revenue	-	-	-	(42,935)	(42,935)	(146,204)
Claims	-	-	-	-	-	784,953
In Lieu of Taxes	-	-	843,000	-	843,000	-
Deferred Credits and Other Liabilities	-	-	365,000	-	365,000	-
Accrued Landfill Closure/Postclosure Care Costs	-	-	-	393,000	393,000	-
Total Adjustments	<u>5,738,273</u>	<u>5,942,117</u>	<u>31,418,000</u>	<u>4,183,643</u>	<u>47,282,033</u>	<u>2,402,330</u>
Net Cash Provided by Operating Activities	<u>\$ 6,769,269</u>	<u>11,334,576</u>	<u>45,141,000</u>	<u>3,071,827</u>	<u>66,316,672</u>	<u>1,916,849</u>
Supplemental Disclosure of Noncash Investing, Capital, and Financing Activities:						
Contribution of Capital Assets	\$ 4,580,372	4,215,100	-	1,099,282	9,894,754	639,083
Capital Asset Trade-Ins	-	-	-	-	-	7,537
Purchase of Capital Assets on Account	5,056,926	1,386,369	-	1,931,115	8,374,410	234,822
Change in Fair Value of Investments	78,062	(323,112)	2,499,000	(133,739)	2,120,211	(113,979)

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

CITY OF LINCOLN, NEBRASKA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2006

	<u>Police & Fire Pension Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 585,380	6,821,827
Investments:		
Pooled Investment Funds	1,106,097	-
U.S. Agency Obligations	-	2,821,472
Corporate Bonds	4,785,000	-
Municipal Bonds	1,053,500	-
Mutual Funds	145,782,884	-
Real Estate Limited Partnership	22,789,813	-
Debt Private Placement	2,000,000	-
Total Investments	<u>177,517,294</u>	<u>2,821,472</u>
Receivables:		
Contributions	588,296	-
Accrued Interest	697,413	40,156
Other	-	30,238
Due from Other Governments	197	-
Contractor Retainage	<u>-</u>	<u>790,624</u>
Total Assets	<u>179,388,580</u>	<u>10,504,317</u>
LIABILITIES		
Warrants Payable	-	4,953,375
Accounts Payable	115,134	175,845
Accrued Liabilities	1,957	-
Accrued Compensated Absences	13,124	-
Due to Other Governments	-	3,863,352
Due to Contractors	-	1,322,215
Due to Joint Venture	-	177,157
Due to Bondholders	<u>-</u>	<u>12,373</u>
Total Liabilities	<u>130,215</u>	<u>10,504,317</u>
NET ASSETS		
Held in Trust for Pension Benefits and Other Purposes	<u>\$ 179,258,365</u>	<u>-</u>

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

CITY OF LINCOLN, NEBRASKA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED AUGUST 31, 2006

	<u>Police & Fire Pension Trust Fund</u>
Additions:	
Contributions:	
Employer	\$ 3,276,234
Employee	2,085,588
Total Contributions	<u>5,361,822</u>
Investment Earnings:	
Interest	804,676
Dividends	2,546,782
Net Increase in Fair Value of Investments	14,438,019
Net Investment Earnings	<u>17,789,477</u>
Total Additions	<u>23,151,299</u>
Deductions:	
Benefit Payments	7,826,968
Refunds of Contributions	83,948
Administrative Costs	261,300
Total Deductions	<u>8,172,216</u>
Change in Net Assets	14,979,083
Net Assets Held in Trust for Pension Benefits and Other Purposes - Beginning	<u>164,279,282</u>
Net Assets Held in Trust for Pension Benefits - and Other Purposes - Ending	<u>\$ 179,258,365</u>

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

**NOTES TO THE
FINANCIAL STATEMENTS**

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CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2006

(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 funds of the City, with the exception of Lincoln Electric System (LES), are reported as of and for the year ended August 31, 2006. 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, 2005. The amounts included in the City's 2006 financial statements for LES are figures as of and for the year ended December 31, 2005.

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

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2006

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 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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2006

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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2006

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

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

Receivables and Payables

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

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. 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".

Deferred Charges

Advances for mine development are payments made for the construction of the Dry Fork Coal Mine and are included in deferred charges on the statement of net assets. The mine is expected to provide fuel for Laramie River Station over the estimated 25 year life of the mine. The advances will be returned to LES over the estimated life of the mine.

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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2006

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, 2006 are as follows:

Fund Account	Golf	Parking Facilities	Pershing Municipal Auditorium	Solid Waste Management	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Totals
Principal and Interest	\$ -	130,975	-	-	-	-	12,457,000	12,587,975
Reserve	316,500	1,815,575	-	400,000	5,023,838	8,044,681	17,786,000	33,386,594
Surplus	-	-	-	-	1,013,117	-	-	1,013,117
Depreciation and Replacement	100,000	682,850	-	-	-	-	-	782,850
Construction	-	-	-	2,464,105	11,493,867	31,429,446	71,924,000	117,311,418
Capital Improvements	3,990	-	8,753	-	-	-	-	12,743
Marketing	-	-	145,484	-	-	-	-	145,484
	\$ 420,490	2,629,400	154,237	2,864,105	17,530,822	39,474,127	102,167,000	165,240,181

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 reported in the City's financial statements using the equity method of accounting.

Capital Assets

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

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

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

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

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

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

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2006

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 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 also compensated for sick leave. 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 \$22,206,022 of the General Fund's unreserved fund balance of \$27,463,451 meets the requirements of this policy, leaving an additional unreserved balance of \$5,257,429.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2006

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. The government-wide statement of net assets reports \$218,281,220 of restricted net assets, of which \$15,084,992 is restricted by 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.

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August 31, 2006

- 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.

ENDOWMENTS

The Community Health Permanent Endowment Fund was established in 1997 with the \$37,000,000 cash proceeds realized by the City from the sale of Lincoln General Hospital, and may be increased by donations, bequests, or appropriations to the fund. Investment earnings of the fund are used for funding health and health-related programs that further the health, safety, or welfare of the citizens of Lincoln. The initial endowment principal is reported as restricted net assets in the statement of net assets.

PRIOR-YEAR SUMMARIZED FINANCIAL INFORMATION

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's basic financial statements as of and for the year ended August 31, 2005, from which the summarized information, before restatement for the matter described in Note 23, 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.

NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued its Statement 45, *Accounting & Financial Reporting by Employers for Postemployment Benefits Other than Pension*. Statement 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense and related liabilities or assets, note disclosures, and if applicable, required supplementary information. The City has begun analysis of OPEB and expects to complete it by the implementation deadline.

GASB has also issued its Statement 47, *Accounting for Termination Benefits*. Statement 47 provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. The City expects to first apply GASB No. 47 during the year ending August 31, 2007.

(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

CITY OF LINCOLN, NEBRASKA
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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 \$140,989,105 difference are as follows:

Bonds Payable	\$ 108,457,555
Less deferred charge for issuance costs	(940,999)
Less issuance discounts	(22,967)
Plus issuance premiums	2,271,165
Capital Leases Payable	18,097,413
Accrued Interest Payable	1,156,440
Net Pension Obligation	3,570,383
Compensated Absences	<u>8,400,115</u>
Net difference	<u>\$ 140,989,105</u>

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

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances – total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains 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 \$32,907,375 difference are as follows:

Capital outlay	\$ 51,751,348
Depreciation expense	<u>(18,843,973)</u>
Net difference	<u>\$ 32,907,375</u>

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 \$(3,116,609) difference are as follows:

Debt issued or incurred:	
Issuance of capital leases	\$ (6,540,000)
Issuance of certificates of participation	(3,060,000)
Deferred charge for issuance costs	43,657
Issuance premiums	(7,397)
Amortization of deferred items	(22,121)
Principal repayments	<u>6,469,252</u>
Net difference	<u>\$ (3,116,609)</u>

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 \$(2,186,678) difference are as follows:

Loss on disposal of capital assets	\$ (1,625,392)
Accrued interest	(16,258)
Compensated absences	<u>(545,028)</u>
Net difference	<u>\$ (2,186,678)</u>

CITY OF LINCOLN, NEBRASKA
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(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, 2006, which discloses the nature and amount of the adjustments necessary to convert the actual GAAP data to the budgetary basis, is presented below:

	<u>General Fund</u>	<u>Street Construction Fund</u>	<u>Federal Grants Fund</u>
Net Change in Fund Balances:			
Balance on a GAAP basis	\$(2,111,236)	(11,137,072)	3,028,295
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.	(4,232,167)	(477,013)	(325,906)
Entity differences occur when the budget excludes programs or entities that fall within the financial reporting entity as defined by GAAP.	-	<u>29,740,271</u>	-
Balance on a budget basis	<u>\$(6,343,403)</u>	<u>18,126,186</u>	<u>2,702,389</u>

(4) **DEPOSITS AND INVESTMENTS**

DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State Statutes 15-846 and 15-847 R.R.S., 1943 require banks either to 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, 2006, 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 credit 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, 2006 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.

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At August 31, 2006, the City had the following investments, maturities and credit ratings:

Type	August 31, 2006					Credit Rating Moody / S&P
	Carrying Value	Maturities in Years				
		Less than 1	1-5	6-10	More than 10	
General City:						
U.S. Treasury Obligations	\$ 74,098,928	61,402,997	9,581,250	3,114,681	-	N/A
U.S. Sponsored Agency Obligations	151,761,653	64,438,161	83,441,007	3,882,485	-	Aaa / AAA
Collateralized Repurchase Agreements	1,820,768	1,820,768	-	-	-	N/A
Collateralized Investment Agreements	1,120,000	-	-	1,120,000	-	Aaa / A
Collateralized Investment Agreements	8,069,981	-	-	-	8,069,981	Aa/AA
Money Market Mutual Funds - U.S. Treasury	1,044,807	1,044,807	-	-	-	N/A
Money Market Mutual Funds - U.S. Agencies	49,924,483	49,924,483	-	-	-	Aaa / AAA
Money Market Mutual Funds	8,017,360	8,017,360	-	-	-	Not rated
Corporate Bonds	20,162	20,162	-	-	-	AA/AA
Corporate Bonds	44,066	-	-	44,066	-	A / A
External Investment Trust	2,565,000	2,565,000	-	-	-	Not rated
Tax Increment Financing Investments	482,555	-	139,500	-	343,055	Not rated
Total General City	298,969,763	189,233,738	93,161,757	8,161,232	8,413,036	
Community Health Endowment:						
U.S. Treasury Obligations	3,548,801	-	1,810,402	667,375	1,071,024	N/A
U.S. Sponsored Agency Obligations	179,545	-	179,545	-	-	Aaa / AAA
U.S. Sponsored Agency Obligations	5,795,981	-	501,278	736,481	4,558,222	Not rated
Money Market Mutual Funds	5,821,899	5,821,899	-	-	-	Not rated
Mortgage-backed Securities	1,817,844	-	139,491	-	1,678,353	Aaa / AAA
Corporate Bonds	1,971,238	-	350,943	377,162	1,243,133	Aaa / AAA
Corporate Bonds	496,125	-	421,667	74,458	-	Aa / AA
Corporate Bonds	90,059	-	-	68,377	21,682	Aa / A
Corporate Bonds	1,346,349	313,145	294,964	337,598	400,642	A / A
Corporate Bonds	152,079	60,032	48,356	43,691	-	A / BBB
Corporate Bonds	262,106	-	105,625	156,481	-	Baa / A
Corporate Bonds	1,861,627	197,174	455,830	738,296	470,327	Baa / BBB
Foreign Obligations	37,067	-	37,067	-	-	A / A
Foreign Obligations	11,671	-	-	11,671	-	Baa / BBB
Mutual Funds - Fixed Income	21,687,934	21,687,934	-	-	-	Not rated
Securities Lending Collateral	3,870,941	3,870,941	-	-	-	Not rated
Total Community Health Endowment	48,951,266	31,951,125	4,345,168	3,211,590	9,443,383	
Police & Fire Pension Trust:						
Corporate Bonds	1,932,500	-	-	-	1,932,500	A/A
Corporate Bonds	2,852,500	-	1,912,500	940,000	-	Aa/AA
Money Market Mutual Funds	239,700	239,700	-	-	-	Not rated
Tax Exempt Bonds	1,053,500	-	1,053,500	-	-	Not rated
Mutual Funds - Fixed Income	25,486,607	25,486,607	-	-	-	Not rated
Private Placement Debt Obligations	2,000,000	-	2,000,000	-	-	Not rated
	33,564,807	25,726,307	4,966,000	940,000	1,932,500	
Mutual Funds	120,296,277	-	-	-	-	
Real Estate Limited Partnerships	22,789,813	-	-	-	-	
Total Police & Fire Pension Trust	176,650,897					
Total Primary Government	\$ 524,571,926					

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INVESTMENT POLICIES

General City Policy

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

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 \$8,017,360 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.

<u>Type</u>	<u>Portfolio Composition</u>	<u>Policy Limits on Issuer</u>
U.S. agency obligations:		
Federal Home Loan Bank	38.08% %	40.00 %
Federal Home Loan Mortgage Corporation	7.07%	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.

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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 least 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, 2006, CHE's investment in Federal National Mortgage Association bonds constituted 6% of its total investments.

Foreign Currency Risk. This risk relates 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, 2006.

Police & Fire Pension Trust Policy

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

The Police & Fire Pension Trust is allowed to invest in domestic and international equity funds, domestic and foreign bonds, real estate, mortgage-backed securities, and other alternative investments.

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.

CITY OF LINCOLN, NEBRASKA
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Summary of Deposit and Investment Balances

Following is a reconciliation of the City's deposit and investment balances as of August 31, 2006:

	<u>Totals</u>		
Investments	\$	524,571,926	
Deposits and Cash on Hand		<u>38,499,484</u>	
	\$	<u>563,071,410</u>	
		<u>Government-wide</u>	<u>Fiduciary Funds</u>
		Statement of	Statement of
		Net Assets	Net Assets
		<u> </u>	<u> </u>
			<u>Totals</u>
Cash and Cash Equivalents	\$	35,118,941	7,407,207
Investments		134,948,947	180,338,766
Invested Securities Lending		3,870,941	-
Restricted Assets:			
Cash and Cash Equivalents		1,107,660	-
Investments		<u>200,278,948</u>	<u>-</u>
	\$	<u>375,325,437</u>	<u>187,745,973</u>
			<u>563,071,410</u>

Securities Lending Transactions

The policies of the Community Health Endowment Board of Trustees authorize CHE 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 71 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 CHE by the contract with the custodian.

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(5) **RECEIVABLES**

Receivables at August 31, 2006, consist of the following (in thousands):

Fund	Taxes	Accounts	Loans	Contributions	Special Assessment		Accrued Interest	Gross Receivables	Allowance For Uncollectibles	Net
					Current	Deferred				
General	\$ 5,554	1,276	-	-	-	-	76	6,906	-	6,906
Street Construction	-	54	-	-	-	-	63	117	-	117
Federal Grants	-	5	22,054	-	-	-	3	22,062	4,557	17,505
Wastewater System	-	3,421	-	-	-	-	223	3,644	-	3,644
Water System	-	6,155	-	-	-	-	339	6,494	-	6,494
Electric System	-	18,184	-	-	-	-	783	18,967	-	18,967
Nonmajor -										
Special Revenue	2,316	346	-	-	-	-	205	2,867	-	2,867
Debt Service	753	-	-	-	357	2,361	154	3,625	204	3,421
Capital Projects	-	14	-	-	-	-	178	192	-	192
Permanent	-	-	-	-	-	-	167	167	-	167
Enterprise	-	2,501	-	-	-	-	137	2,638	751	1,887
Internal Service	-	103	-	-	-	-	123	226	-	226
Fiduciary	-	30	-	588	-	-	738	1,356	-	1,356
	\$ 8,623	32,089	22,054	588	357	2,361	3,189	69,261	5,512	63,749

Enterprise funds customer accounts receivable include unbilled charges for services.

Delinquent special assessment receivables at August 31, 2006, were \$158,043.

(6) **DUE FROM OTHER GOVERNMENTS**

The total of Due From Other Governments of \$27,366,044 includes the following significant items:

Fund/Fund Type	Amount	Service
General/General	\$ 9,126,076	State of Nebraska, July/August Sales and Use Tax
	401,035	August Motor Vehicle Taxes Collected by Lancaster County
	41,376	Federal Government, Cost Reimbursements
	106,307	Lancaster County, Cost Reimbursements
Street Construction/Special Revenue	2,595,729	State of Nebraska, July/August Highway User Fees
	2,000,000	State of Nebraska, Cost Reimbursements
	9,114,491	Federal Government, Cost Reimbursements
Federal Grants/Special Revenue	2,006,990	Federal Government, Cost Reimbursements
Lincoln Area Agency on Aging/Special Revenue	111,551	Federal Government, Cost Reimbursements
Lincoln/Lancaster Co. Health/Special Revenue	373,112	Lancaster County, Cost Reimbursements
Snow Removal/Special Revenue	97,447	August Motor Vehicle Taxes Collected by Lancaster County
StarTran/Special Revenue	36,019	Federal Government, Cost Reimbursements
Antelope Valley/Tax Supported Bonds/Debt Service	166,667	State of Nebraska, July/August Development Fund Disbursements
Vehicle Tax/Capital Projects	760,363	August Motor Vehicle Taxes Collected by Lancaster County
Information Services/Internal Service	250,742	Lancaster County Billings
Engineering Revolving/Internal Service	96,766	State of Nebraska, Cost Reimbursements
Fleet Services/Internal Services	42,910	Lancaster County Billings
Copy Services/Internal Service	<u>26,843</u>	Lancaster County Billings
Subtotal	27,354,424	
All other	<u>11,620</u>	
Total Due From Other Governments	<u>\$ 27,366,044</u>	

CITY OF LINCOLN, NEBRASKA
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(7) **CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2006, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 50,137,989	9,152,427	1,557,228	57,733,188
Construction in Progress	96,203,472	30,377,584	22,627,958	103,953,098
Total Capital Assets, not being Depreciated	<u>146,341,461</u>	<u>39,530,011</u>	<u>24,185,186</u>	<u>161,686,286</u>
Capital Assets, being Depreciated:				
Buildings	67,525,833	6,402,305	6,261	73,921,877
Improvements Other Than Buildings	51,483,017	1,465,240	267,849	52,680,408
Machinery and Equipment	64,849,364	6,431,073	3,762,577	67,517,860
Infrastructure	356,092,804	35,199,250	61,598	391,230,456
Total Capital Assets, being Depreciated	<u>539,951,018</u>	<u>49,497,868</u>	<u>4,098,285</u>	<u>585,350,601</u>
Less Accumulated Depreciation for:				
Buildings	23,732,066	1,762,623	5,280	25,489,409
Improvements Other Than Buildings	18,805,448	1,585,040	243,410	20,147,078
Machinery and Equipment	33,758,412	5,835,488	3,600,921	35,992,979
Infrastructure	111,641,109	11,912,201	6,788	123,546,522
Total Accumulated Depreciation	<u>187,937,035</u>	<u>21,095,352</u>	<u>3,856,399</u>	<u>205,175,988</u>
Total Capital Assets, being Depreciated, Net	<u>352,013,983</u>	<u>28,402,516</u>	<u>241,886</u>	<u>380,174,613</u>
Governmental Activities Capital Assets, Net	<u>\$ 498,355,444</u>	<u>67,932,527</u>	<u>24,427,072</u>	<u>541,860,899</u>
	Beginning Balances	Increases	Decreases	Ending Balances
Business-type Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 15,150,478	2,532,450	-	17,682,928
Construction in Progress	119,655,501	132,902,324	77,221,525	175,336,300
Total Capital Assets, not being Depreciated	<u>134,805,979</u>	<u>135,434,774</u>	<u>77,221,525</u>	<u>193,019,228</u>
Capital Assets, being Depreciated:				
Buildings	194,929,831	3,687,317	2,607,154	196,009,994
Improvements Other Than Buildings	389,878,839	49,140,260	70,672	438,948,427
Machinery and Equipment	22,152,439	1,105,847	452,343	22,805,943
Utility Plant	838,823,000	30,545,000	2,293,000	867,075,000
Total Capital Assets, being Depreciated	<u>1,445,784,109</u>	<u>84,478,424</u>	<u>5,423,169</u>	<u>1,524,839,364</u>
Less Accumulated Depreciation for:				
Buildings	55,244,528	4,486,828	2,607,154	57,124,202
Improvements Other Than Buildings	99,771,807	9,407,501	70,672	109,108,636
Machinery and Equipment	12,196,390	1,786,733	443,021	13,540,102
Utility Plant	286,146,000	28,502,000	3,088,000	311,560,000
Total Accumulated Depreciation	<u>453,358,725</u>	<u>44,183,062</u>	<u>6,208,847</u>	<u>491,332,940</u>
Total Capital Assets, being Depreciated, Net	<u>992,425,384</u>	<u>40,295,362</u>	<u>(785,678)</u>	<u>1,033,506,424</u>
Business-type Activities Capital Assets, Net	<u>\$ 1,127,231,363</u>	<u>175,730,136</u>	<u>76,435,847</u>	<u>1,226,525,652</u>

CITY OF LINCOLN, NEBRASKA
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Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 946,219
Public Safety	1,699,299
Streets and Highways, including Infrastructure	11,438,478
Culture and Recreation	3,344,450
Economic Opportunity	60,261
Health and Welfare	187,301
Mass Transit	1,167,965
Internal Service Funds Capital Assets	
Depreciation is charged to the various functions based on usage of the assets.	<u>2,251,379</u>
Total Depreciation Expense - Governmental	<u>\$ 21,095,352</u>
Business-type Activities:	
Parking Lots	\$ 28,573
Golf	605,241
Parking Facilities	1,040,337
Pershing Municipal Auditorium	80,860
Solid Waste Management	1,524,601
Emergency Medical Services	161,678
Wastewater System	5,840,835
Water System	6,398,937
Lincoln Electric System	28,502,000
Total Depreciation Expense - Business-type	<u>\$ 44,183,062</u>

Capital asset activity of each major enterprise fund was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Wastewater System:				
Capital Assets, not being Depreciated:				
Land	\$ 2,778,024	83,545	-	2,861,569
Construction in Progress	<u>30,139,360</u>	<u>31,955,541</u>	<u>27,099,872</u>	<u>34,995,029</u>
Total Capital Assets, not being Depreciated	<u>32,917,384</u>	<u>32,039,086</u>	<u>27,099,872</u>	<u>37,856,598</u>
Capital Assets, being Depreciated:				
Buildings	54,243,731	317,940	2,592,344	51,969,327
Improvements Other Than Buildings	161,860,471	31,321,246	16,570	193,165,147
Machinery and Equipment	<u>6,813,949</u>	<u>599,814</u>	<u>84,695</u>	<u>7,329,068</u>
Total Capital Assets, being Depreciated	<u>222,918,151</u>	<u>32,239,000</u>	<u>2,693,609</u>	<u>252,463,542</u>
Less Accumulated Depreciation for:				
Buildings	17,207,488	1,378,737	2,592,344	15,993,881
Improvements Other Than Buildings	41,160,384	3,993,917	16,570	45,137,731
Machinery and Equipment	<u>2,720,855</u>	<u>468,181</u>	<u>79,102</u>	<u>3,109,934</u>
Total Accumulated Depreciation	<u>61,088,727</u>	<u>5,840,835</u>	<u>2,688,016</u>	<u>64,241,546</u>
Total Capital Assets, being Depreciated, Net	<u>161,829,424</u>	<u>26,398,165</u>	<u>5,593</u>	<u>188,221,996</u>
Wastewater System Capital Assets, Net	<u>\$ 194,746,808</u>	<u>58,437,251</u>	<u>27,105,465</u>	<u>226,078,594</u>

CITY OF LINCOLN, NEBRASKA
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	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Water System:				
Capital Assets, not being Depreciated:				
Land	\$ 4,712,330	-	-	4,712,330
Construction in Progress	7,469,006	13,057,495	15,952,867	4,573,634
Total Capital Assets, not being Depreciated	<u>12,181,336</u>	<u>13,057,495</u>	<u>15,952,867</u>	<u>9,285,964</u>
Capital Assets, being Depreciated:				
Buildings	91,667,071	3,104,591	-	94,771,662
Improvements Other Than Buildings	202,085,318	17,367,501	51,463	219,401,356
Machinery and Equipment	5,632,463	202,401	313,284	5,521,580
Total Capital Assets, being Depreciated	<u>299,384,852</u>	<u>20,674,493</u>	<u>364,747</u>	<u>319,694,598</u>
Less Accumulated Depreciation for:				
Buildings	21,230,527	2,011,960	-	23,242,487
Improvements Other Than Buildings	48,015,304	3,997,727	51,463	51,961,568
Machinery and Equipment	3,671,044	389,250	309,555	3,750,739
Total Accumulated Depreciation	<u>72,916,875</u>	<u>6,398,937</u>	<u>361,018</u>	<u>78,954,794</u>
Total Capital Assets, being Depreciated, Net	<u>226,467,977</u>	<u>14,275,556</u>	<u>3,729</u>	<u>240,739,804</u>
Water System Capital Assets, Net	<u>\$ 238,649,313</u>	<u>27,333,051</u>	<u>15,956,596</u>	<u>250,025,768</u>
	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Electric System:				
Capital Assets, not being Depreciated:				
Construction in Progress	\$ 81,729,000	84,945,000	33,904,000	132,770,000
Capital Assets, being Depreciated:				
Utility Plant	838,823,000	30,545,000	2,293,000	867,075,000
Less Accumulated Depreciation	286,146,000	28,502,000	3,088,000	311,560,000
Total Capital Assets, being Depreciated, Net	<u>552,677,000</u>	<u>2,043,000</u>	<u>(795,000)</u>	<u>555,515,000</u>
Electric System Capital Assets, Net	<u>\$ 634,406,000</u>	<u>86,988,000</u>	<u>33,109,000</u>	<u>688,285,000</u>

During 2006, Lincoln Wastewater System incurred \$3,036,138 of interest cost, of which \$2,468,254 was capitalized into construction in progress. Lincoln Water System incurred \$3,624,251 of interest cost, of which \$763,439 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 Federal Energy Regulatory Commission accounting method. The weighted-average rate for 2005 was 4.8%.

CITY OF LINCOLN, NEBRASKA
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(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 2005 tax levy, for the 2005-2006 fiscal year, was \$57,688,133 below the legal limit, with a tax rate per \$100 valuation of \$0.30091. The assessed value upon which the 2005 levy was based was \$13,583,250,295.

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 2005-2006 are recorded as revenue in the Fund Financial Statements when expected to be collected within 60 days after August 31, 2006. 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 \$3,225,252, \$3,427,680, and \$5,210,292, are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, and Tax Allocation Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

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

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

Under the City's Home Rule Charter, there is no legal debt 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 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, 2006, the following bonds outstanding are considered defeased:

08/15/80	Lincoln Wastewater Revenue Bonds	\$ 5,000
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Established by City Ordinance, LES may borrow up to \$150 million under a commercial paper note program. At December 31, 2005, LES had \$90 million of tax-exempt commercial paper notes outstanding. The notes mature at various dates but not more than 270 days after the date of issuance. The weighted-average interest rate for the year ended December 31, 2005, was 2.3 percent. The annual requirement to pay interest on this outstanding debt is approximately \$2 million. The outstanding commercial paper notes are secured by a revolving credit agreement which provides for borrowings up to \$150 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement, LES can either settle or refinance the commercial paper upon maturity.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2006

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

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

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

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

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

Fiscal Year Ended August 31	Major Enterprise Funds					
	Wastewater System		Water System		Electric System	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 2,005	3,083	5,340	3,612	11,050	26,251
2008	2,055	3,024	5,555	3,376	14,430	26,186
2009	2,110	2,966	5,795	3,128	15,085	25,531
2010	2,165	2,898	6,050	2,874	15,780	24,817
2011	2,235	2,794	6,310	2,602	18,095	24,069
2012 - 2016	12,390	12,517	17,430	9,716	104,035	107,094
2017 - 2021	15,020	9,322	18,135	5,633	134,260	77,324
2022 - 2026	18,725	5,372	12,935	1,390	67,205	50,010
2027 - 2031	10,980	997	-	-	78,025	32,105
2032 - 2036	-	-	-	-	85,715	12,700
	<u>\$ 67,685</u>	<u>42,973</u>	<u>77,550</u>	<u>32,331</u>	<u>543,680</u>	<u>406,087</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2006

Long-term liability activity for the year ended August 31, 2006, was as follows (in thousands of dollars):

	09/01/05 Beginning Balance	Additions	Reductions	08/31/06 Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
General Bonds	\$ 60,915	-	(4,250)	56,665	3,940
Tax Allocation Bonds	6,853	-	(606)	6,247	618
Tax Supported Bonds	36,770	-	(335)	36,435	355
Tax Supported Antelope Valley					
Project Bonds	9,690	-	(580)	9,110	595
Capital Leases	9,475	9,600	(754)	18,321	1,029
Gross Bonds and Leases Payable	123,703	9,600	(6,525)	126,778	6,537
Deferred Amounts:					
For Issuance Premiums	2,296	7	(32)	2,271	-
For Issuance Discounts	(25)	-	2	(23)	-
Net Bonds and Leases Payable	125,974	9,607	(6,555)	129,026	6,537
Other Liabilities:					
Compensated Absences	8,758	6,001	(5,406)	9,353	5,907
Claims and Judgements	5,126	3,692	(2,907)	5,911	2,746
Net Pension Obligation	2,491	1,079	-	3,570	-
Governmental Activity Long-Term Liabilities	\$ 142,349	20,379	(14,868)	147,860	15,190
Business-Type Activities:					
Bonds, Notes and Leases Payable:					
Wastewater Revenue Bonds	\$ 69,750	-	(2,065)	67,685	2,005
Water Revenue Bonds	82,680	-	(5,130)	77,550	5,340
Parking Revenue Bonds	15,900	-	(1,185)	14,715	1,240
Golf Course Revenue Bonds	1,995	-	(305)	1,690	315
Solid Waste Management Revenue Bonds	-	4,000	-	4,000	185
Electric System Revenue Bonds	439,225	115,000	(10,545)	543,680	11,050
Commercial Paper Notes	90,173	20,000	(20,173)	90,000	-
Capital Leases	1,136	-	(432)	704	323
Gross Bonds, Notes and Leases Payable	700,859	139,000	(39,835)	800,024	20,458
Deferred Amounts:					
For Issuance Premiums	20,756	3,129	(3,142)	20,743	-
For Issuance Discounts	(19,408)	-	1,780	(17,628)	-
For Refunding	(3,677)	-	385	(3,292)	-
Net Bonds, Notes and Leases Payable	698,530	142,129	(40,812)	799,847	20,458
Other Liabilities:					
Compensated Absences	1,204	827	(759)	1,272	819
Accrued Landfill Closure/Postclosure Care Costs	7,998	428	(35)	8,391	-
Business-Type Activity Long-Term Liabilities	\$ 707,732	143,384	(41,606)	809,510	21,277

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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2006

Long-term liability activity for the major enterprise funds for the year ended August 31, 2006, was as follows (in thousands of dollars):

	09/01/05 Beginning Balance	Additions	Reductions	08/31/06 Ending Balance	Due Within One Year
Lincoln Wastewater System:					
Bonds Payable:					
Wastwater Revenue Bonds	69,750	-	(2,065)	67,685	2,005
Deferred For Issuance Premiums	2,168	-	(93)	2,075	-
Net Bonds Payable	71,918	-	(2,158)	69,760	2,005
Other Liabilities:					
Compensated Absences	410	277	(254)	433	278
Total Long-Term Liabilities	\$ 72,328	277	(2,412)	70,193	2,283
Lincoln Water System:					
Bonds Payable:					
Water Revenue Bonds	\$ 82,680	-	(5,130)	77,550	5,340
Deferred for Issuance Premiums	3,526	-	(337)	3,189	-
Deferred for Refunding	(944)	-	135	(809)	-
Net Bonds Payable	85,262	-	(5,332)	79,930	5,340
Other Liabilities:					
Compensated Absences	522	315	(287)	550	307
Total Long-Term Liabilities	\$ 85,784	315	(5,619)	80,480	5,647
Lincoln Electric System:					
Bonds and Notes Payable:					
Electric System Revenue Bonds	\$ 439,225	115,000	(10,545)	543,680	11,050
Commercial Paper Notes	90,173	20,000	(20,173)	90,000	-
Deferred for Issuance Premiums	15,062	3,116	(2,712)	15,466	-
Deferred for Issuance Discounts	(19,408)	-	1,780	(17,628)	-
Deferred for Refunding	(2,702)	-	245	(2,457)	-
Total Long-Term Liabilities	\$ 522,350	138,116	(31,405)	629,061	11,050

(10) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Long-term debt – The estimated fair value of the long-term debt as of August 31, 2006 is approximately \$81,600,000 for the Water System and \$72,900,000 for the Wastewater System.

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

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

CITY OF LINCOLN, NEBRASKA
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(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. The Solid Waste Operations Section of the Public Works/Utilities Department operates the City's solid waste disposal sites, yard waste composting facility, and re-cycling drop-off program. Summary financial information for these divisions as of and for the year ended August 31, 2006, is presented as follows:

	<u>Golf</u>	<u>Parking Facilities</u>	<u>Solid Waste Management</u>
CONDENSED STATEMENT OF NET ASSETS			
Assets:			
Current Assets	\$ 47,113	3,359,531	10,330,359
Due from Other Funds	33,726	343,888	987,091
Restricted Assets	386,764	2,575,058	1,431,825
Deferred Charges	41,061	423,835	75,504
Capital Assets	<u>6,783,939</u>	<u>36,853,676</u>	<u>17,216,927</u>
Total Assets	<u>7,292,603</u>	<u>43,555,988</u>	<u>30,041,706</u>
Liabilities:			
Current Liabilities	703,282	1,573,682	2,463,845
Due to Other Funds	266,681	1,979	690
Noncurrent Liabilities	<u>1,471,439</u>	<u>13,479,914</u>	<u>12,241,389</u>
Total Liabilities	<u>2,441,402</u>	<u>15,055,575</u>	<u>14,705,924</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	4,966,817	22,562,511	13,940,318
Restricted	417,781	2,614,158	1,055,320
Unrestricted	<u>(533,397)</u>	<u>3,323,744</u>	<u>340,144</u>
Total Net Assets	<u>\$ 4,851,201</u>	<u>28,500,413</u>	<u>15,335,782</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS			
Operating Revenues	\$ 2,993,431	5,697,352	4,136,879
Depreciation Expense	(605,241)	(1,040,337)	(1,524,601)
Other Operating Expenses	<u>(2,467,141)</u>	<u>(2,775,122)</u>	<u>(4,614,925)</u>
Operating Income (Loss)	(78,951)	1,881,893	(2,002,647)
Nonoperating Revenues (Expenses):			
Investment Earnings	530	253,241	188,725
Gain on Disposal of Capital Assets	-	-	107,025
Occupation Tax	-	-	2,232,680
Interest Expense and Fiscal Charges	(97,196)	(837,034)	(7,086)
Capital Contributions	-	949,005	150,277
Transfers	<u>(4,500)</u>	<u>-</u>	<u>(746,289)</u>
Change in Net Assets	(180,117)	2,247,105	(77,315)
Beginning Net Assets	<u>5,031,318</u>	<u>26,253,308</u>	<u>15,413,097</u>
Ending Net Assets	<u>\$ 4,851,201</u>	<u>28,500,413</u>	<u>15,335,782</u>
CONDENSED STATEMENT OF CASH FLOWS			
Net Cash Provided (Used) by:			
Operating Activities	\$ 502,908	3,029,771	24,442
Noncapital Financing Activities	133,047	(41,463)	1,097,113
Capital and Related Financing Activities	(655,178)	(3,571,873)	2,547,900
Investing Activities	<u>(34,033)</u>	<u>6,045</u>	<u>(3,717,723)</u>
Net Increase in Cash	(53,256)	(577,520)	(48,268)
Beginning Balance	<u>125,600</u>	<u>1,491,060</u>	<u>1,918,337</u>
Ending Balance	<u>\$ 72,344</u>	<u>913,540</u>	<u>1,870,069</u>

CITY OF LINCOLN, NEBRASKA
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(12) DEFICIT NET ASSETS

The following funds had a net asset or fund balance deficit as of August 31, 2006:

Special Revenue - Impact Fees Fund	\$ (7,867)
Enterprise - Emergency Medical Services Fund	(1,145,311)
Internal Service - Engineering Revolving Fund	(548,172)

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

The Emergency Medical Services Fund has incurred operating losses and a decrease in net assets for the past three years. The City is considering several alternatives for mitigating these conditions and has taken action in establishing new rate schedules in order to increase revenues.

The Engineering Revolving Fund has also incurred losses during the past three years. The City will be evaluating various means to reducing expenses and improving revenue collections affected by staffing levels, overhead costs, and billing practices.

(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, 2006, the date of the latest actuarial valuation:

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Retirees and beneficiaries receiving benefits	340
Terminated plan members entitled to but not yet receiving benefits	25
Active plan members (non-DROP)	558
DROP members	<u>55</u>
Total	<u>978</u>
Number of participating employers	<u>1</u>

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 2006 was 13.57% of annual covered payroll. Actual contributions by the City were 9.4% 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	\$ 4,077
Interest on net pension obligation	187
Adjustment to annual required contribution	<u>(292)</u>
Annual pension cost	3,972
Contributions made	<u>2,893</u>
Increase in net pension obligation	1,079
Net pension obligation beginning	<u>2,491</u>
Net pension obligation ending	<u>\$ 3,570</u>

The annual required contribution for the current year was determined as part of the August 31, 2004, 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, including wage inflation at 4.5%, 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 <u>August 31</u>	Annual Pension Cost (APC)	Annual Pension Contribution	Percentage of APC Contributed	Net Pension Obligation
2006	\$ 3,972	\$ 2,893	73 %	\$ 3,570
2005	3,623	2,562	71	2,491
2004	3,292	1,992	61	1,430

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

CITY OF LINCOLN, NEBRASKA
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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 LES. 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. 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 \$2,850,000 (9.57% of covered payroll) and its employees contributed approximately \$1,750,000 (5.87% 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, 2005, was \$1,451,130. City contributions totaled \$168,838 or 11.6% of covered payroll. Other employee contributions made for the year ended December 31, 2005, totaled \$145,815.

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, 2005, total payroll was approximately \$69,176,000 and covered payroll was approximately \$58,738,000. City contributions totaled \$6,468,900 or 11.0% of covered payroll and employee contributions totaled \$3,328,317 or 5.7% of covered payroll. Employees made \$117,385 in voluntary contributions for the year ended December 31, 2005.

(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.

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The City of Lincoln owns a solid waste disposal area which discontinued operations in 1990, but still requires certain closure and postclosure care, including the construction of final cover, monitoring of groundwater conditions and landfill gas migration, and general site maintenance. While accrual of closure and postclosure care costs has been reflected in the financial statements in the current year, 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.

The City has entered into various agreements with developers for reimbursement of eligible infrastructure construction. After construction is substantially complete, the developer will be reimbursed on a quarterly basis from impact fee collections within the development area. These agreements estimate construction costs and impact fee revenue based on the final plat at the time of acceptance of the agreement. As of August 31, 2006, the City's commitment to developers is estimated to be \$14,000,000.

STREET CONSTRUCTION PROJECTS

The City's Street Construction Capital Projects Fund has commitments under major construction contracts in progress of approximately \$10,000,000 as of August 31, 2006, 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 \$12,600,000 at August 31, 2006.

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 year.

LINCOLN WATER SYSTEM

The Lincoln Water System has commitments under major construction contracts in progress of approximately \$4,220,000 as of August 31, 2006.

Lincoln Water System has commitments to purchase approximately \$1,000,000 of automated meter reading system equipment through 2007.

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 \$7,200,000 in 2005. 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 \$17,100,000 in 2005.

The participation contracts continue until the facilities are removed from commercial operation or the final maturity occurs on the related debt incurred by NPPD to finance the facilities, whichever occurs last. The estimated fixed cost payments to NPPD under these contracts, including capital additions and

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improvements, debt service payments and fixed costs, and credits aggregate approximately \$16,500,000, \$16,600,000, \$17,400,000, \$17,000,000, and \$17,300,000, respectively, in each of the five years subsequent to December 31, 2005.

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 \$43,000,000 are reflected in utility plant at December 31, 2005.

LES has a participation power sales agreement with the County of Los Alamos, New Mexico (the County) whereby the County purchases from LES 10 MW of LES's capacity interest in LRS. The agreement provides for the County to pay LES monthly fixed payments for the repayment of debt service. The amount is subject to change each July 1 based on debt costs of LES relative to the current market rates, until termination of the agreement. The agreement remains in effect until either the final maturity occurs on any LRS related debt, LRS is removed from commercial operation, or the County gives LES notice to terminate the agreement. During 2005, LES billed the County approximately \$2,700,000 for demand and energy charges.

(15) INTERFUND BALANCES AND ACTIVITY

Balances Due To/From Other Funds at August 31, 2006, consists of the following:

	Due To		Due From				Total
	General Fund	Street Construction	Federal Grants	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	
General Fund	\$ -	18,648	373,238	93,685	2,064,792	40	2,550,403
Street Construction	715,757	-	-	6,706,114	-	-	7,421,871
Nonmajor Governmental	5,626,315	-	4,790	886,072	-	-	6,517,177
Lincoln Wastewater System	1,213,253	-	-	471,616	-	-	1,684,869
Lincoln Water System	3,346,976	-	-	1,573,744	-	-	4,920,720
Nonmajor Enterprise	1,459,354	5,615	-	30	-	-	1,464,999
Internal Service	1,884,001	117	1,202	29,088	6,400	34,667	1,955,475
	<u>\$ 14,245,656</u>	<u>24,380</u>	<u>379,230</u>	<u>9,760,349</u>	<u>2,071,192</u>	<u>34,707</u>	<u>26,515,514</u>

"Due to" and "Due from" balances are recorded when funds overdraw their share of pooled cash. The total due to the General Fund includes \$1,753,487 from the Emergency Medical Services Enterprise Fund for an advance made for cash flow needs. Of this amount, \$1,751,842 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.

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Transfers To/From Other Funds at August 31, 2006, consists of the following:

Transfer To	Transfer From						Total
	General Fund	Street Construction	Federal Grants	Nonmajor Governmental	Lincoln Electric System	Nonmajor Enterprise	
General Fund	\$ -	-	7,606	377,493	1,299,000	4,500	1,688,599
Street Construction	1,059,246	-	359	8,267,800	-	-	9,327,405
Federal Grants	680,888	-	-	43,771	-	-	724,659
Nonmajor Governmental	18,641,204	3,679,907	80,966	4,827,572	-	746,289	27,975,938
Nonmajor Enterprise	525,000	-	-	-	-	-	525,000
Internal Service	66,667	49,391	-	-	-	-	116,058
Total	\$ 20,973,005	3,729,298	88,931	13,516,636	1,299,000	750,789	40,357,659

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.

(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, 2006, 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. Public transportation liability are covered by a policy which provides a limit of \$5 million. For auto liability the City purchases \$2.5 million per occurrence excess insurance for losses in excess of \$500,000 per occurrence. 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 had an insurance recovery in the current year of approximately \$1,500,000 which is included in the Insurance Revolving Fund's operating revenues.

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.

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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 \$5,911,384 were recorded at August 31, 2006. 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. The claims liability estimate also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of their allocation to specific claims. These liabilities have been discounted using a 3.75% 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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Balance at September 1	\$ 5,126,431	4,995,121
Current year claims and changes in estimates	3,691,887	2,474,465
Claims payments	<u>(2,906,934)</u>	<u>(2,343,155)</u>
Balance at August 31	<u>\$ 5,911,384</u>	<u>5,126,431</u>

(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, 2006, the City had incurred a liability of approximately \$5,342,000 for the municipal solid waste landfill which represents the amount of costs reported to date based on the approximately 37 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$9 million, which will be recognized as the remaining capacity is used (estimated to be approximately 24 years).

As of August 31, 2006, the City had incurred a liability of approximately \$564,000 for the construction and demolition debris landfill which represents the amount of costs reported to date based on the approximately 53 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$508,000, which will be recognized as the remaining capacity is used (estimated to be approximately 16 years).

The estimated costs of closure and postclosure care, as determined by an independent engineering consultant, are subject to changes including the effects of inflation, revision of laws, changes in technology, actual sequence of landfill development and closure, and other variables.

The City of Lincoln, in a review by the Nebraska Department of Environmental Quality (NDEQ), has demonstrated compliance with the financial assurance requirements as specified in Title 132 - *Integrated Solid Waste Management Regulations*, through the Local Government Financial Test.

The City of Lincoln also owns a solid waste disposal area that discontinued operations in 1990. Although exempt from the U.S. Environmental Protection Agency *Solid Waste Disposal Facility Criteria* issued October 9, 1991, the City must still adhere to certain closure and postclosure care requirements under prior legislation, including the construction of final cover, monitoring of ground water conditions and landfill gas migration, and general site maintenance. At August 31, 2006, a liability for closure and postclosure care costs is recorded in the amount of approximately \$2,485,000,

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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, 2006.

(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, 2006, the City made rental payments of approximately \$2 million to the Commission.

As of August 31, 2006, the Commission has bonds outstanding of \$49,705,000 attributable to several bond issues. Certain proceeds from the bonds totaling \$26,725,000 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.

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

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

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

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, has appointed LES to supervise and manage the system and business affairs of DEC. LES is reimbursed for these management services based on the allocated actual costs of these services. LES also provides electric energy to DEC at an established interruptible commercial rate. The total amount of payments to LES for management, operations, and maintenance services was approximately \$171,000 in 2005. The total amount of payments to LES for energy was approximately \$72,000 in 2005.

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 acquire services in order to furnish energy requirements, utility and infrastructure facilities, 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, 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 2005. The total amount of payments to LES for energy was approximately \$7.4 million in 2005.

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(21) **EXCESSES OF EXPENDITURES OVER APPROPRIATIONS**

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

General Fund	
Building and Plant	\$ 850,000
Urban Development	11,503
Fire	278,065
Street Maintenance	565,591
Street Lighting	1,862,281
Federal Grants Fund	
Economic Opportunity/ Urban Development	502,971

(22) **SUBSEQUENT EVENTS**

In November 2006, the City issued \$27,000,000 of General Obligation Highway Allocation Fund Bonds, Series 2006, to provide a portion of the funds necessary to pay the costs of constructing improvements to streets and state highway or federal-aid routes of the City, and to pay the costs of issuing the Series 2006 bonds. The interest rates on the 2006 bonds range from 4.0 – 5.0 percent and the final maturity is on May 15, 2027. Debt service payments are scheduled annually at amounts that range from \$715,000 - \$1,910,000.

(23) **RESTATEMENT OF FINANCIAL STATEMENTS**

In prior years, the City's financial statements did not include rehabilitation and redevelopment loans receivable as assets in either the government-wide or fund financial statements. The inclusion of these loans as financial assets increased net assets of governmental activities and fund balances of governmental funds as of September 1, 2005 by \$16,669,000. These loans are an asset of the Federal Grants Fund, a major governmental fund of the City.

The fiscal 2005 summarized comparative financial information was restated for these loans, which increased beginning net assets and change in net assets by \$16,372,000 and \$297,000 respectively.

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APPENDIX C

DISCLOSURE DISSEMINATION AGENT AGREEMENT

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DISCLOSURE DISSEMINATION AGENT AGREEMENT

This **DISCLOSURE DISSEMINATION AGENT AGREEMENT** (the “**Disclosure Agreement**”), dated June 27, 2007, is executed and delivered by **THE CITY OF LINCOLN, NEBRASKA**, (the “**Issuer**”) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the “**Disclosure Dissemination Agent**” or “**DAC**”) for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “**Rule**”).

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

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

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

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

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

“**Bonds**” means the bonds as listed on the attached **Exhibit A**, with the 9-digit CUSIP numbers relating thereto.

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

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

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

“**Holder**” means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees,

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

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

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

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

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

1. DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
(201) 346-0701 (phone)
(201) 947-0107 (fax)
Email: nrmsir@dpcdata.com
2. Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
New York, NY 10038
(212) 771-6999; (800) 689-8466 (phone)
(212) 771-7390 (fax)
Email: NRMSIR@Interactivedata.com
3. Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
(609) 279-3225 (phone)
(609) 279-5962 (fax)
Email: Munis@Bloomberg.com
4. Standard & Poor’s Securities Evaluations, Inc.
55 Water Street
45th Floor
New York, NY 10041
(212) 438-4595 (phone)
(212) 438-3975 (fax)
Email: nrmsir_repository@sandp.com

“Official Statement” means that Official Statement prepared by the Issuer in connection with the Bonds, as listed on **Exhibit A**.

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

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

1. Municipal Advisory Council of Michigan
1445 First National Building
Detroit, MI 48226-3517
(313) 963-0420 (phone)
(313) 963-0943 (fax)
MAC@macmi.com
2. Municipal Advisory Council of Texas
PO Box 2177
Austin, TX 78768-2177
(512) 476-6947 (phone)
(512) 476-6403 (fax)
mac@mactexas.com
3. Ohio Municipal Advisory Council
9321 Ravenna Road, Unit K
Twinsburg, OH 44087-2445
(330) 963-7444 (phone)
(800) 969-OMAC (6622) (phone)
(330) 963-7553 (fax)
sid_filings@ohiomac.com

“**Registrar**” means the institution identified as such in the document under which the Bonds were issued.

“**Voluntary Report**” means the information provided to the Disclosure Dissemination Agent by the Issuer pursuant to **Section 7**.

Section 2. Provision of Annual Reports.

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

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

two (2) business days prior to the Annual Filing Date, or (2) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required hereunder, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Notice Event as described in **Section 4(a)(12)** has occurred and to immediately send a notice to each National Repository or the MSRB and the State Depository (if any) in substantially the form attached as **Exhibit B**.

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

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

(e) The Disclosure Dissemination Agent shall:

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

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

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

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

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

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

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

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

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

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

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

H. “Bond calls,” pursuant to **Sections 4(a)(8)** and **4(c)**;

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

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

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

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

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

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

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

Section 3. Content of Annual Reports.

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

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

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

Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

Section 4. Reporting of Notice Events.

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

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements relating to the Bonds reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. Modifications to rights of Bond holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds;
11. Rating changes on the Bonds;
12. Failure to provide annual financial information as required; and
13. Other material event notice (specify) _____.

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

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

Dissemination Agent to disseminate such information, and the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information.

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

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

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

Section 7. Voluntary Reports.

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

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

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

Section 9. Disclosure Dissemination Agent. The Issuer has appointed DAC as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC’s services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure

Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

Section 10. Remedies in Event of Default. In the event of a failure of the Issuer or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

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

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

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

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

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

Section 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement

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

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

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

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

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

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

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

By: _____
Name: _____
Title: _____

THE CITY OF LINCOLN, NEBRASKA, Issuer

By: _____
Name: Don Herz
Title: Finance Director

EXHIBIT B
NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

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

Name of Bond Issue: **General Obligation Stormwater Drainage and Flood Management System Bonds, Series 2007**

Date of Issuance: **June __, 2007**

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

Dated: _____

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

cc: Issuer

BOOK-ENTRY SYSTEM

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BOOK ENTRY ONLY SYSTEM

Generally

The Depository Trust Company, New York, New York (“**DTC**”) will act as securities depository for the Bonds. Initially, ownership of one fully registered Bond for each maturity of the Bonds, as set forth on the front cover hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. Ownership interests in the Bonds will be available to purchasers only through a book-entry system (the “**Book-Entry System**”) maintained by DTC. The following discussion will not apply to Bonds if issued in certificate form. See “**Discontinuance of Book-Entry System**” herein.

DTC and Its Participants

DTC, the world’s largest depository, is a limited-purpose trust company organized under the laws of the State of New York, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (the “**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC, in turn is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation (“**NSCC**”), Government Securities Clearing Corporation (“**GSCC**”), MBS Clearing Corporation (“**MBSCC**”), and Emerging Markets Clearing Corporation (“**EMCC**”; NSCC, GSCC, MBSCC and EMCC are also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “**Indirect Participants**,” Direct Participants and Indirect Participants are hereinafter collectively referred to as “**DTC Participants**”). DTC has Standard & Poor’s highest rating: “AAA.” The DTC Rules applicable to DTC Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit with respect to the Bonds in the records of DTC. The ownership interest of each actual purchaser (the “**Beneficial Owner**”) of each Bond will be recorded in the records of the DTC Participant through which the purchase was made. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive a written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the DTC Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of DTC Participants, acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their

ownership interest in the Bonds, except in the event the use of the book-entry system for the Bonds is discontinued as provided in the Bond Ordinance.

Each Beneficial Owner for whom a DTC Participant has an interest in the Bonds, as nominee, may desire to make arrangements with such DTC Participant to receive a credit balance in the records of such DTC Participant and may desire to make arrangements with such DTC Participant to have all notices of redemption and other communications with respect to the Bonds affecting such Beneficial Owner forwarded in writing by such DTC Participant and to be notified of all interest payments. THE CITY WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (B) THE PAYMENT BY ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (C) THE DELIVERY BY ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND ORDINANCE TO BE GIVEN BY THE CITY TO REGISTERED OWNERS OF THE BONDS; (D) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS CERTIFICATE HOLDER.

Payments of Principal, Premium, if any, and Interest

So long as any Bond is registered in the name of DTC's nominee, all payments of the principal of, redemption premium, if any, and interest on, the Bonds will be made to DTC. DTC's practice is to credit DTC Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Registrar, on the payable date in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC or the City, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of the principal of, redemption premium, if any, and interest on the Bonds to DTC is the responsibility of the City, disbursement of such payments to DTC Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of DTC Participants.

Notices

Any references in this Official Statement to notices or other communications to be provided to registered owners of the Bonds by the City will be given only to DTC. Conveyance of notices and other communications by DTC to DTC Participants, and DTC Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. The City will have no responsibility or obligation to assure that any such notice is forwarded by DTC to DTC Participants or by any DTC Participant to the Beneficial Owner of Bonds.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a DTC Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy to the City as soon as possible after each applicable record

date. The omnibus proxy will assign Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Transfers and Exchanges of Beneficial Ownership Interests

Transfers of beneficial ownership interests in the Bonds will be accomplished by book entries made by DTC and the DTC Participants who act on behalf of the Beneficial Owners. For every transfer and exchange of the Bonds, the Registrar, DTC and the DTC Participants may charge the Beneficial Owner a sum sufficient to cover any tax, fee or other governmental charge required to be paid with respect thereto and may charge a sum sufficient to pay the cost of preparing and authenticating each new Bond.

To facilitate subsequent transfers, all Bonds deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's record reflect only the identity of the DTC Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Transfers of Bonds

Registered ownership of the Bonds, or any portions thereof, may not be transferred on the books of the Registrar except:

- (a) To any successor of DTC or its nominees;
- (b) To any substitute depository designated by the City upon the resignation or termination of DTC or its successor (or any substitute depository or its successor) from its functions as depository; and
- (c) To any person, upon discontinuance of the book-entry system as described below.

The City shall be entitled to treat the registered owner of the Bonds (initially, Cede & Co.) as the absolute owner thereof for all purposes of the Bond Ordinance and any applicable laws, notwithstanding any notice to the contrary received by any of them. The City will have no responsibility for transmitting payments to, communicating with, notifying or otherwise dealing with any Beneficial Owners of the Bonds. The City will have no responsibility or obligation, legal or otherwise, to the Beneficial Owners or to any other party including DTC or its successor (or substitute depository or successor), except to the owners of any Bond as shown on the registration books of the Registrar. So long as all Bonds are registered in the name of Cede & Co., the City is to cooperate with DTC or its nominee in effecting payment of the principal of, redemption premium, if any, and interest on, the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made to DTC when due.

The Registrar shall not be required to transfer or exchange any Bonds from any applicable record date through and including the next succeeding interest or principal payment date for the Bonds, or from the record date next preceding any selection of Bonds to be redeemed or thereafter, until after the first mailing of any notice of redemption; or to transfer or exchange any Bonds called for redemption.

Discontinuance of Book-Entry System

DTC's services with respect to the Bonds may be discontinued or terminated at any time under the following circumstances:

(a) DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law.

(b) The City, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Bonds if the City determines that DTC is unable to discharge its responsibilities with respect to the Bonds or that a continuation of the requirement that all of the outstanding Bonds be registered in the registration books kept by the Registrar in the name of Cede & Co., or any other nominee of DTC, is not in the best interests of the Beneficial Owners of the Bonds.

In the event that DTC's services are so discontinued or terminated because it is unwilling or is determined to be unable to discharge its responsibilities, and no substitute securities depository willing to undertake the functions of DTC under the Bond Ordinance can be found which, in the opinion of the City, is willing and able to undertake such functions upon reasonable and customary terms, or in the event it is so determined that continuation of the system of book-entry transfers is not in the best interests of the Beneficial Owners, the City is obligated to deliver certificates for the Bonds, at the expense of the Beneficial Owners, as described in the Bond Ordinance.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement, it should be understood that while the Bonds are in book entry format, references in other sections of this Official Statement to owners should be read to include the person for whom the DTC Participant acquires an interest in the Bonds, but (a) all rights of ownership must be exercised through DTC and the book entry system and (b) notices that are to be given to owners by the City will be given only to DTC.

The foregoing information regarding DTC and the book entry system is based solely on information provided by DTC. No representations are made by the City or the Underwriter regarding the completeness or accuracy of the foregoing information, or regarding the absence of material adverse changes in such information subsequent to the date hereof.