

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Lincoln, Nebraska (the City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended August 31, 2005. Please consider this discussion in conjunction with the additional information provided in the Letter of Transmittal (beginning on page vii) and the transactions, events and conditions reflected in the City's financial statements (beginning on page 18).

FINANCIAL HIGHLIGHTS

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

The statement of activities presents information showing how the City's net assets changed during the year ended August 31, 2005. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33-67 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City’s progress in funding its obligation to provide pension benefits to its police and fire employees. Required supplementary information can be found on page 68 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$1,265,262,396 at August 31, 2005.

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

**City Of Lincoln
Condensed Statements of Net Assets
August 31, 2005 and 2004**

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

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

At August 31, 2005, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City Of Lincoln
Condensed Statements of Activities
For the Years Ended August 31, 2005 and 2004

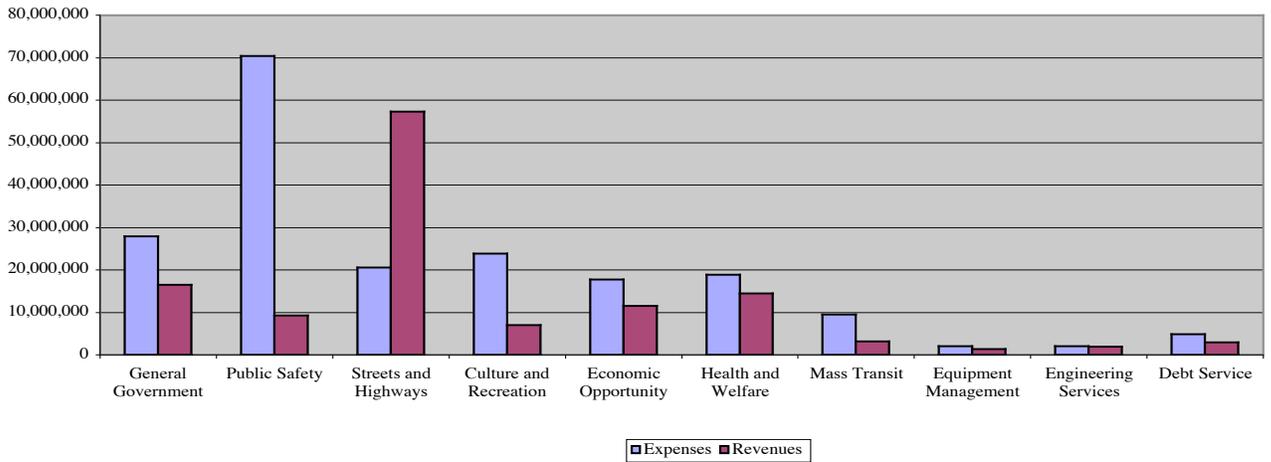
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for Services	\$ 40,597,953	36,926,551	227,024,882	224,808,683	267,622,835	261,735,234
Operating Grants and Contributions	36,666,428	59,074,592	650,300	1,316,900	37,316,728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

GOVERNMENTAL ACTIVITIES

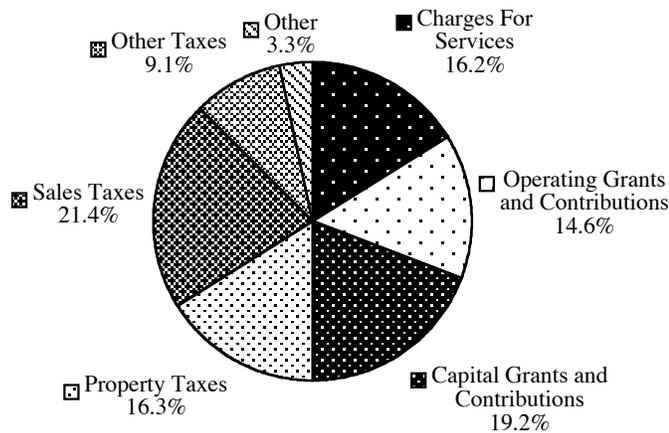
Governmental activities increased the City's net assets by \$54,748,865, accounting for 84 percent of the total growth in the net assets of the City of Lincoln. Key elements of this increase are as follows:

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

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



BUSINESS-TYPE ACTIVITIES

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

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

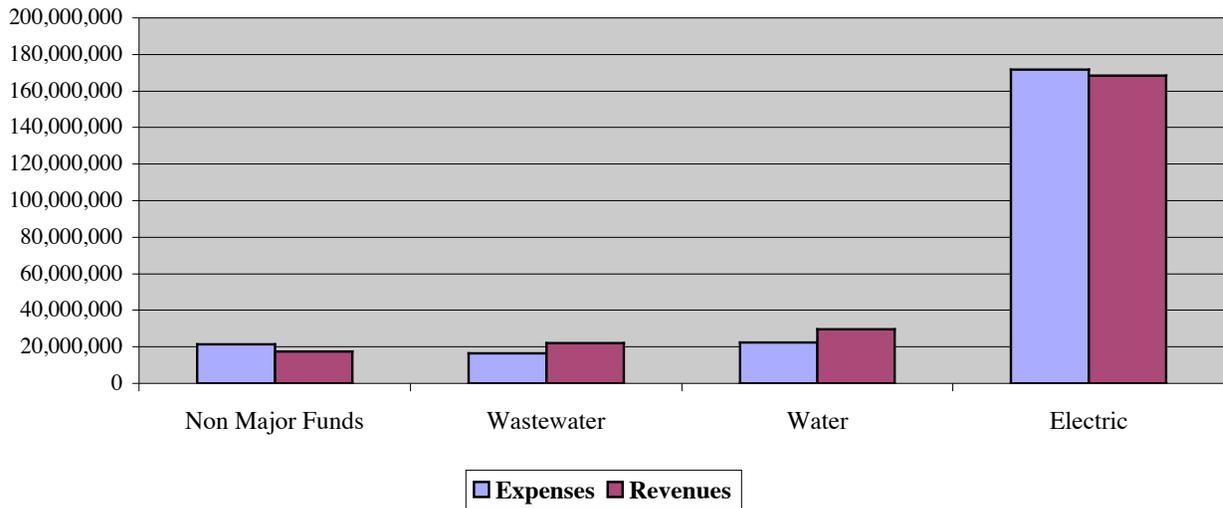
Wastewater revenues are also based on water usage. Increased usage plus an increase of 7 percent in user fees implemented in February 2004 resulted in an operating revenue increase of \$973,568 (6 percent).

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

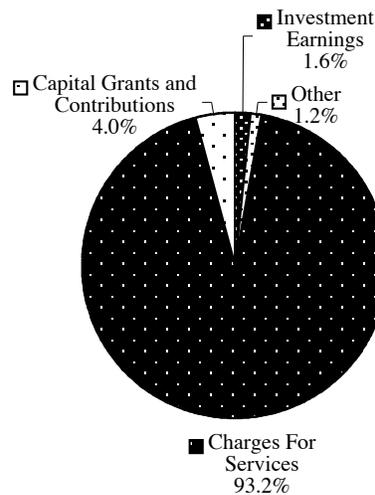
prior year. Growth in the City remains constant with 2.0 percent more customers in 2004, now totaling nearly 121,000 customers. Wholesale revenue was reduced 20.6 percent from the prior year primarily because of less resource availability and higher prices in the wholesale markets.

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

Expenses And Program Revenues - Business-type Activities



Revenues By Source - Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

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

PROPRIETARY FUNDS

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

Unrestricted net assets of the Wastewater System, Water System, Electric System, and other enterprise funds amounted to \$23,409,668, \$23,771,839, \$61,632,000 and \$3,731,286, respectively, at August 31, 2005. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were relatively minor (increase of \$62,087 in appropriations) and can be briefly summarized as follows:

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

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of August 31, 2005, amounts to \$1,625,586,807 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, streets, bridges, storm sewers, electric plant, and water and sewer plant. The total increase in the City's investment in capital assets for 2005 was 9 percent (a 13.6 percent increase for governmental activities and an 6.5 percent increase for business-type activities).

Major capital asset events during 2005 included the following:

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

- Wastewater System capital assets increased by approximately \$34,192,000 (21.3 percent) due to major project additions such as:
 - ✓ Northeast treatment plant - \$8,959,000
 - ✓ Theresa Street treatment plant - \$9,807,000
 - ✓ Trunk sewer improvements - \$14,584,000

- Water System capital assets increased by approximately \$7,285,000 (3.15 percent) due to major project additions such as:
 - ✓ Pumping stations - \$258,000
 - ✓ Water distribution mains - \$2,621,000
 - ✓ Water transmission pump station and mains - \$2,166,000
 - ✓ Selected main replacements - \$589,000
 - ✓ Wellfield and water treatment plant - \$887,000
 - ✓ General system improvements - \$345,000

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

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

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

LONG-TERM DEBT

At August 31, 2005, the City of Lincoln had total bonded debt outstanding of \$723,778,000. Of this amount, \$104,538,000 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

**City Of Lincoln
Outstanding Bonded Debt
(dollar amounts in thousands)
August 31, 2005 and 2004**

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

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

The City maintains the following credit ratings:

	Moody's Investors <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
Commercial Paper – tax exempt	-	A1+	F1+

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Property tax revenue required to fund the 2006 budget increased \$1,905,626 or 5.46% over the prior year. Total growth in the tax base is 3.38%. The estimated impact on the property tax rate in order to fund services and debt service is expected to be an increase of 2%.
- Sales tax collections for 2005 were below projections. 2006 projections reflect a 3% increase over 2005 actual collections. The 2005 Legislature passed an economic development incentive package for businesses that exempted manufacturing equipment from both the state and local option sales tax. For the six month period this exemption will be in place during 2006, it is estimated Lincoln's sales tax collections will be reduced by \$275,000 or .5 percent.
- Occupation tax revenues are expected to increase by \$606,323 (6.7%) in relation to telecommunications taxes.
- Recreation receipts are expected to increase by \$234,117 (11.7%) due to increased rates on a number of existing programs, as well as some proposed new self-supporting recreation programs.
- A 7% water rate increase and a 9% wastewater rate increase were adopted by the City Council and become effective January of 2006.
- The City pays employees every two weeks, or fourteen days. Every eleven or twelve years, depending on the number of leap years in the period, an additional pay period occurs during a fiscal year. This extra pay period falls in the 2006 fiscal year, significantly increasing its budget requirements. The cost of this extra pay period is approximately \$3.0 million for tax funds and \$4.7 million for all funds. The extra cost for tax funds is covered by using unspent bond funds from earlier bond issues to cover part of the 2006 debt service costs. This allows a similar amount of the property tax levy to be used to cover the extra payroll. The extra cost for non-tax funds is paid for by current revenues and balances in each fund.

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

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

REQUESTS FOR INFORMATION

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