

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, 2007. 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 16).

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at August 31, 2007, by \$1,372,873,714 (net assets). Of this amount, \$38,303,979 (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 \$52,800,142. Of this amount, \$34,724,612, or 66 percent, was an increase in governmental activities and \$18,075,530, or 34 percent, related to business-type activities.
- As of August 31, 2007, the City's governmental funds reported combined ending fund balances of \$214,928,198, an increase of \$42,155,826 in comparison with the prior year. Of this total fund balance, 65 percent, or \$140,701,556, is available for spending at the City's discretion (unreserved fund balance).
- As of August 31, 2007, unreserved fund balance for the general fund was \$27,215,934, or 29 percent of total general fund expenditures.
- The City's total bonded debt increased by \$33,796,000 (4 percent) during the current fiscal year. The key factors in this increase was the issuance of \$20,460,000 in revenue bonds by Lincoln Wastewater System and \$27,000,000 of Highway Allocation Fund bonds.

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, 2007. 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 16-17 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, 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 18-25 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 26-28 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 29-30 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 31-65 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 66 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 \$1,372,873,714 at August 31, 2007.

By far the largest portion of the City’s net assets (80 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, 2007 and 2006

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 351,803,367	295,093,325	235,962,147	289,911,082	587,765,514	585,004,407
Capital Assets	565,061,393	541,860,899	1,295,983,463	1,226,525,652	1,861,044,856	1,768,386,551
Total Assets	<u>916,864,760</u>	<u>836,954,224</u>	<u>1,531,945,610</u>	<u>1,516,436,734</u>	<u>2,448,810,370</u>	<u>2,353,390,958</u>
Long-Term Liabilities Outstanding	189,389,458	147,861,604	720,521,396	719,509,376	909,910,854	867,370,980
Other Liabilities	20,864,896	17,206,826	145,160,906	148,739,580	166,025,802	165,946,406
Total Liabilities	<u>210,254,354</u>	<u>165,068,430</u>	<u>865,682,302</u>	<u>868,248,956</u>	<u>1,075,936,656</u>	<u>1,033,317,386</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	433,488,477	417,745,982	658,947,439	626,166,169	1,092,435,916	1,043,912,151
Restricted	215,364,261	194,881,737	26,769,558	23,399,483	242,133,819	218,281,220
Unrestricted (Deficit)	57,757,668	59,258,075	(19,453,689)	(1,377,874)	38,303,979	57,880,201
Total Net Assets	<u>\$ 706,610,406</u>	<u>671,885,794</u>	<u>666,263,308</u>	<u>648,187,778</u>	<u>1,372,873,714</u>	<u>1,320,073,572</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 (3 percent) may be used to meet the government’s ongoing obligations to citizens and creditors.

City Of Lincoln
Condensed Statements of Activities
For the Years Ended August 31, 2007 and 2006

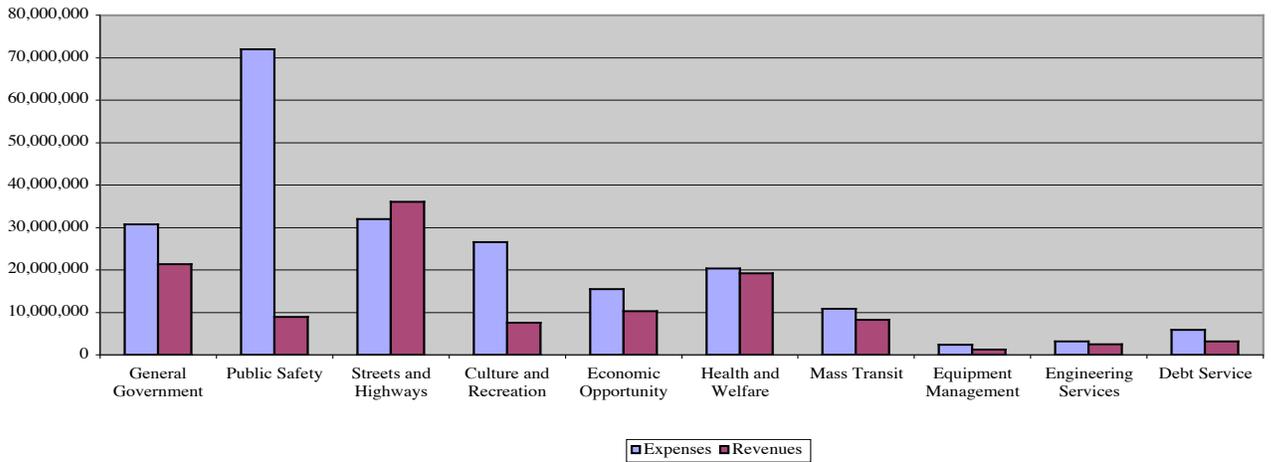
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for Services	\$ 44,445,675	40,715,491	269,038,960	250,844,120	313,484,635	291,559,611
Operating Grants and Contributions	56,089,320	45,068,631	141,346	-	56,230,666	45,068,631
Capital Grants and Contributions	17,990,651	24,519,249	11,359,957	11,092,348	29,350,608	35,611,597
General Revenues:						
Property Tax	45,981,349	43,081,366	-	-	45,981,349	43,081,366
Sales and Use Tax	54,363,413	54,348,587	-	-	54,363,413	54,348,587
Other Taxes	23,929,698	22,760,713	2,195,132	2,232,680	26,124,830	24,993,393
Unrestricted Grants and Contributions	1,573,535	1,589,033	-	-	1,573,535	1,589,033
Unrestricted Investment Earnings	6,355,562	3,650,661	9,333,779	6,187,797	15,689,341	9,838,458
Other	1,456,139	1,671,705	288,597	277,850	1,744,736	1,949,555
Total Revenues	<u>252,185,342</u>	<u>237,405,436</u>	<u>292,357,771</u>	<u>270,634,795</u>	<u>544,543,113</u>	<u>508,040,231</u>
Expenses:						
General Government	30,681,069	30,781,582	-	-	30,681,069	30,781,582
Public Safety	71,999,597	70,390,835	-	-	71,999,597	70,390,835
Streets and Highways	31,953,438	29,293,980	-	-	31,953,438	29,293,980
Culture and Recreation	26,528,155	25,379,286	-	-	26,528,155	25,379,286
Economic Opportunity	15,486,850	16,165,310	-	-	15,486,850	16,165,310
Health and Welfare	20,335,733	20,215,258	-	-	20,335,733	20,215,258
Mass Transit	10,891,704	9,706,032	-	-	10,891,704	9,706,032
Equipment Management	2,363,486	1,789,593	-	-	2,363,486	1,789,593
Engineering Services	3,148,005	2,499,482	-	-	3,148,005	2,499,482
Interest on Long-Term Debt	5,826,378	4,853,854	-	-	5,826,378	4,853,854
Parking	-	-	4,833,961	4,857,024	4,833,961	4,857,024
Golf Courses	-	-	3,167,880	3,169,578	3,167,880	3,169,578
Auditorium	-	-	2,274,043	2,403,906	2,274,043	2,403,906
Solid Waste Management	-	-	6,835,512	6,146,612	6,835,512	6,146,612
Ambulance Transport	-	-	3,679,318	3,793,035	3,679,318	3,793,035
Wastewater	-	-	18,230,853	17,563,692	18,230,853	17,563,692
Water	-	-	23,544,989	23,137,996	23,544,989	23,137,996
Electric	-	-	209,962,000	197,751,000	209,962,000	197,751,000
Total Expenses	<u>219,214,415</u>	<u>211,075,212</u>	<u>272,528,556</u>	<u>258,822,843</u>	<u>491,742,971</u>	<u>469,898,055</u>
Increase in Net Assets Before Transfers	32,970,927	26,330,224	19,829,215	11,811,952	52,800,142	38,142,176
Transfers	1,753,685	1,260,507	(1,753,685)	(1,260,507)	-	-
Increase in Net Assets	34,724,612	27,590,731	18,075,530	10,551,445	52,800,142	38,142,176
Net Assets - Beginning	671,885,794	644,295,063	648,187,778	637,636,333	1,320,073,572	1,281,931,396
Net Assets - Ending	<u>\$ 706,610,406</u>	<u>671,885,794</u>	<u>666,263,308</u>	<u>648,187,778</u>	<u>1,372,873,714</u>	<u>1,320,073,572</u>

GOVERNMENTAL ACTIVITIES

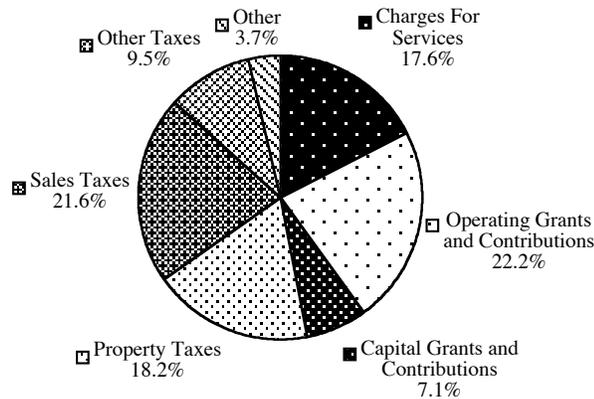
Governmental activities increased the City's net assets by \$34,724,612, accounting for 66 percent of the total growth in the net assets of the City of Lincoln. Key elements of this increase are as follows:

- The City's current year contribution to the Joint Antelope Valley Authority amounted to \$8,503,311.
- Property taxes increased by approximately \$2.9 million (6.7 percent) during 2007. Total growth in the tax base, which includes revaluations, annexations and other adjustments, was 12.95 percent.
- Other taxes increased by approximately \$1.2 million (5 percent). Wheel tax increased 11 percent effective January 1, 2007.
- Unrestricted investment earnings increased by approximately \$2.7 million (74%) during 2007.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



BUSINESS-TYPE ACTIVITIES

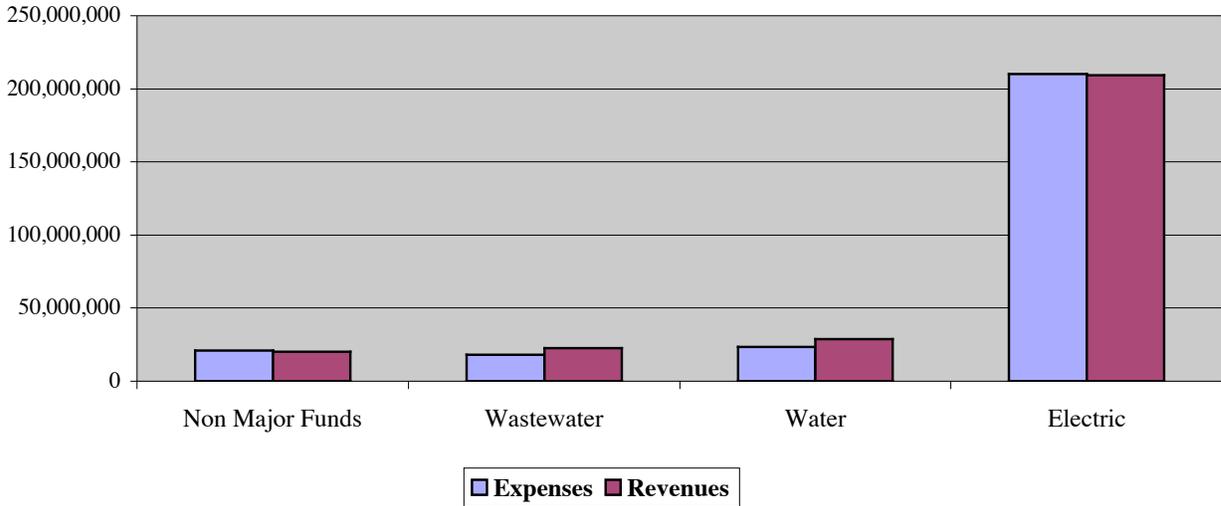
Business-type activities increased the City’s net assets by \$18,075,530, accounting for 35 percent of the total growth in the government’s net assets. Key elements of this increase are as follows:

- Charges for services increased by approximately \$18 million, or 7 percent. Wastewater revenues increased \$1.4 million (7.95%), primarily due to an increase of 9 percent in user fees implemented in February 2007 and because of increased water usage during the sanitary sewer basis period this fiscal year. Sanitary sewer bills for residential customers are based on water usage during a two-month period during the winter and remain the same over the balance of the following ten-month period.

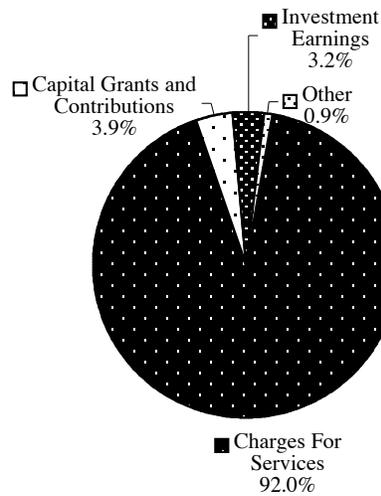
Revenues increased by approximately \$16 million (8.5 percent) for the Electric System in 2006 primarily due to a 4.5 percent rate increase effective April 2006 and a 9 percent rate increase effective August 2005.

- In 2006, LES changed the rate recovery philosophy regarding the recovery of carrying costs of contributed facilities. LES' intent going-forward is to recover carrying costs of contributed facilities in future rate cases.
- Both Lincoln Water and Wastewater Systems reported developer capital contributions in excess of \$3 million each.

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, 2007, the City's governmental funds reported combined ending fund balances of \$214,928,198, an increase of \$42,155,826 in comparison with the prior year. Of this total amount, 65 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 (\$19,143,000),
- pay debt service (\$13,976,879),
- 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 (\$4,106,763).

The General Fund is the chief operating fund of the City. At August 31, 2007, the unreserved fund balance of the General Fund was \$27,215,934, while total fund balance reached \$30,412,704. 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 32 percent of that same amount.

The fund balance of the City's General Fund increased by \$1,120,666 during 2007. This increase was primarily due to debt proceeds to be used for street lighting left unspent at year end.

The Street Construction Fund had a total fund balance of \$46,517,717, which is to be used in the construction and maintenance of street and highways. The net increase in fund balance during 2007 in the Street Construction Fund was \$28,853,406, a result of proceeds received from the issue of \$27,000,000 of general obligation highway allocation bonds.

The Federal Grants Fund had a fund balance of \$18,558,542, a net increase of \$982,715. While expenditures in the fund increased by \$1,687,003 (8 percent), revenues decreased by only \$239,142 (1 percent) and still exceeded expenditures by \$466,422.

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 (deficit) of the Wastewater System, Water System, Electric System, and other enterprise funds amounted to \$6,482,565, \$26,303,284, \$(56,651,000) and \$4,411,462, respectively, at August 31, 2007 (December 31, 2006 for LES). 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 \$126,072 in appropriations) and can be briefly summarized as follows:

- \$46,312 in miscellaneous changes in general government activities.
- \$(443,097) in decreases allocated to public safety.
- \$19,662 in increases allocated to street maintenance.
- \$(37,284) in decreases allocated to parks and recreation.
- \$288,335 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:

- \$3,588,099 positive variance in real estate and personal property tax. Actual property collections were 96.26% of the 2006 levy, while estimated tax revenue is based on 90% collections as provided by the City Charter.
- \$1,200,289 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.
- \$(2,390,947) 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, 2007, amounts to \$1,861,044,856 (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 2007 was 5 percent (a 4 percent increase for governmental activities and a 6 percent increase for business-type activities).

Major capital asset events during 2007 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, 2007, reached \$86,580,733.
- Continued major electric plant construction including generation (Council Bluffs #4), transmission, substation and distribution system which totaled over \$70 million in 2006.
- Wastewater System capital assets increased by approximately \$12,976,000 (6 percent) due to major project additions such as:
 - ✓ Trunk sewer mains – \$7,937,000
 - ✓ Theresa Street treatment plant –\$5,724,000
- Water System capital assets increased by approximately \$10,753,000 (4 percent) due to major project additions such as:
 - ✓ Water distribution mains - \$5,952,000
 - ✓ Selected main replacements - \$4,691,000

City Of Lincoln
Capital Assets (net of depreciation)
August 31, 2007 and 2006

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 61,128,379	57,733,188	18,573,146	17,682,928	79,701,525	75,416,116
Buildings	47,679,644	48,432,468	135,597,833	138,885,792	183,277,477	187,318,260
Improvements Other Than Buildings	37,031,339	32,533,330	350,505,718	329,839,791	387,537,057	362,373,121
Machinery and Equipment	35,313,580	31,524,881	9,817,519	9,265,841	45,131,099	40,790,722
Utility Plant	-	-	555,158,000	555,515,000	555,158,000	555,515,000
Infrastructure	294,265,264	267,683,934	-	-	294,265,264	267,683,934
Construction-in-progress	89,643,187	103,953,098	226,331,247	175,336,300	315,974,434	279,289,398
Total	\$ 565,061,393	541,860,899	1,295,983,463	1,226,525,652	1,861,044,856	1,768,386,551

Additional information on the City's capital assets can be found in Note 7 of the notes to the financial statements on pages 47-49 of this report.

LONG-TERM DEBT

At August 31, 2007, the City of Lincoln had total bonded debt outstanding of \$851,573,000. Of this amount, \$133,413,000 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
August 31, 2007 and 2006
(dollar amounts in thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General Obligation Bonds	\$ 133,413	99,347	-	-	133,413	99,347
Tax Supported Bonds	8,515	9,110	-	-	8,515	9,110
Revenue Bonds	-	-	709,645	709,320	709,645	709,320
Total	\$ 141,928	108,457	709,645	709,320	851,573	817,777

The City's total bonded debt increased by \$33,796,000 (4 percent) during 2007. The key factors in this increase was the issuance of \$20,460,000 in revenue bonds by Lincoln Wastewater System to pay for certain improvements to the City sanitary sewer system, and \$27,000,000 of Highway Allocation Fund bonds for improvements to streets, state highways, or federal-aid routes of the City.

The City maintains the following credit ratings:

	Moody's Investors Service	Standard And Poor's	Fitch Investors Service
General Obligation Bonds	Aaa	AAA	-
Municipal Infrastructure			
Redevelopment Fund Bonds	Aa2	AAA	-
Antelope Valley Project Bonds	Aa2	AA	-
Water Revenue Bonds	Aa2	AA-	-
Wastewater Revenue Bonds			
MBIA insured	Aaa	AAA	-
Underlying	Aa2	AA+	-
Parking Revenue Bonds	A2	A	-
Lincoln Electric System			
Revenue Bonds	Aa2	AA	AA
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 51-55 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Property tax revenue required to fund the 2008 budget increased \$1,430,491 or 3.66 percent over the prior year. Total change in the tax base is estimated at 2.03 percent.
- Sales tax collections for 2007 were below projections. 2008 projections reflect a 2.65 percent increase over 2007 actual collections. The 2007 Legislature passed a tax reduction package that narrowed the sales tax base. It is estimated this action will reduce 2008 fiscal year collections by \$260,000.
- Permits and fees are projected to decrease \$798,809 (20.5 percent) because \$912,000 revenue from the natural gas franchise fee was a one-time funding source only available for 2007.
- Fuel and utility charges are considerable and volatile cost items within all City operations and have continued to increase significantly.
- A 7 percent water rate increase and a 9 percent wastewater rate increase were adopted by the City Council and become effective February 2008.
- A hiring freeze and a retirement incentive package have been utilized to create vacant positions, eliminate positions, encourage reorganizations and make budget reductions while at the same time minimizing the number of layoffs. Employees selecting the retirement incentive could terminate employment anytime between September 1, 2007 and November 30, 2007. As a result, some positions that will eventually be eliminated are funded for a partial year in the 2008 budget.

All of these factors were considered in preparing the City's budget for the 2008 fiscal year.

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.