

**NEW ISSUE
BOOK-ENTRY ONLY
NOT BANK QUALIFIED**

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

In the opinion of Special Tax Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended, the Interest Portion of Basic Rent Payments paid by the City and distributed to the registered owners of the Series 2008 Certificates (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal and Nebraska income tax purposes, except as described herein, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Series 2008 Certificates have not been designated a "qualified tax-exempt obligations within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS."

DAC Bond™

**OFFICIAL STATEMENT
\$7,500,000
CERTIFICATES OF PARTICIPATION
SERIES 2008**

**Evidencing Proportionate Interests of the Owners
Thereof in Basic Rent Payments to be Made by
THE CITY OF LINCOLN, NEBRASKA**

as Lessee pursuant to a Lease Purchase Agreement with Union Bank and Trust Company, as Lessor

Dated: date of delivery

Due: March 15, as shown below

The Series 2008 Certificates will be executed and delivered in fully registered form in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series 2008 Certificates. Purchases of the Series 2008 Certificates will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof as described above. Purchasers will not receive certificates representing their interests in Series 2008 Certificate purchases. So long as Cede & Co. is the registered owner of the Series 2008 Certificates, as nominee of DTC, references herein to the Registered Owners shall mean Cede & Co. and shall not mean the Beneficial Owners (herein defined) of the Series 2008 Certificates. Interest Portions of Basic Rent represented by the Series 2008 Certificates are payable semiannually on March 15 and September 15 of each year, to and including the date of maturity or prepayment, whichever is earlier, commencing on September 15, 2008.

The Series 2008 Certificates evidence the ownership of proportionate interests in, and rights to receive payments under, a Lease Purchase Agreement dated April 29, 2008 (the "Lease"), between Union Bank and Trust Company, a state banking corporation (the "Trustee"), as lessor, and The City of Lincoln, Nebraska (the "City"), as lessee. The Series 2008 Certificates are executed and delivered pursuant to a Declaration of Trust dated April 29, 2008, made by the Trustee. Neither the Series 2008 Certificates nor the Basic Rent Payments are obligations of the Trustee, and the Trustee does not have any obligations under or with respect to the Series 2008 Certificates or the Basic Rent Payments.

The Series 2008 Certificates are subject to optional prepayment prior to maturity as described herein. See "THE SERIES 2008 CERTIFICATES OF PARTICIPATION - Prepayment."

The Series 2008 Certificates constitute interests in Basic Rent Payments to be made by the City. The Basic Rent Payments are payable from the City's General Fund, which includes the City's sales tax revenue and ad valorem taxes levied by the City against all taxable property in the City. See "NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION."

<u>Maturity (March 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP Number (534266)</u>
2009	\$1,230,000	3.500%	1.90%	101.384%	CA 7
2010	1,230,000	3.000	2.25	101.369	CB 5
2011	1,255,000	3.000	2.50	101.378	CC 3
2012	1,625,000	3.000	2.75	100.911	CD 1
2013	335,000	3.500	2.90	102.708	CE 9
2014	340,000	3.000	3.08	99.570	CF 6
2015	355,000	5.000	3.18	108.159	CG 4
2016	365,000	3.250	3.38	99.104	CH 2
2017	375,000	3.500	3.50	100.000	CJ 8
2018	390,000	3.625	3.64	99.873	CK 5

The Series 2008 Certificates are offered when, as and if executed and delivered by the Trustee, subject to the approval of their validity by Gilmore & Bell, P.C., Special Tax Counsel, as described herein. Certain legal matters will be passed upon for the City by John Hendry, City Attorney. It is expected that the Series 2008 Certificates in definitive form will be available for delivery at The Depository Trust Company in New York, New York, on or about April 29, 2008.

STIFEL, NICOLAUS & COMPANY, INC.

The date of this Official Statement is April 15, 2008.

THE CITY OF LINCOLN, NEBRASKA

555 South 10th Street
Lincoln, Nebraska 68508
(402) 441-7412

MAYOR

Christopher Beutler

CITY COUNCIL

Dan Marvin (Chair)

Jon Camp
Jonathan Cook
Robin Eschliman

Doug Emery
John Spatz
Ken Svoboda

DEPARTMENT HEADS

Donald Herz	Finance Director
John Hendry	City Attorney
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
Greg MacLean	Public Works and Utilities Director
Bruce Dart	Health Director
Don Taute	Personnel Director
Thomas Casady	Police Chief
Niles Ford	Fire Chief
Mike Merwick	Building and Safety Director

Peggy Tharnish, City Controller

SPECIAL TAX COUNSEL

Gilmore & Bell, P.C.
Lincoln, Nebraska

LESSOR AND TRUSTEE

Union Bank and Trust Company
Lincoln, Nebraska

UNDERWRITER

Stifel, Nicolaus & Company, Inc.

FINANCIAL ADVISOR

Ameritas Investment Corp.
Lincoln, Nebraska

REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, sales representative or other person has been authorized by the City or the Underwriter to give any information or to make any representations with respect to the Series 2008 Certificates other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2008 Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Underwriter. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2008 CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2008 CERTIFICATES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES OR "BLUE SKY" LAWS. THE SERIES 2002 CERTIFICATES ARE OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION.

[This page intentionally left blank.]

TABLE OF CONTENTS

	Page
INTRODUCTION.....	1
Purpose of the Official Statement.....	1
The City.....	1
Plan of Financing.....	1
The Financing Documents.....	2
Financial Statements.....	2
Continuing Disclosure.....	2
Definitions and Descriptions; Inspection of Documents.....	2
THE SERIES 2008 CERTIFICATES OF PARTICIPATION.....	3
General Provisions.....	3
Payment of Basic Rent and Prepayment Price.....	3
Transfer and Exchange.....	4
Prepayment.....	4
Book-Entry Only System.....	5
SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES.....	6
NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION.....	6
ADDITIONAL CERTIFICATES.....	7
THE TRUSTEE.....	7
RISK FACTORS.....	7
Inability to Liquidate.....	7
Effects on the Tax Exemption of the Certificates Upon a Termination.....	8
THE IMPROVEMENTS.....	8
Description of the Improvements.....	8
ESTIMATED SOURCES AND USES OF FUNDS.....	9
SCHEDULE OF LEASE PAYMENTS.....	10
SUMMARY OF THE LEGAL DOCUMENTS.....	10
CONTINUING DISCLOSURE.....	10
RATING.....	11
LITIGATION.....	11
TAX MATTERS.....	11
Opinion of Bond Counsel.....	11
Other Tax Consequences.....	12
LEGAL MATTERS.....	13
UNDERWRITING.....	13
ADDITIONAL INFORMATION.....	13
APPENDIX A – THE CITY OF LINCOLN, NEBRASKA	
APPENDIX B – FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR ENDED AUGUST 31, 2007, TOGETHER WITH AUDITORS’ REPORT THEREON	
APPENDIX C – DEFINITIONS AND SUMMARIES OF CERTAIN PRINCIPAL DOCUMENTS	
APPENDIX D – FORM OF THE DISCLOSURE DISSEMINATION AGENT AGREEMENT	
APPENDIX E – BOOK-ENTRY SYSTEM	
APPENDIX F – FORM OF OPINION OF SPECIAL TAX COUNSEL	

[This page intentionally left blank.]

OFFICIAL STATEMENT

\$7,500,000

CERTIFICATES OF PARTICIPATION

SERIES 2008

Evidencing Proportionate Interests of the Owners
Thereof in Basic Rent Payments to be Made by
THE CITY OF LINCOLN, NEBRASKA
as Lessee pursuant to a Lease Purchase Agreement with
Union Bank and Trust Company, as lessor

INTRODUCTION

This introduction is only a brief description and summary of certain information contained in this Official Statement and is qualified in its entirety by reference to more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement.

Purpose of the Official Statement

This Official Statement, including the cover page and the appendices hereto (the **"Official Statement"**), is provided to furnish information with respect to the sale and delivery of certificates of participation in the aggregate principal amount of \$7,500,000 (the **"Series 2008 Certificates"**), representing the proportionate interests of the owners thereof (the **"Certificate Owners"**) in basic rent payments (the **"Basic Rent Payments"**) to be made by The City of Lincoln, Nebraska (the **"City"**), as the rental payments and purchase price of the interest of Union Bank and Trust Company, a state banking corporation, as lessor (the **"Trustee"**), in the hereinafter defined Improvements, pursuant to a Lease Purchase Agreement, dated April 29, 2008 (the **"Lease"**), entered into between the Trustee and the City, as lessee. In connection with the execution and delivery of the Lease, the City and the Joint Antelope Valley Authority, jointly, as lessors, and the Trustee will enter into a Site Lease dated the date of delivery (the **"Site Lease"**) pursuant to which the Trustee will acquire an interest in the real property on which the Park Improvements (hereinafter defined) will be located. See **"THE PROJECT."**

The City

The City is a city of the primary class and political subdivision organized and existing under the laws of the State of Nebraska. The City is located in the geographic center of Lancaster County, Nebraska, and is the state capital, as well as the county seat. See **"APPENDIX A: THE CITY"** and **"APPENDIX B: FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED AUGUST 31, 2007, TOGETHER WITH AUDITOR'S REPORT THEREON."**

Plan of Financing

The proceeds received from the sale of the Series 2008 Certificates will be used to (a) acquire (1) street lights and related improvements (the **"Street Light Improvements"**) and (2) construct, equip and furnish certain improvements to a portion of the Antelope Creek channel bounded by "O" Street, "R" Street, 21st Street and 22nd Street to prepare for the development of urban park facilities (the **"Park Improvements"**) and, collectively, the **"Improvements"**), and (b) pay certain costs related to the execution and delivery of the Series 2008 Certificates.

Pursuant to the terms and conditions of the Lease and the Declaration of Trust, the Trustee and the City have agreed that the Trustee will pay, from proceeds of the sale of the Series 2008 Certificates, the cost of the Improvements.

The Series 2008 Certificates are payable solely from the Basic Rent Payments to be paid by the City under the Lease and, to the extent received by the Trustee, net proceeds of certain insurance policies, condemnation awards or proceeds from the liquidation of interests in the Improvements.

The Financing Documents

The Trustee will lease the Improvements, with the option to purchase, to the City pursuant to the Lease. The Lease will provide, among other things, for a term that commences on the date of delivery (April 29, 2008 of the Certificates, and ends on March 15, 2018, the date of the final maturity of the Certificates. The City is authorized to enter into the Lease pursuant to Ordinance No. 19065 passed by the Council on March 31, 2008 and approved by the Mayor on April 2, 2008 (the “**Ordinance**”).

The Series 2008 Certificates are being executed and delivered pursuant to a Declaration of Trust dated the date of delivery (the “**Declaration of Trust**”), made by the Trustee. Neither the Certificates nor the Basic Rent Payments are obligations of the Trustee, and the Trustee has no liability or obligation under or with respect to the Certificates or the Basic Rent Payments.

Under the Declaration of Trust, the Trustee will hold all of its estate, right, title and interest in the Lease for the benefit of the Certificate Owners.

Financial Statements

The audited financial statements of the City for Fiscal Year ended August 31, 2007, are included in *Appendix B* hereto. The financial statements in *Appendix B* have been audited by BKD, LLP, Lincoln, Nebraska, independent auditors, whose report thereon is also included in *Appendix B* hereto.

Continuing Disclosure

The City agrees in a Disclosure Dissemination Agent Agreement dated the date of delivery (the “**Disclosure Agreement**”), with Digital Assurance Certification, L.L.C., as dissemination agent, to provide certain annual financial information and operating data relating to the City by not later than May 1 of each year (the “**Annual Report**”), commencing May 1, 2009, and to provide notices of the occurrence of certain enumerated events, if deemed by the City to be material. See **APPENDIX D: “FORM OF THE DISCLOSURE DISSEMINATION AGENT AGREEMENT.”**

Definitions and Descriptions; Inspection of Documents

Certain capitalized terms used in this Official Statement and not otherwise defined herein shall have the meanings given to such terms in **APPENDIX C: “DEFINITIONS AND SUMMARIES OF CERTAIN PRINCIPAL DOCUMENTS.”** Summaries of the Site Lease, the Lease and the Declaration of Trust are also included in *Appendix C*. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Site Lease, the Lease, the Declaration of Trust and the Disclosure Dissemination Agent Agreement are qualified in their entirety by reference to such documents, copies of which may be viewed at the principal corporate office of the City’s Financial Advisor, Ameritas Investment Corp., 5900 “O” Street, Lincoln, Nebraska, Nebraska 68510, or will be provided by the Financial Advisor to any prospective purchaser requesting the same, upon payment by such prospective

purchaser of the cost of complying with such request. All references to the Series 2008 Certificates are qualified in their entirety by the definitive terms thereof and the information with respect thereto included in the Lease, the Declaration of Trust and the Disclosure Dissemination Agent Agreement. Information concerning the City has been supplied by the City, and has not been verified by the Trustee, and the Trustee makes no representation or warranty, express or implied, as to the accuracy or completeness of such information.

THE SERIES 2008 CERTIFICATES OF PARTICIPATION

General Provisions

The Series 2008 Certificates are dated the date of delivery thereof, and will mature on March 15, in the amounts and in the years stated on the cover page hereof unless prepaid prior thereto.

Payment of Basic Rent and Prepayment Price

The Series 2008 Certificates will be delivered in the denomination of \$5,000 each or any integral multiple thereof in book-entry form. Purchases of the Series 2008 Certificates will be made in book-entry only form in the denomination of \$5,000 or any integral multiple thereof. Purchasers of the Series 2008 Certificates will not receive certificates representing their interests in the Series 2008 Certificates purchased. Each Series 2008 Certificate represents a proportionate interest in the Principal Portions and Interest Portions of the Basic Rent Payments to be paid by the City to the Trustee for the benefit of the Series 2008 Certificate Owners. Principal Portions of Basic Rent will be payable on March 15 of each year beginning March 15, 2009. Interest Portions of Basic Rent shall be payable semiannually on March 15 and September 15 of each year, beginning on September 15, 2008, to and including the date of maturity or prepayment, whichever is earlier. Under the Declaration of Trust, the Trustee is designated as the initial paying agent for the Series 2008 Certificates.

While the Series 2008 Certificates remain in book-entry form, payments to Beneficial Owners (defined herein) are governed by the rules of DTC as described in **"BOOK-ENTRY ONLY SYSTEM."** In the event that DTC ceases to act as securities depository for the Series 2008 Certificates, payment may be made as described below. Under the Declaration of Trust, the Trustee is designated as the initial paying agent for the Series 2008 Certificates.

Interest Portions of Basic Rent represented by the Series 2008 Certificates shall be payable by check or draft of the Trustee mailed to the Series 2008 Certificate Owners at the address of each Series 2008 Certificate Owner shown on the registration books maintained by the Trustee as of the close of business on the last day of the month next preceding the month in which each Interest Payment Date occurs (the **"Record Date"**), or at the written request of any Owner of Series 2008 Certificates in the aggregate Principal Portion of at least \$500,000, by electronic transfer to the bank for credit to the ABA routing number and account number filed with the Trustee no later than 15 days prior to the record date.

The Principal Portion of the Basic Rent or Prepayment Price represented by the Certificates will be payable (whether at maturity or upon prepayment or acceleration) by check or draft to the Owners of such Certificates upon presentation and surrender of such Certificates at the designated corporate trust office of the Trustee.

Transfer and Exchange

While the Series 2008 Certificates remain in book-entry form, transfers of ownership by Beneficial Owners may be made as described under “**BOOK-ENTRY ONLY SYSTEM.**” In the event that DTC ceases to act as securities depository for the Series 2008 Certificates, transfers may be effected as described below.

Books for the registration and transfer of the Series 2008 Certificates are to be kept by the Trustee, as registrar. Upon surrender for transfer of any Series 2008 Certificate at the principal payment office of the Trustee and satisfaction of the conditions and restrictions of such transfer, the Trustee is to execute and deliver in the name of the transferee a new Series 2008 Certificate of the same maturity or maturities, interest rate and tenor as the Series 2008 Certificates surrendered. Series 2008 Certificates may be exchanged at the principal payment office of the Trustee for an equal aggregate principal amount of Series 2008 Certificates of the same maturity or maturities, interest rate and tenor as the Series 2008 Certificate surrendered. All Series 2008 Certificates presented for transfer or exchange must be accompanied by a written instrument of transfer or authorization for exchange, in form and with guaranty of signature satisfactory to the Trustee, duly executed by the Owner or by his attorney duly authorized in writing.

The Trustee is not required to transfer or exchange any Series 2008 Certificate after such Series 2008 Certificate has been called for prepayment.

The person in whose name any Series 2008 Certificate is registered is deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of either the Principal Portion or the Interest Portion of the Basic Rent Payments represented by any Series 2008 Certificate will be made only to or upon the written order of the registered owner thereof or his legal representative.

The Series 2008 Certificates are payable in lawful money of the United States of America which at the time of payment is legal tender for the payment of public and private debt. Series 2008 Certificates may be transferred at the principal payment office of the Trustee. Series 2008 Certificates may be exchanged for Series 2008 Certificates of the same maturity of other authorized denominations in accordance with the terms of the Declaration of Trust. For every such exchange or transfer of Series 2008 Certificates, the Trustee shall make a charge to the Series 2008 Certificate Owner sufficient to reimburse it for any tax, fee or other governmental charges required to be paid with respect to such exchange or transfer.

Prepayment

Optional Prepayment. The Series 2008 Certificates maturing on March 15, 2014, and thereafter are subject to optional prepayment, as a whole or in part, at any time on or after March 15, 2013, at the prepayment price of 100% of the Principal Portion of Basic Rent being prepaid set forth below, plus Interest Portions of Basic Rent accrued to the prepayment date.

Notice of Prepayment. Unless otherwise provided in the Declaration of Trust, notice of prepayment shall be given by the Trustee, not less than 30 days nor more than 60 days prior to the prepayment date, to the City and the Owner of each Series 2008 Certificate affected at the address shown on the registration books of the Registrar on the date such notice is mailed. Each notice of prepayment shall state the prepayment date, the place of prepayment, the prepayment price and, if less than all, the numbers of the Series 2008 Certificates to be prepaid. Such notice shall also state that the Interest Portion of the Basic Rent represented by the Series 2008 Certificates designated for prepayment shall cease to accrue from and after such prepayment date and that on said date the prepayment price will become due and payable on each of said Series 2008 Certificates.

So long as the book-entry only system is used for the Series 2008 Certificates, the Trustee will give any notice of prepayment or any other notices required to be given to owners only to DTC. Any failure of DTC to advise any DTC Participant or of any DTC Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the prepayment of the Series 2008 Certificates so called for prepayment. Beneficial Owners may desire to make arrangements with a DTC Participant so that all notices of prepayment or other communications to DTC which affect such Beneficial Owners, including notification of all interest payments, will be forwarded in writing by such DTC Participant. See “**BOOK-ENTRY ONLY SYSTEM.**”

The Trustee is also directed to comply with any mandatory or voluntary standards then in effect for processing prepayments of municipal securities established by the Securities and Exchange Commission. Failure to comply with such standards shall not affect or invalidate the prepayment of any Series 2008 Certificate to be prepaid.

Effect of Prepayment. Notice of prepayment having been duly given as provided, and funds sufficient for payment of the prepayment price of such Series 2008 Certificates being held by the Trustee, on the prepayment date designated in such notice, the Series 2008 Certificates so called for prepayment shall become due and payable at the prepayment price specified in such notice and the Interest Portion of Basic Rent represented by the Series 2008 Certificates so called for prepayment shall cease to accrue, said Series 2008 Certificates shall cease to be entitled to any benefit or security under the Declaration of Trust and the Owners of such Series 2008 Certificates shall have no rights in respect thereof except to receive payment of the prepayment price.

Book-Entry Only System

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

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

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

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

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

NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION

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

Section 13-519 provides that for all fiscal years beginning on or after July 1, 1998, no governmental unit (including the City) may adopt a budget containing a total of budgeted restricted funds more than the last prior year's total of budgeted restricted funds plus allowable growth, plus a basic allowable growth percentage (initially 2½% until adjusted by the Legislature). Restricted funds generally include property taxes, excluding any amounts refunded to taxpayers, payments in lieu of property taxes, local option sales taxes, state aid, transfers of surpluses from any user fee, permit fee, or regulatory fee if the fee surplus is transferred to fund a service or function not directly related to the fee and the costs of the activity funded from the fee, any funds excluded from restricted funds for the prior year because they were budgeted for capital improvements but which were not spent and are not expected to be spent for capital improvements, and any excess tax collections returned to the county by a governmental unit as a result of overpayment due to clerical error or mistake. Allowable growth includes the percentage increase in taxable valuation in excess of the base limitation established under Section 77-3446, Reissue Revised Statutes of Nebraska, as amended, if any, due to improvements to real property as a result of new construction, additions to existing buildings, any improvements to real property which increase the value of such property and any increase in valuation due to annexation and any personal property valuation over the prior year. Such budget limitations may be exceeded by up to an additional 1% upon the affirmative vote of at least 75% of the governing body of the governmental unit, and larger increases are permitted with the approval of a majority of legal voters voting on the issue of such increase at a special election held for such purposes.

Under Section 77-3442, the rates for levying property taxes are limited for each type of governmental unit in the State. The rate for cities is no more than 45¢ per \$100 of taxable valuation plus an additional 5¢ per \$100 of taxable valuation may be levied to provide financing for a city's share of revenue required under an agreement executed pursuant to the Interlocal Cooperation Act, Chapter 13, Article 8, Reissue Revised Statutes of Nebraska, as amended, or the Joint Public Agency Act, Chapter 13, Article 25, Reissue Revised Statutes of Nebraska, as amended. A political subdivision may exceed the levy limitations provided in Section 77-3442 or a final levy allocation determination as provided in Section 77-3443 by an amount not to exceed a maximum levy approved by a majority of registered voters. The limitations of Section 13-519 do not apply to restricted funds pledged to retire bonded indebtedness, and the limitations of Section 77-3442 do not apply to property taxes levied for bonded indebtedness approved according to law and secured by a levy on property. The City's total levy (excluding bond levy) for the current fiscal year is \$0.25191, which is expected to produce \$34,621,163 in collected taxes.

ADDITIONAL CERTIFICATES

The Trustee may, at any time upon compliance with certain terms and conditions set forth in the Declaration of Trust, deliver Additional Certificates for any purpose specified in the Declaration of Trust. Any Additional Certificates will be equally and ratably secured by the Declaration of Trust on a parity with the Certificates. Concurrently with the delivery of any such Additional Certificates, the Trustee and the City shall deliver an amendment to the Lease obligating the City to make payments of principal thereof and interest thereon in amounts and at times sufficient to provide for the timely payment of principal of and interest on such Additional Certificates. See **APPENDIX C: DEFINITIONS AND SUMMARIES OF CERTAIN PRINCIPAL DOCUMENTS - DECLARATION OF TRUST - Additional Certificates.**"

THE TRUSTEE

The Trustee is not liable for the payment of Basic Rent Payments, and the Owners have no right to look to the Trustee for any payments of the Certificates or for any other payments other than from funds held under the Declaration of Trust.

RISK FACTORS

Inability to Liquidate

The enforceability of the Certificates and the Lease is subject to applicable bankruptcy laws, equitable principles affecting the enforcement of creditors rights generally and liens securing such rights, and the police powers of the State and its political subdivisions. The Improvements are appropriate for use only as part of a street lighting system and a stormwater management and park system. Because of such limited use, and the delays inherent in obtaining the remedies involving such property, a potential purchaser of the Certificates should not anticipate that remedies could be accomplished rapidly, if at all. Any delays in the ability of the Trustee to exercise its remedies under the Lease or the Declaration of Trust may result in the payment of the Certificates or nonpayment of the Certificates after expenditures of any amount on deposit in the Reserve Fund.

Effects on the Tax Exemption of the Certificates Upon a Termination

Special Tax Counsel expresses no opinion with respect to the applicability of the registration requirements of the Securities Act of 1933, to any Certificates in the event of a termination of the Lease by reason of an Event of Default. If the Lease is terminated by reason of such event, there is no assurance that the Certificates may be transferred by an Owner thereof without compliance with the registration provisions of the Securities Act of 1933, as amended, or the availability of an exemption therefrom.

Special Tax Counsel expresses no opinion as to the treatment for federal income tax purposes of any moneys received by a Registered Owner of the Certificates other than payments by the City made pursuant to the Lease, upon an Event of Default. There is no assurance that such moneys received by the Registered Owners of the Certificates in such event will be excludable from gross income for federal income tax purposes.

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

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.

Special Tax Counsel will render its opinion that the interest on the Series 2008 Certificates 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 Series 2008 Certificates. Purchasers of the Series 2008 Certificates should consult their own tax advisors as to the potential impact on the Series 2008 Certificates of a decision by the U.S. Supreme Court in this matter.

No Additional Interest or Mandatory Redemption upon Event of Taxability

Neither the Lease nor the Declaration of Trust provides for the payment of additional interest or penalty on the Series 2008 Certificates or the mandatory redemption thereof if the Interest Portion of Basic Rent Payments becomes includable in gross income for federal income tax purposes. Likewise, neither the Lease nor the Declaration of Trust provides for the payment of any additional interest or penalty on the Series 2008 Certificates if the interest thereon becomes includable in gross income for Nebraska income tax purposes.

THE IMPROVEMENTS

Description of the Improvements

The Improvements consist of:

(a) light poles and related equipment, such as light fixtures, wiring, and other items necessary to complete the installation of new street lights in newly developed residential and commercial areas as well as replace, rebuild and relocate street lights in established areas (the “**Street Light Improvements**”); and

(b) basic park elements and infrastructure that are most cost effectively constructed with the Corps of Engineers construction of the new channel in Antelope Creek in an area bounded by “O” Street, “R” Street, 21st Street and 22nd Street, including, without limitation additional/enhanced grading to the waterway, installation of retaining walls, construction of the base-flow channel liner, installation of an irrigation supply well and distribution piping and addition of basic landscaping features (the “**Park Improvements**”).

The Park Improvements are part of a new regional park along a portion of the Antelope Creek channel to serve as an urban community gathering and festival area. Anticipated programming for the waterway park includes day use facilities, festival and plaza areas, hard-surface walkways, area lighting, an amphitheater, open green space, multiple water features/fountains, children’s play area, and public art. Construction activities will generally be completed in two phases in conjunction with the U.S. Army Corps of Engineers schedule for constructing the new Antelope Creek channel through this area. The Park Improvements are part of Phase I. Phase II construction activities will consist of park amenities that build upon the basic park infrastructure established during Phase I. Phase II construction will be scheduled to commence at the completion of Phase I and the Corps of Engineers construction of the new channel. Funding for construction of Phase II will be a public-private partnership that includes a capital fund raising campaign being conducted by the Lincoln Parks Foundation and the 2015 Vision group.

ESTIMATED SOURCES AND USES OF FUNDS

The sources and application of funds in connection with the execution of the Series 2008 Certificates, exclusive of accrued interest, are estimated, based upon certain assumptions regarding the investment of such funds, as follows:

Sources of Funds:

Certificate Proceeds	\$7,500,000.00
Plus: Net Original Issue Premium	<u>98,768.10</u>
Total Sources of Funds	<u>\$7,598,768.10</u>

Applications of Funds:

Street Light Improvement Costs	\$3,501,129.28
Park Improvement Costs	4,004,386.52
Costs of Issuance*	<u>93,252.30</u>
Total Applications of Funds	<u>\$7,598,768.10</u>

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

SCHEDULE OF LEASE PAYMENTS

The following table sets forth the scheduled amortization of the Series 2008 Certificates:

<u>Fiscal Year</u> <u>Ending August 31</u>	<u>Principal</u> <u>Portion</u>	<u>Interest</u> <u>Portion</u>	<u>Total</u>
2009	\$1,230,000.00	\$215,187.22	\$1,445,187.22
2010	1,230,000.00	202,100.00	1,432,100.00
2011	1,255,000.00	165,200.00	1,420,200.00
2012	1,625,000.00	127,550.00	1,752,550.00
2013	335,000.00	78,800.00	413,800.00
2014	340,000.00	67,075.00	407,075.00
2015	355,000.00	56,875.00	411,875.00
2016	365,000.00	39,125.00	404,125.00
2017	375,000.00	27,262.50	402,262.50
2018	<u>390,000.00</u>	<u>14,137.50</u>	<u>404,137.50</u>
Totals	<u>\$7,500,000.00</u>	<u>\$993,312.22</u>	<u>\$8,493,312.22</u>

SUMMARY OF THE LEGAL DOCUMENTS

Attached hereto as *Appendix C* are summaries of certain provisions of the Site Lease, the Lease and the Declaration of Trust as well as certain defined terms used therein. The summaries do not purport to be complete, and reference is made to the full text of the Site Lease, the Lease and the Declaration of Trust, respectively, for a complete recital of their terms, as well as a complete recital of the defined terms used therein. Copies of all documents relating to the Series 2008 Certificates can be obtained from the Trustee upon payment by such prospective purchaser requesting the same, upon payment by such prospective purchaser of the cost of complying with such request.

CONTINUING DISCLOSURE

The City has determined that no financial or operating data concerning the Trustee is material to an evaluation of the offering of the Series 2008 Certificates or to any decision to purchase, hold or sell the Series 2008 Certificates, and the City will not provide any such information. The City has no responsibility to any person with respect to the provision of any information about the Trustee.

The City has covenanted for the benefit of the Beneficial Owners of the Series 2008 Certificates to provide certain financial information and operating data relating to the City by not later than May 1 of each year (the “**Annual Report**”), commencing May 1, 2009, 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 D – 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 Lease, 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 Series 2008 Certificates in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2008 Certificates and their market price. The City is in compliance with each prior undertaking made by it pursuant to the Rule.

RATING

Moody's Investors Service has assigned the Certificates the rating of "Aaa." Such rating reflects only the views of such organization, and an explanation of the significance of such rating may be obtained from Moody's Investors Service, 7 World Trade Center, 350 Greenwich Street, 23rd Floor, New York, New York 10007, telephone (212) 553-0300.

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

LITIGATION

The Transcript of Proceedings will contain a certificate of non-litigation dated as of the closing and executed by the City to the effect that there is no controversy, suit or proceeding of any kind pending or, to the knowledge of the City, threatened wherein or whereby any question is raised, or may be raised, questioning, disputing or affecting in any way the legal organization of the City, or the legality of any official act shown to have been done regarding the execution and delivery of the Lease or the Series 2008 Certificates or the constitutionality or validity of the obligation represented by the Series 2008 Certificates or the means provided for the Basic Rent Payments under the Lease.

TAX MATTERS

Opinion of Bond Counsel

Federal Tax Exemption. In the opinion of Gilmore & Bell, P.C., Special Tax Counsel, under existing law, the Interest Portion of Basic Rent Payments paid by the City and distributed to the registered owners of the Series 2008 Certificates (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal and Nebraska income tax purposes. The Interest Portion of Basic Rent Payments is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. 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 execution of the Series 2008 Certificates in order that said Interest Portion of

Basic Rent be, or continue to be, excludable 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 said Interest Portion of Basic Rent represented by the Series 2008 Certificates in gross income for federal and Nebraska income tax purposes retroactive to the date of the initial delivery of the Series 2008 Certificates. The Series 2008 Certificates have not been designated as “qualified tax-exempt obligations” for purposes of Section 265(b) of the Code.

Original Issue Discount. In the opinion of Special Tax Counsel, under existing law, the original issue discount in the selling price of each Series 2008 Certificate purchased in the original offering at a price less than the par amount thereof, to the extent properly allocable to each owner of such Series 2008 Certificate, is excludable from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated payment price at maturity of such Series 2008 Certificate over the initial offering price to the public (excluding underwriters and intermediaries) at which price a substantial amount of the Series 2008 Certificates were sold. Under Section 1288 of the Code, original issue discount on tax-exempt obligations accrues on a compound basis. The amount of original issue discount that accrues to an owner during any accrual period generally equals (a) the issue price of such Series 2008 Certificate plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (b) the yield to maturity on such Series 2008 Certificate (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (c) any Interest Portion of Basic Rent Payments payable to the owner of such Series 2008 Certificate during such accrual period, will be excludable from gross income for federal income tax purposes, and will increase the owner’s tax basis in such Series 2008 Certificate. Owners of any Series 2008 Certificates purchased at an original issue discount should consult with their individual tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes and the state and local consequences of owning such Series 2008 Certificates.

Original Issue Premium. An amount equal to the excess of the purchase price of a Series 2008 Certificate over its stated redemption price at maturity constitutes premium on such Series 2008 Certificate. An owner of a Series 2008 Certificate must amortize any premium over such Series 2008 Certificate’s term using constant yield principles, based on the Series 2008 Certificate’s yield to maturity. As premium is amortized, the owner’s basis in such Series 2008 Certificate and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocation to such owner. This 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 Series 2008 Certificate prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed. Owners of Series 2008 Certificates purchased at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their individual tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Series 2008 Certificates.

No Other Opinions. Special Tax Counsel expresses no opinion regarding other federal or State tax consequences arising with respect to the Series 2008 Certificates.

Other Tax Consequences

Prospective purchasers of the Series 2008 Certificates should be aware that ownership of the Series 2008 Certificates may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with “excess net passive income,” foreign corporations subject to the branch profits tax, life insurance companies, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or

without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Series 2008 Certificates. Special Tax Counsel expresses no opinion regarding these tax consequences. Purchasers of Series 2008 Certificates should consult their tax advisors as to the applicability of these tax consequences and other federal income tax consequences of the purchase, ownership and disposition of the Series 2008 Certificates, including the possible application of state, local, foreign and other tax laws.

LEGAL MATTERS

All legal matters incident to the authorization, execution and delivery of the Series 2008 Certificates are subject to the approval of legality by Special Tax Counsel. Special Tax Counsel has participated in the preparation of this Official Statement but the factual and financial information appearing herein has been supplied or reviewed by the City, its officials and counsel. Certain legal matters will be passed upon for the City by its counsel, John Hendry, City Attorney, Lincoln, Nebraska.

UNDERWRITING

Subject to certain conditions precedent, the Underwriter has agreed to purchase all of the Certificates for reoffering to the public. The Certificates are being offered by the Underwriter at an aggregate purchase price equal to the par amount thereof, plus net original issue premium in the amount of \$98,768.10, and less an underwriting discount of \$39,502.30

The Underwriter intends to offer the Certificates to the public initially at the offering prices set forth on the cover of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts) and others at prices lower than the offering prices set forth on the cover of this Official Statement.

ADDITIONAL INFORMATION

Additional information with respect to the City and the Series 2008 Certificates may be obtained upon request from the City.

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Official Statement is not to be construed as a contract or agreement between the City and Series 2008 Certificate Owners.

This Official Statement has been approved by the City and is submitted only in connection with the sale of the Series 2008 Certificates and may not be reproduced or used in whole or in part for any other purpose.

THE CITY OF LINCOLN, NEBRASKA

By: _____ /s/ Don Herz

[This page intentionally left blank.]

APPENDIX A

THE CITY OF LINCOLN, NEBRASKA

[This page intentionally left blank.]

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 88.72 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 2007 population is 241,167.

City Government

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

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

Transportation

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

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

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

Government Center

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

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

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

Education

The University of Nebraska, with approximately 22,000 students, Nebraska Wesleyan University, with approximately 2,000 students, Union College, with approximately 900 students, Kaplan University, with approximately 700 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	
2007	994	\$ 293,968,408	2,820	\$ 202,786,768	\$ 4,236,340,817	\$ 10,402,515,684	\$ 14,638,856,501
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

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 three police stations with 317 police officers.

City Employee Information

For the 2007-2008 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

	<u>MAY 31, 2007</u>		<u>NOVEMBER 30, 2007</u>	
	<u>Number Employed</u>	<u>Percent of Total</u>	<u>Number Employed</u>	<u>Percent of Total</u>
Industry Manufacturing:				
Durable Goods	8,219	4.9	8,414	4.9
Nondurable Goods	<u>5,414</u>	<u>3.2</u>	<u>5,374</u>	<u>3.2</u>
Total Industry Manufacturing	<u>13,633</u>	<u>8.1</u>	<u>13,788</u>	<u>8.1</u>
Nonmanufacturing:				
Natural Resource & Construction	8,512	5.1	8,448	5.0
Transportation, Communications & Utilities	7,462	4.4	7,658	4.5
Wholesale Trade	3,759	2.2	3,577	2.1
Retail Trade	17,062	10.1	17,686	10.4
Information	2,619	1.7	2,696	1.7
Finance, Insurance & Real Estate Services (except domestic)	64,854	38.5	65,450	38.5
Government	<u>37,780</u>	<u>22.4</u>	<u>37,722</u>	<u>22.2</u>
Total Nonmanufacturing	<u>154,656</u>	<u>91.9</u>	<u>155,980</u>	<u>91.9</u>
TOTAL	<u>168,289</u>	<u>100.0</u>	<u>169,768</u>	<u>100.0</u>

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 2007-1998) (For the Calendar Year Indicated)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Civilian Labor Force	157,887	157,632	157,999	158,444	156,940	153,021	150,846	150,239	142,384	142,918
Unemployment	4,462	4,592	5,643	5,346	5,841	5,007	4,209	3,542	3,397	3,208
Percent of Labor Force	2.8	2.9	3.6	3.4	3.7	3.3	2.8	2.4	2.4	2.2
Employment	153,425	153,040	152,355	153,098	151,100	148,013	146,636	146,697	138,987	139,710

STATE OF NEBRASKA

Percent of Labor Force										
Unemployment	3.0	3.2	3.9	3.8	3.8	3.6	3.1	2.7	2.9	2.7

Source: State of Nebraska, Department of Labor

**DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

Year	Population 1	Per Capita Personal Income 2	School Enrollment 3
2007	241,167	\$	33,466
2006	239,213		32,934
2005	238,625	32,248	32,505
2004	236,146	31,587	32,270
2003	235,565	30,064	31,889
2002	231,800	28,656	31,867
2001	225,588	28,354	31,581
2000	218,497	27,588	31,354
1999	217,537	26,009	31,052
1998	215,000	25,272	31,000

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 2006 and 2007 is unavailable.

3 Lincoln Public Schools.

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

**LINCOLN UTILITY CUSTOMERS
LAST TEN YEARS**

Year	Water Customers	Gas Customers	Electricity Customers
2007	76,816	93,301	124,878
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

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
2007	\$ 33,946,258	60,953,651	17,430,452	21,719,544	11,670,315	20,378,863	14,877,357	11,589,720	192,566,160
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

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
2007	\$ 125,328,388	63,928,043	19,126,239	6,491,112	10,371,565	7,052,107	232,297,454
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

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>
2007	\$ 1,448,146
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

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 2007 tax levy for the 2007-2008 fiscal year is \$69,877,835 below the legal limit, a tax rate per \$100 valuation of .28788. The assessed value upon which the 2007 levy is based is \$15,653,926,490. By charter, only 90% of the property tax levy may be appropriated.

For the 2007-2008 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 2007-2008 the City can also use authority equal to the amount of real growth in the tax base of 2.67%. An additional 1% can be authorized by a 75% vote of the City Council and was utilized for the 2007-2008 budget. The 2007-2008 budget is approximately \$9.1 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. The figures below do not include motor vehicle in lieu of ad valorem taxes.

Tax Year	Taxes Levied	Collected As Of August 31 After Levy		Accumulated Collections As Of August 31, 2007	
		Amount	Percent	Amount	Percent
2007	\$ 43,475,089	\$ 41,848,163	96.26 %	\$ 41,848,163	96.26 %
2006	40,873,358	39,579,041	96.83	41,056,233	100.45
2005	38,755,995	37,514,748	96.80	38,865,545	100.28
2004	36,994,112	35,726,509	96.57	37,031,950	100.10
2003	35,007,926	33,676,453	96.20	35,040,134	100.09
2002	33,731,282	32,501,760	96.35	33,833,251	100.30
2001	31,159,364	29,936,079	96.07	31,145,790	99.96
2000	29,603,794	28,665,780	96.83	29,761,421	100.53
1999	27,597,664	26,411,546	95.70	27,511,095	99.69
1998	26,812,692	25,758,577	96.07	26,975,935	100.61

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>2007 Assessed Valuations</u>	<u>Percentage Of Total Assessed Valuation</u>
Alltel Communications	Telecommunications	\$ 72,471,636	.47%
B & J Partnership Ltd.	Building Management	71,086,013	.46
Kawasaki	Manufacturing	68,098,040	.44
WEA Gateway LLC	Retail Management	59,386,082	.39
Ameritas Life Insurance Corp	Insurance	50,334,651	.33
Chateau Van Dorn LLC	Real Estate Development	49,958,335	.33
Pfizer	Animal Health	48,138,439	.31
Nebco	Construction/Development	47,148,845	.31
Burlington Northern	Railroad	46,701,614	.30
Molex Inc.	Manufacturing	<u>38,979,611</u>	<u>.25</u>
		<u>\$ 552,303,266</u>	<u>3.59%</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>
2007	\$ 53,960,485
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

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>
2007	\$ 31,454,763	53,960,485		10,492	1,399,939	9,596,588	96,422,267
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

**TAXABLE ASSESSED VALUATION
LAST TEN YEARS ¹**

Tax Year	Real Estate	All Other	Total
2007	\$ 14,638,856,501	703,307,287	15,342,163,788
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

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 ¹**

	Tax Year									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
City of Lincoln	0.2833	0.3009	0.2950	0.2903	0.3145	0.3145	0.3239	0.3239	0.3239	0.3581
School District No. 1	1.2764	1.3142	1.3141	1.3011	1.2830	1.2732	1.3684	1.3813	1.3050	1.6308
Lancaster County	0.2655	0.2841	0.2797	0.2683	0.2683	0.2583	0.2643	0.2584	0.2782	0.2966
Educational Service Unit #18	0.0141	0.0150	0.0150	0.0150	0.0150	0.0150	0.0150	0.0150	0.0149	0.0089
Community Technical College	0.0689	0.0696	0.0655	0.0655	0.0655	0.0636	0.0295	0.0334	0.0696	0.0782
Lower Platte South Natural Res. Dist.	0.0416	0.0422	0.0323	0.0323	0.0359	0.0365	0.0367	0.0372	0.0389	0.0365
Railroad Transportation Safety Dist.	0.0246	0.0260	0.0260	0.0248	0.0220	0.0221	0.0260	0.0260	0.0260	0.0260
Agricultural Society of Lancaster County	0.0016	0.0018	0.0020	0.0030	0.0012	0.0024	0.0073	0.0032	0.0013	0.0364
Lancaster County Fairgrounds	0.0037	0.0042	0.0042	0.0043	0.0050	0.0052	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	0.0170
	1.9967	2.0750	2.0508	2.0216	2.0274	2.0078	2.0881	2.0954	2.0748	2.4885

¹The 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, 2007
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
Governmental Activities:							
General Obligation Bonds:							
General Bonds:							
14,435	03/01/99	Various Purpose Series A	3.000 - 4.600	Serial 2000 to 2014	2009	Semiannually	\$ 7,840
7,365	03/01/99	Various Purpose Series A	4.750	Term 2019	2009	"	7,365
8,220	03/01/99	Various Purpose Series B	3.000 - 4.250	Serial 1999 to 2011	2007	"	2,465
6,350	05/29/02	Storm Sewer and Drainage	3.000 - 5.000	Serial 2004 to 2020	2010	"	5,535
1,150	05/29/02	Storm Sewer and Drainage	5.00	Term 2022	2010	"	1,150
15,595	07/08/03	Various Purpose	2.625 - 3.750	Serial 2004 to 2017	2013	"	9,680
3,710	07/08/03	Various Purpose	4.000 / 4.125	Term 2020 & 2023	2013	"	3,710
6,555	06/01/05	Storm Sewer Refunding	2.500 - 4.375	Serial 2005 to 2017	2011	"	5,755
9,950	06/15/05	Storm Sewer Construction	3.250 - 4.250	Serial 2006 to 2025	2015	"	9,225
8,295	06/27/07	Stormwater Drainage and Flood Mgmt	4.625 - 5.000	Serial 2008 to 2027	2017	"	8,295
Total General Bonds							\$ 61,020
Tax Allocation Bonds:							
1,035	04/21/04	Tax Allocation Bonds	2.000 - 3.200	Serial 2004 to 2011	2008	Semiannually	670
5,500	04/21/04	Tax Allocation Bonds	3.000 - 4.800	Serial 2004 to 2015	2010	"	4,530
265	08/15/05	Tax Allocation Bonds	4.750	Serial 2006 to 2018	Anytime	"	320
245	10/01/06	Tax Allocation Bonds	5.100	Serial 2008 to 2015	Anytime	"	245
2,205	04/05/07	Tax Allocation Bonds	5.000 - 5.550	Serial 2009 to 2018	2012	"	2,205
586	06/01/07	Tax Allocation Bonds	5.240	Serial 2008 to 2018	Anytime	"	586
388	06/01/07	Tax Allocation Bonds	5.240	Serial 2007 to 2020	Anytime	"	388
369	06/15/07	Tax Allocation Bonds	5.400	Serial 2007 to 2014	Anytime	"	369
Total Tax Allocation Bonds							\$ 9,313
Tax Supported Bonds:							
3,200	06/13/00	Municipal Infrastructure Redevelopment	4.750 - 5.100	Serial 2001 to 2009	2005	Semiannually	\$ 1,080
35,000	03/17/04	Highway Allocation Fund	2.000 - 5.000	Serial 2007 to 2023	2014	"	35,000
27,000	12/05/06	Highway Allocation Fund	4.000 - 5.000	Serial 2008 to 2027	2016	"	27,000
Total Tax-Supported Bonds							\$ 63,080
TOTAL GENERAL OBLIGATION BONDS							\$ 133,413
Tax Supported Bonds:							
11,080	3/13/02	Antelope Valley Project	1.500 - 5.000	Serial 2002 to 2016	2012	Semiannually	\$ 8,515
Business-Type Activities:							
Revenue Bonds:							
39,235	07/31/03	Wastewater Revenue	2.000 - 5.000	Serial 2004 to 2023	2013	Semiannually	\$ 32,920
15,765	07/31/03	Wastewater Revenue	4.625 / 5.000	Term 2025 & 2028	2013	"	15,765
18,000	08/03/05	Wastewater Revenue	4.000 - 5.000	Serial 2006 to 2030	2015	"	16,995
16,710	04/18/07	Wastewater Revenue	4.000 - 4.500	Serial 2008 to 2029	2017	"	16,710
3,750	04/18/07	Wastewater Revenue	4.375	Term 2032	2017	"	3,750
Total Wastewater Bonds							\$ 86,140
11,850	11/22/02	Water Revenue	2.750 - 5.000	Serial 2005 to 2017	2012	Semiannually	\$ 9,580
6,660	11/22/02	Water Revenue	5.000	Term 2022	2012	"	6,660
32,180	05/01/03	Water Revenue	5.000	Serial 2004 to 2012	-	"	18,795
40,000	11/16/04	Water Revenue	3.000 - 5.000	Serial 2005 to 2025	2014	"	37,175
Total Water Bonds							\$ 72,210
6,815	09/08/99	Parking Revenue Series A	4.000 - 5.000	Serial 2000 to 2009	2009	Semiannually	\$ 2,170
6,695	09/08/99	Parking Revenue Series A	5.375	Term 2014	2009	"	6,695
4,360	12/18/01	Parking Revenue	3.750 - 5.000	Serial 2002 to 2017	2011	"	2,970
1,640	12/18/01	Parking Revenue	5.125	Term 2021	2011	"	1,640
Total Parking Bonds							\$ 13,475
3,165	11/27/01	Golf Course Revenue Refunding	2.300 - 4.050	Serial 2002 to 2011	2008	Semiannually	\$ 1,375
4,000	08/17/06	Solid Waste Management Revenue	4.000 - 4.250	Serial 2007 to 2021	2013	Semiannually	\$ 3,815
45,560	02/15/98	Electric Revenue Bonds Series A	4.500 - 5.000	Serial 2098 to 2018	2008	Semiannually	\$ 31,075
141,150	08/15/01	Electric Revenue Bonds	4.000 - 5.250	Serial 2006 to 2020	2011	"	140,150
148,190	10/01/02	Electric Revenue Bonds	4.000 - 5.000	Serial 2004 to 2025	2012	"	122,945
93,045	10/01/03	Electric Revenue Bonds	3.000 - 5.000	Serial 2004 to 2026	2014	"	90,195
33,265	10/01/03	Electric Revenue Bonds	4.750	Term 2028	2014	"	33,265
61,290	10/01/05	Electric Revenue Bonds	5.000	Serial 2029 to 2032	2015	"	61,290
53,710	10/01/05	Electric Revenue Bonds	4.750	Term 2035	2015	"	53,710
Total Electric Bonds							\$ 532,630
TOTAL REVENUE BONDS							\$ 709,645

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
2008	\$ 6,210	5,611	615	372	1,718	883
2009	7,376	5,401	635	350	1,749	842
2010	6,740	5,120	660	326	1,723	784
2011	7,223	4,851	685	299	1,727	725
2012	7,883	4,543	710	271	1,797	663
2013 - 2017	40,918	17,476	5,210	773	8,357	2,276
2018 - 2022	36,018	8,743	-	-	3,206	1,043
2023 - 2027	21,045	2,008	-	-	2,515	368
	<u>\$ 133,413</u>	<u>53,753</u>	<u>8,515</u>	<u>2,391</u>	<u>22,792</u>	<u>7,584</u>

Fiscal Year Ended August 31	Business-Type Activities			
	Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2008	\$ 24,220	34,490	444	33
2009	25,390	33,294	140	20
2010	26,510	32,150	146	13
2011	29,275	30,910	127	7
2012	27,365	29,572	65	1
2013 - 2017	148,385	127,774	-	-
2018 - 2022	163,860	87,112	-	-
2023 - 2027	103,690	54,016	-	-
2028 - 2032	90,880	29,569	-	-
2033 - 2037	70,070	8,548	-	-
	<u>\$ 709,645</u>	<u>467,435</u>	<u>922</u>	<u>74</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 \$4,766,048, \$3,883,753, and \$5,327,078 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, street lights, 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	11,914,750	-
Improvements	219,925	-
Infrastructure	6,972,510	-
Machinery and Equipment	1,838,042	3,113,553
Less Accumulated Depreciation, (where applicable)	<u>(1,907,191)</u>	<u>(1,743,574)</u>
Total	<u>\$ 19,553,786</u>	<u>\$ 1,579,979</u>

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.

Established by City Ordinance, LES may borrow up to \$150 million under a commercial paper note program. At December 31, 2006, 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, 2006, was 3.4 percent. The annual requirement to pay interest on this outstanding debt is approximately \$3.0 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, 2007, 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	\$ 133,413,000	100.0 %	\$ 133,413,000
Overlapping:			
School District #1	268,540,000	99.5	267,197,000
Lower Platte South N.R.D.	8,250,000	75.4	6,221,000
Lancaster County	6,850,000	85.4	5,850,000
Public Building Commission	48,660,000	85.4	41,556,000
Lancaster County Fairgrounds	2,275,000	85.4	1,943,000
	<u>334,575,000</u>		<u>322,767,000</u>
Total	\$ <u>467,988,000</u>		\$ <u>456,180,000</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 \$553.20; a per capita direct and overlapping debt of \$1,891.55; a ratio of direct City debt to 2007 actual valuation of .87 percent; and a ratio of direct and overlapping debt to 2007 actual valuation of 2.97 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
2007	\$ 5,617,536	\$ 4,986,687	\$ 10,604,223	\$ 192,566,160	5.51 %
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

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 ² Personal	Ratio Of Net Debt To Assessed Valuation Real & Personal	Assessed Valuation Of Taxable ² Real Property	Ratio Of Net Debt To Estimated Valuation Of Taxable Real Property
2007	133,413,000	\$ 11,574,000	\$ 121,839,000	241,167	\$ 505.21	\$ 15,342,163,788	0.79 %	\$ 14,638,856,501	0.83 %
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

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			Coverage
				Principal	Interest	Total	
<u>Wastewater System</u>							
2007	\$ 20,799,926	11,462,964	9,336,962	2,005,000	3,081,481	5,086,481	1.84
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
<u>Water System</u>							
2007	\$ 27,836,690	14,351,136	13,485,554	5,340,000	3,612,001	8,952,001	1.51
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
<u>Parking Facilities</u> 1, 2							
2007	\$ 6,645,013	2,781,952	3,863,061	1,240,000	746,374	1,986,374	1.94
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
<u>Golf</u>							
2007	\$ 2,926,985	2,463,827	463,158	315,000	65,060	380,060	1.22
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
<u>Solid Waste Management</u>							
2007	\$ 8,020,390	5,079,147	2,941,243	185,000	155,971	340,971	8.63

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. 2007</u>	<u>F.Y. 2006</u>	<u>F.Y. 2005</u>	<u>F.Y. 2004</u>	<u>F.Y. 2003</u>	<u>F.Y. 2002</u>	<u>F.Y. 2001</u>	<u>F.Y. 2000</u>	<u>F.Y. 1999</u>	<u>F.Y. 1998</u>
Cash & Investment Balance - September 1 of Year Indicated	13,475,643	18,948,253	23,521,130	26,784,845	26,589,993	24,802,768	26,814,745	25,069,133	22,742,585	26,542,206
Receipts:										
Property Tax	31,454,763	28,366,526	26,727,618	24,546,532	22,780,085	23,353,414	20,284,364	19,487,198	20,741,154	18,953,860
City Sales & Use Tax	53,960,485	54,270,346	53,781,209	51,869,477	48,657,268	45,393,492	44,486,127	43,608,313	41,642,771	37,479,413
Other Income	<u>27,663,641</u>	<u>25,390,112</u>	<u>25,620,145</u>	<u>23,615,320</u>	<u>24,933,838</u>	<u>26,342,414</u>	<u>21,786,016</u>	<u>21,339,093</u>	<u>19,991,222</u>	<u>19,373,404</u>
Total Receipts	113,078,889	108,026,984	106,128,972	100,031,329	96,371,191	95,089,320	86,556,507	84,434,604	82,375,147	75,806,677
Less Disbursements	<u>111,922,258</u>	<u>113,499,594</u>	<u>110,701,849</u>	<u>103,295,044</u>	<u>96,176,339</u>	<u>93,302,095</u>	<u>88,568,484</u>	<u>82,688,992</u>	<u>80,048,599</u>	<u>79,606,298</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>14,632,274</u>	<u>13,475,643</u>	<u>18,948,253</u>	<u>23,521,130</u>	<u>26,784,845</u>	<u>26,589,993</u>	<u>24,802,768</u>	<u>26,814,745</u>	<u>25,069,133</u>	<u>22,742,585</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. 2007</u>	<u>F.Y. 2006</u>	<u>F.Y. 2005</u>	<u>F.Y. 2004</u>	<u>F.Y. 2003</u>	<u>F.Y. 2002</u>	<u>F.Y. 2001</u>	<u>F.Y. 2000</u>	<u>F.Y. 1999</u>	<u>F.Y. 1998</u>
Cash Balance - September 1 of Year Indicated	2,761,491	3,364,608	3,570,557	2,935,997	3,440,537	3,099,198	3,313,405	3,536,402	3,682,098	4,000,777
Receipts:										
Property Tax	5,460,690	2,973,410	5,607,615	5,387,468	5,883,592	6,340,938	5,814,489	5,843,384	4,475,066	4,461,628
Interest Income	84,935	86,812	83,286	48,595	32,298	53,873	107,693	174,146	145,534	236,658
Bond Proceeds			6,597,635		9,436,083				189,482	
Other Income	<u>1,927,112</u>	<u>2,935,603</u>	<u>149,038</u>	<u>691,340</u>	<u>240,110</u>	<u>232,009</u>	<u>235,736</u>	<u>247,591</u>	<u>54,475</u>	<u>116,996</u>
Total Receipts	<u>7,472,737</u>	<u>5,995,825</u>	<u>12,437,574</u>	<u>6,127,403</u>	<u>15,592,083</u>	<u>6,626,820</u>	<u>6,157,918</u>	<u>6,265,121</u>	<u>4,864,557</u>	<u>4,815,282</u>
Disbursements:										
Bonds Paid	3,950,000	4,250,000	3,850,000	3,215,000	4,177,765	4,137,254	4,052,948	3,973,769	2,725,042	3,304,097
Bonds Defeased					9,609,774					
Interest Paid	2,217,610	2,342,582	2,197,207	2,271,548	2,309,084	2,144,322	2,308,922	2,500,471	1,955,821	1,817,400
Transfer to Trustee			6,504,876						164,400	
Other Disbursements	<u>9,530</u>	<u>6,360</u>	<u>91,440</u>	<u>6,295</u>		<u>3,905</u>	<u>10,255</u>	<u>13,878</u>	<u>164,990</u>	<u>12,464</u>
Total Disbursements	<u>6,177,140</u>	<u>6,598,942</u>	<u>12,643,523</u>	<u>5,492,843</u>	<u>16,096,623</u>	<u>6,285,481</u>	<u>6,372,125</u>	<u>6,488,118</u>	<u>5,010,253</u>	<u>5,133,961</u>
Equity Transfer										
Cash Balance - August 31 of Year Indicated	<u>4,057,088</u>	<u>2,761,491</u>	<u>3,364,608</u>	<u>3,570,557</u>	<u>2,935,997</u>	<u>3,440,537</u>	<u>3,099,198</u>	<u>3,313,405</u>	<u>3,536,402</u>	<u>3,682,098</u>

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

	<u>F.Y. 2007</u>	<u>F.Y. 2006</u>	<u>F.Y. 2005</u>	<u>F.Y. 2004</u>	<u>F.Y. 2003</u>	<u>F.Y. 2002</u>	<u>F.Y. 2001</u>	<u>F.Y. 2000</u>	<u>F.Y. 1999</u>	<u>F.Y. 1998</u>
Cash & Investment Balance - September 1 of Year Indicated	8,846,000	7,583,251	7,830,502	6,910,967	6,586,633	3,778,207	4,964,458	5,003,362	5,357,118	5,130,392
Receipts:										
Special Assessment Collections	1,257,112	1,476,284	1,208,686	1,654,695	1,271,575	1,360,347	1,529,352	1,638,233	1,992,503	1,818,743
Interest on Special Assessments	188,349	189,927	204,108	267,298	346,725	294,839	257,157	310,558	367,309	285,279
City's Share of Costs	187,957	723,038	578,992	116,009	97,107	2,145,574	2,516,175	895,961	2,038,202	
Developers' Share of Costs						4,617	473,445		75,572	685,754
Bond Proceeds										
Interest on Investments	340,274	254,809	217,996	140,289	130,555	137,143	219,536	286,460	241,768	341,581
Miscellaneous	49,403	74,657	30,687	288,482	195,535	474,438	144,005	993,245	244,724	
Total Receipts	<u>2,023,095</u>	<u>2,718,715</u>	<u>2,240,469</u>	<u>2,466,773</u>	<u>2,041,497</u>	<u>4,416,958</u>	<u>5,139,670</u>	<u>4,124,457</u>	<u>4,960,078</u>	<u>3,131,357</u>
Disbursements:										
Construction Costs	766,768	1,066,513	1,796,239	1,399,323	1,560,456	1,090,434	3,646,025	2,338,999	2,333,433	1,637,987
Bonds Paid	55,000		100,000	105,000	105,000	110,000	270,000	770,000	785,000	1,105,000
SID Warrants										
Interest Paid on Bonds & Notes	37,581		3,425	10,420	17,534	24,762	39,438	67,293	110,155	167,055
Other Refunds & Expenses	18,693	389,453	588,056	32,495	34,173	383,336	2,370,458	987,069	2,085,246	14,589
Total Disbursements	<u>878,042</u>	<u>1,455,966</u>	<u>2,487,720</u>	<u>1,547,238</u>	<u>1,717,163</u>	<u>1,608,532</u>	<u>6,325,921</u>	<u>4,163,361</u>	<u>5,313,834</u>	<u>2,924,631</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>9,991,053</u>	<u>8,846,000</u>	<u>7,583,251</u>	<u>7,830,502</u>	<u>6,910,967</u>	<u>6,586,633</u>	<u>3,778,207</u>	<u>4,964,458</u>	<u>5,003,362</u>	<u>5,357,118</u>

[This page intentionally left blank.]

APPENDIX B

**FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR
ENDED AUGUST 31, 2007, TOGETHER WITH AUDITORS' REPORT THEREON**

[This page intentionally left blank.]

INTRODUCTORY SECTION

[This page intentionally left blank.]

OFFICIALS OF THE CITY OF LINCOLN

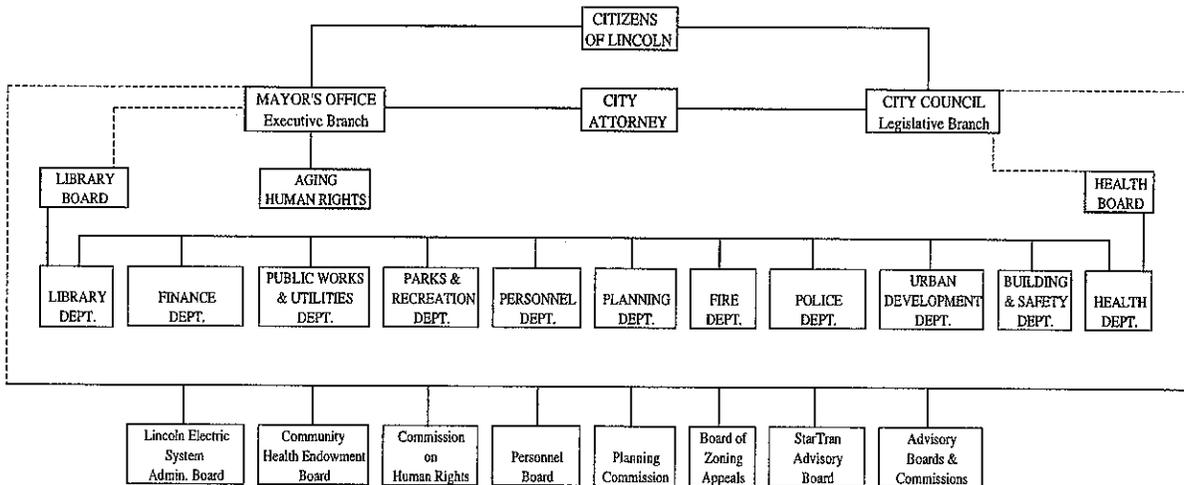
Chris Beutler.....Mayor
 Dan Marvin.....Chair, City Council
 Robin Eschliman Vice Chair, City Council
 Jon Camp.....Council Member
 Jonathan Cook.....Council Member
 Doug EmeryCouncil Member
 John SpatzCouncil Member
 Ken SvobodaCouncil Member

* * * * *

Don Herz Finance Director
 Marvin Krout.....Planning Director
 Lynn JohnsonParks and Recreation Director
 Terry Bundy Lincoln Electric System Administrator
 David Landis Urban Development Director
 Carol Connor.....Library Director
 Greg MacLean.....Public Works/Utilities Director
 Mike Merwick.....Building and Safety Director
 Bruce Dart.....Health Director
 Don Taute.....Personnel Director
 Dana Roper.....City Attorney
 Thomas Casady Police Chief
 Niles Ford.....Fire Chief

* * * * *

CITY OF LINCOLN ORGANIZATION CHART



**CITY OF LINCOLN, NEBRASKA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED AUGUST 31, 2007
 TABLE OF CONTENTS**

INTRODUCTORY SECTION

Page

Title Page	i
Officials of The City of Lincoln.....	i
City of Lincoln Organization Chart	i
Table of Contents.....	ii
Letter of Transmittal from the Mayor	vi
Letter of Transmittal from the Finance Director.....	vii
Certificate of Achievement for Excellence in Financial Reporting.....	xiv

FINANCIAL SECTION

Independent Accountants' Report on Financial Statements and Supplementary Information.....	2
Management's Discussion and Analysis.....	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	16
Statement of Activities.....	17
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	18
Statement of Revenues, Expenditures, and Changes in Fund Balances	
– Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in	
Fund Balances of Governmental Funds to the Statement of Activities.....	20
Statement of Revenues, Expenditures, and Changes in Fund Balances	
– Budget and Actual (Budget Basis) – General Fund.....	21
Statement of Revenues, Expenditures, and Changes in Fund Balances	
– Budget and Actual (Budget Basis) – Street Construction Fund.....	23
Statement of Revenues, Expenditures, and Changes in Fund Balances	
– Budget and Actual (Budget Basis) – Federal Grants Fund.....	24
Statement of Net Assets – Proprietary Funds	26
Statement of Revenues, Expenses, and Changes in Fund Net Assets	
– Proprietary Funds	27
Statement of Cash Flows – Proprietary Funds	28
Statement of Fiduciary Net Assets – Fiduciary Funds.....	29
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund	30
Notes to the Financial Statements:	<u>Note</u>
Summary of Significant Accounting Policies	1..... 32
Reconciliation of Government-wide and Fund Financial Statements	2..... 39
Restricted Assets.....	3..... 41
Deposits and Investments.....	4..... 41
Receivables.....	5..... 46
Due From Other Governments.....	6..... 46
Capital Assets	7..... 47
Interfund Balances and Activity	8..... 50
Long-Term Debt	9..... 51
Reconciliation of Budget Basis to GAAP.....	10..... 55
Deficit Net Assets	11..... 56
Excesses of Expenditures Over Appropriations.....	12..... 56
Employees' Retirement Plans.....	13..... 56
Property Taxes.....	14..... 58
Risk Management	15..... 59

	<u>Note</u>	<u>Page</u>
Commitments and Contingencies	16.....	60
Landfill Closure and Postclosure Care Costs.....	17.....	62
Segment Information	18.....	62
Fair Value of Financial Instruments.....	19.....	63
Public Building Commission	20.....	64
Joint Antelope Valley Authority	21.....	64
Jointly Governed Organizations.....	22.....	65
Required Supplementary Information:		
Schedule of Funding Progress		66
Schedule of Employer Contributions.....		66
Combining and Individual Fund Statements and Schedules:		
Governmental Funds:		
Combined Balance Sheet – Nonmajor Governmental Funds		69
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances		
– Nonmajor Governmental Funds.....		70
Subcombining Balance Sheet – Nonmajor Special Revenue Funds.....		74
Subcombining Statement of Revenues, Expenditures, and Changes in Fund Balances		
– Nonmajor Special Revenue Funds.....		76
Subcombining Balance Sheet – Nonmajor Debt Service Funds.....		80
Subcombining Statement of Revenues, Expenditures, and Changes in Fund Balances		
– Nonmajor Debt Service Funds.....		81
Subcombining Balance Sheet – Nonmajor Capital Projects Funds		84
Subcombining Statement of Revenues, Expenditures, and Changes in Fund Balances		
– Nonmajor Capital Projects Funds		86
Subcombining Balance Sheet – Nonmajor Permanent Funds.....		90
Subcombining Statement of Revenues, Expenditures, and Changes in Fund Balances		
– Nonmajor Permanent Funds.....		91
Schedules of Revenues, Expenditures, and Changes in Fund Balances		
– Budget and Actual (Budget Basis):		
Athletic Field & Facilities Improvement Fund.....		93
Cable Access Television Fund		94
Lincoln City Libraries Fund.....		95
Lincoln Area Agency on Aging Fund.....		96
Lincoln/Lancaster County Health Fund.....		97
Snow Removal Fund		98
911 Communication Fund		99
Social Security Fund.....		100
StarTran Fund.....		101
Unemployment Compensation Fund.....		102
Keno Fund.....		103
Building & Safety Fund.....		104
Library Special Trust Fund.....		105
Tax Allocation Projects Debt Service Fund		106
Bond Interest & Redemption Debt Service Fund.....		107
Tax Supported Bonds Debt Service Fund.....		108
Community Health Permanent Endowment Fund		109
Proprietary Funds:		
Combining Statement of Net Assets – Nonmajor Enterprise Funds.....		112
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets		
– Nonmajor Enterprise Funds		113
Combining Statement of Cash Flows – Nonmajor Enterprise Funds		114
Combining Statement of Net Assets – Internal Service Funds.....		116
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets		
– Internal Service Funds		118
Combining Statement of Cash Flows – Internal Service Funds.....		120
Agency Funds:		
Combining Balance Sheet – Agency Funds		124
Combining Statement of Changes in Assets and Liabilities – Agency Funds.....		126

STATISTICAL SECTION

	Table	Page
Net Assets by Component	1	131
Changes in Net Assets	2	132
Fund Balances of Governmental Funds	3	134
Changes in Fund Balances of Governmental Funds	4	136
Lincoln Electric System Megawatt-Hour Sales.....	5	138
Revenue from Electrical Sales by Customer Type.....	6	139
Total City Taxable Sales	7	140
Sales Tax Rates	8	141
Net Taxable Sales by Business Classification	9	142
Assessed Value and Actual Value of Taxable Property	10	143
Property Tax Rates	11	144
Principal Property Taxpayers	12	145
Property Tax Levies and Collections	13	147
Ratios of Outstanding Debt by Type	14	148
Ratios of General Bonded Debt Outstanding.....	15	150
Direct and Overlapping Governmental Activities Debt.....	16	151
Pledged Revenue Coverage.....	17	152
Demographic and Economic Statistics	18	154
Principal Employers	19	155
Full-Time Equivalent City Government Employees by Function.....	20	156
Operating Indicators by Function.....	21	157
Capital Asset Statistics by Function.....	22	158

SINGLE AUDIT SECTION

Schedule of Expenditures of Federal Awards.....	160
Notes to Schedule of Expenditures of Federal Awards	165
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	166
Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs.....	168
Schedule of Findings and Questioned Costs	170
Summary Schedule of Prior Audit Findings.....	173





CITY OF LINCOLN
NEBRASKA

MAYOR CHRIS BEUTLER

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

February 1, 2008

Dear Citizens and Public Officials:

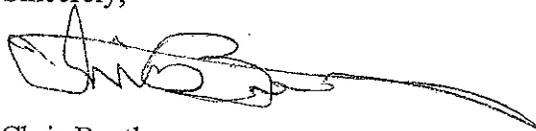
It is my pleasure to submit the City of Lincoln's Comprehensive Annual Financial Report for the fiscal year ended August 31, 2007.

This report is an essential part of our efforts to provide accurate financial reporting to ensure both fiscal and operational accountability in our use of public resources. It provides a complete picture of the City's financial status and is an excellent means of meeting our continuing disclosure responsibilities in accordance with governmental reporting standards.

Our ability to manage the City's fiscal affairs and provide a full disclosure of the City's fiscal condition is exhibited by the unqualified audit opinion that follows. I am proud to report that the 2006 report submitted to the Government Finance Officers Association was recognized with the prestigious Certificate of Achievement for Excellence in Financial Reporting for the twenty-fourth consecutive year. This recognition is a credit to the City and a compliment to our dedicated Finance Department.

I would like to thank the Finance Department employees for their commitment in dealing with these complex accounting issues and to all City departments for their cooperation in the preparation of this document.

Sincerely,



Chris Beutler
Mayor of Lincoln

February 01, 2008

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, 2007, 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, 2007, 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, 2007, 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 241,000, 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, Parking Facilities, 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.

Lincoln's unemployment rate at August 31, 2007 was 2.7%, well below the national average of 4.6%, with employment strongest in the categories of government, educational & health services, and retail trade. Lincoln's current number of construction permits is down 14% when compared to levels 5 years ago, with a corresponding decrease in the value of construction permits of over \$11 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.

Net sales and use tax revenue increased \$14,826 or .027% from the previous fiscal year. This primary revenue source has been impacted by negative economic factors that have affected the local and national economies. A slight narrowing of the sales tax base by the State legislature also contributed to the slow growth in tax collections.

Long-Term Planning And Major Initiatives

Urban Development

The City anticipates approximately \$10 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, 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 Tax Increment Financing (TIF), CDBG, HOME, Economic Development Initiative and Nebraska Affordable Housing Trust Fund grants, 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) Implementation of the Catalyst One project.
 - 2) Redevelopment of former Douglas III theater site.
 - 3) Redevelopment of the West Haymarket project area.
- ◆ North 27th Street redevelopment will consist of the pedestrian trail bridge at X Street.
- ◆ Implementation of selected Antelope Valley Redevelopment Plan catalyst projects.
- ◆ Havelock Redevelopment on-going projects include streetscape improvements, park improvements and public parking lot improvements.
- ◆ University Place will see the redevelopment of the former Green's Plumbing site.
- ◆ West O Street redevelopment projects.
- ◆ 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) Partner with NeighborWorks-Lincoln for their Home Ownership Zone in Antelope Valley and other initiatives in low-to-moderate income neighborhoods.
 - 3) Complete the final phase 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 housing organizations.
 - 5) Resolve the disposition of expiring tax credit rental housing projects.
- ◆ Housing Rehabilitation and Real Estate Division projects also include:
 - 1) Planning and negotiation for acquisition of park sites city-wide.
 - 2) Major acquisition and negotiation projects –
 - ✓ Antelope Valley storm water management and transportation projects.
 - ✓ Antelope Valley redevelopment plan catalyst projects.
 - ✓ West Haymarket area redevelopment.
 - ✓ Upper Beal Sough relief trunk sewer.
 - ✓ Mopac Trail bridge.
 - ✓ Arbor Road water main, 56th to 70th.
 - ✓ Stevens Creek sanitary sewer.
 - ✓ Special assessment, executive order, and arterial rehab projects.
 - ✓ 56th & Elkcrest safety project.
 - ✓ Harris Overpass.
 - ✓ Pine Lake Road, 84th to 98th Street.
 - ✓ Lincoln Water System Greenwood transmission main.
 - ✓ 98th Street, Yankee Hill Road to Old Cheney.
 - ✓ Alvo Road, NW 20th to 1st Street.
 - ✓ NW 56th, Adams to Partridge.
 - ✓ West Adams, NW 63rd to 48th Street.
 - ✓ East Adams widening and water main, 75th to 94th Street.
 - ✓ Miscellaneous projects in Public Works & Utilities 6-year CIP program.
 - 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 redevelopment plan catalyst projects and West Haymarket Area redevelopment.
- ◆ Neighborhood Revitalization Focus Area project is located in the Hartley neighborhood.
- ◆ 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. This Plan serves as the funding document for receipt of Federal WIA funds, which totaled approximately \$1 million in 2007.

Workforce Investment Act services will continue to be provided from the One Stop Career Center, located in downtown Lincoln. It is anticipated that 20,000+ individuals and 500 employers will use One Stop Services. Workforce services are available directly from Urban Development, Operation ABLE, Nebraska Workforce Development, Goodwill, Vocational Rehabilitation and Experience Works staff members.

WIA funds will continue to be used to improve the employment skills of low-income adults and youth, and to assist individuals laid off from area employers (such as Quebecor and Windstream) to re-enter the labor force. WIA funds will be used to assist these individuals to improve basic skills, complete secondary and post-secondary education, gain work experience, and to obtain and retain employment.

A direct mailing to 28,000+ households in the Area of Substantial Unemployment in the city will be made informing them about the services available from the One Stop Career Center. WIA Youth Program will participate in a job fair for disadvantaged youth in partnership with Iota Phi Theta Fraternity, UN-L Chapter. The One Stop will continue to assist employers (such as Verizon, Farmland, ASI, and Scott Project) with on-site recruiting.

West Haymarket Project

The West Haymarket Redevelopment Project encompasses an area of approximately 150 acres on the western edge of Downtown Lincoln. The project's program statement generally calls for the construction of a 15,000 seat civic arena, a 350-room hotel, and a 120,000 square foot convention center. The project may also include office space, retail businesses, surface and decked parking, and residential units. Supporting infrastructure in the form of roads, bridge crossings, pedestrian walkways, trails, and public open spaces are also planned. The overall project cost is projected to be in the range of \$350 – \$400 million with funding coming from both private and public sources. Private funding will be in the form of developer capital and community donations. Public revenues will be drawn from a wide variety of sources including tax increment financing, arena generated funds, lodging fees, occupation taxes, and other miscellaneous fees.

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 2011. Redevelopment projects have begun and will progress as flood control work is completed. The channel work needed for re-mapping of the floodplain will be done in 2009.

Projects completed include Fleming Field; Military, Y Street, and Vine Street Bridges and Roadways; the BNSF overpass near Devaney Center; channel work between Salt Creek and Y Street; the BNSF railroad bridge project over Antelope Creek; landscaping work on the Military, Y Street, Vine Street roadway projects and on the BNSF overpass project; and the P and Q Street Bridges and Roadways.

The Corps of Engineers also completed most of the channel work between Y Street and Vine Street in 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 started in the fall of 2007.

The entire project is projected to cost \$238 million. By the end of 2008, it is expected that nearly 85% 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 \$85,814,000 over the 6-year period of fiscal year 2007-08 through fiscal year 2012-13. Of that total, approximately \$75,019,000 will be financed by revenue bonds, approximately \$3,745,000 will be financed by impact fees, \$3,220,000 from TIF funding, approximately \$887,000 will come from developer contributions, with the remaining \$2,943,000 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 \$106,865,000 over the 6-year period of fiscal year 2007-08 through 2012-13. Of these dollars, approximately \$56,367,000 will be financed through revenue bonds, approximately \$2,800,000 will be financed from TIF funding, approximately \$7,560,000 will be financed through impact fees, with the balance of \$40,138,000 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 2008-2013 Streets and Highways capital improvements program and Transportation improvement program identify average annual expenditures of over \$34.6 million for the next six years. Funding for these projects includes \$123 million in City revenues, \$49 million in federal aid, and \$36 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, 2007, current tax collections by the County Treasurer were 96.26% of the tax levy, a decrease of .57% from last year. Allocations of property tax levy by purpose are as follows:

<u>City Tax Levy By Purpose</u>	<u>2006-2007</u>	<u>2005-2006</u>	<u>2004-2005</u>
General Fund	.1687	.1955	.1706
Library	.0427	.0488	.0490
Social Security	.0135	.0139	.0149
Police and Fire Pension	.0208	.0219	.0182
General Obligation Debt	<u>.0376</u>	<u>.0208</u>	<u>.0423</u>
	<u>.2833</u>	<u>.3009</u>	<u>.2950</u>

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>2006-2007</u>	<u>2005-2006</u>
Operating Revenue	\$ 6,264,527	6,532,352
Operating Income Before Depreciation	3,482,575	3,757,230
Debt Service	1,998,056	1,998,056
Debt Service Coverage Ratio	1.74	1.88

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, 2007, the City estimates that it will incur costs approximating \$16 million to adhere to such requirements (see Note 17 of Notes to the Financial Statements).

Water And Wastewater System

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

<u>Wastewater System</u>	<u>2006-2007</u>	<u>2005-2006</u>
Operating Revenue	\$19,402,047	17,997,650
Operating Income	1,846,825	1,030,996
Revenue Available For Debt Service	9,336,962	8,179,646
Debt Service	5,086,481	5,108,500
Debt Service Coverage Ratio	1.84	1.60

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

<u>Water System</u>	<u>2006-2007</u>	<u>2005-2006</u>
Operating Revenue	\$25,249,632	25,599,610
Operating Income	4,174,059	5,392,459
Revenue Available For Debt Service	13,485,554	13,489,164
Debt Service	8,952,001	8,964,301
Debt Service Coverage Ratio	1.51	1.50

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, 2006, is included in the City's August 31, 2007, 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, 2006. This was the twenty-fourth 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, 2006

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.



Oliver S. Cox

President

Jeffrey R. Emer

Executive Director



[This page intentionally left blank.]

FINANCIAL SECTION



Independent Accountants' Report on Financial Statements and Supplementary Information

The Honorable Mayor
and Members of 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, 2007, 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 56%, 30%, and 73%, 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 has been derived from the City's basic financial statements as of and for the year ended August 31, 2006, and in our report dated December 29, 2006, we express 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, 2007, 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.

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

February 1, 2008



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	916,864,760	836,954,224	1,531,945,610	1,516,436,734	2,448,810,370	2,353,390,958
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	210,254,354	165,068,430	865,682,302	868,248,956	1,075,936,656	1,033,317,386
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	\$ 706,610,406	671,885,794	666,263,308	648,187,778	1,372,873,714	1,320,073,572

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

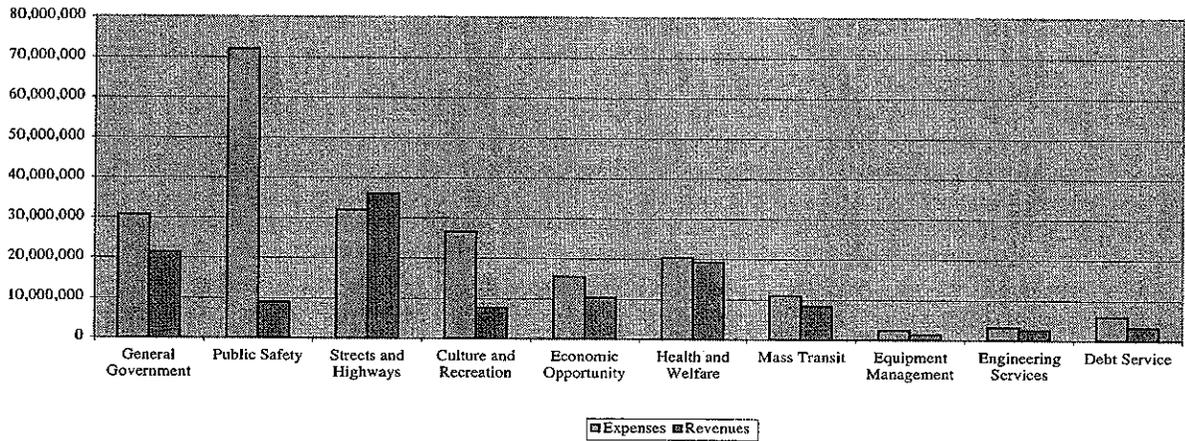
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for Services	\$ 44,445,675	40,715,491	269,038,960	250,844,120	313,484,635	291,559,611
Operating Grants and Contributions	56,089,320	45,068,631	141,346	-	56,230,666	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	252,185,342	237,405,436	292,357,771	270,634,795	544,543,113	508,040,231
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	219,214,415	211,075,212	272,528,556	258,822,843	491,742,971	469,898,055
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	\$ 706,610,406	671,885,794	666,263,308	648,187,778	1,372,873,714	1,320,073,572

GOVERNMENTAL ACTIVITIES

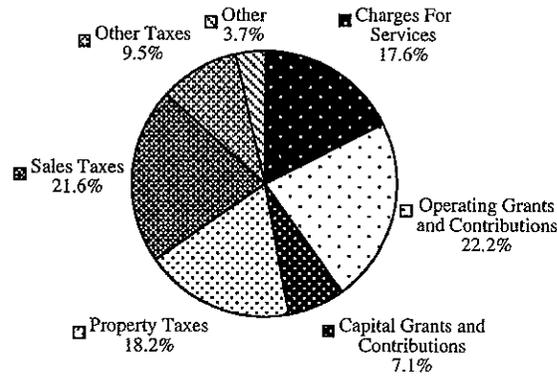
Governmental activities increased the City's net assets by \$34,724,612, accounting for 66 percent of the total growth in the net assets of the City of Lincoln. Key elements of this increase are as follows:

- 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

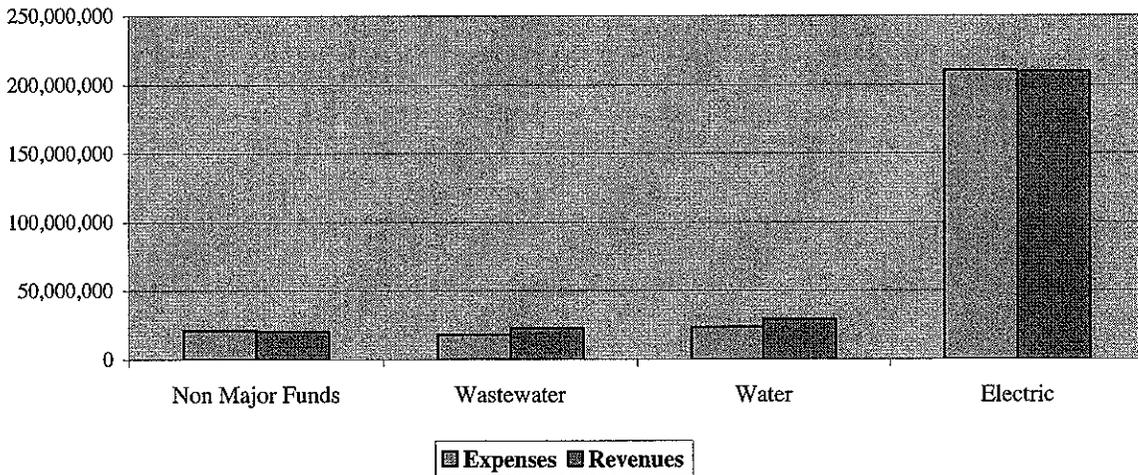
Business-type activities increased the City's net assets by \$18,075,530, accounting for 35 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

- 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.

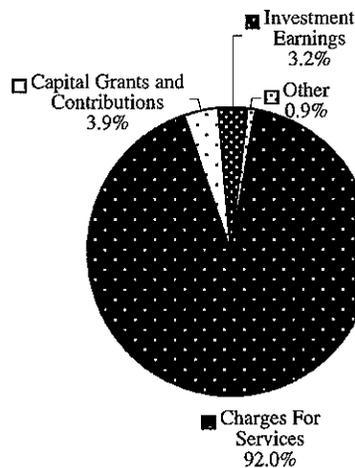
Revenues increased by approximately \$16 million (8.5 percent) for the Electric System in 2006 primarily due to a 4.5 percent rate increase effective April 2006 and a 9 percent rate increase effective August 2005.

- 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 <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 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.

BASIC FINANCIAL STATEMENTS

CITY OF LINCOLN, NEBRASKA
STATEMENT OF NET ASSETS
AUGUST 31, 2007
With Summarized Financial Information as of August 31, 2006

	Governmental Activities	Business-Type Activities	Totals	
			2007	2006
ASSETS				
Cash and Cash Equivalents	\$ 37,167,340	28,618,690	65,786,030	35,118,941
Investments	121,136,752	12,949,429	134,086,181	134,948,947
Invested Securities Lending Collateral	4,749,143	-	4,749,143	3,870,941
Receivables, (Net of Allowance for Uncollectibles)	31,503,723	32,975,800	64,479,523	61,789,296
Internal Balances	(5,150,473)	5,150,473	-	-
Due from Other Governments	25,679,459	4,349	25,683,808	27,366,044
Inventories	1,876,355	13,862,250	15,738,605	12,213,961
Plant Operation Assets	-	6,383,000	6,383,000	4,886,000
Prepaid Items	731,946	835,697	1,567,643	2,304,501
Deferred Charges and Other Assets	1,304,055	12,560,341	13,864,396	13,372,967
Restricted Assets:				
Cash and Cash Equivalents	-	32,404,264	32,404,264	1,107,660
Investments	37,160,000	89,470,620	126,630,620	200,278,948
Receivables	-	747,234	747,234	604,445
Investment in Joint Venture	95,645,067	-	95,645,067	87,141,756
Capital Assets:				
Non-depreciable	150,771,566	244,904,393	395,675,959	354,705,514
Depreciable (Net)	414,289,827	1,051,079,070	1,465,368,897	1,413,681,037
Total Assets	916,864,760	1,531,945,610	2,448,810,370	2,353,390,958
LIABILITIES				
Accounts Payable	6,812,768	26,053,052	32,865,820	38,505,797
Accrued Liabilities	4,155,467	11,018,302	15,173,769	12,946,178
Due to Other Governments	1,362,075	135,029	1,497,104	409,476
Unearned Revenue	2,134,983	924,867	3,059,850	2,647,493
Obligations under Securities Lending	4,749,143	-	4,749,143	3,870,941
Other Liabilities	-	6,844,000	6,844,000	6,714,000
Commercial Paper Notes Payable	-	90,000,000	90,000,000	90,000,000
Matured Bonds and Interest Payable	-	-	-	104,249
Accrued Interest Payable	1,650,460	10,185,656	11,836,116	10,748,272
Noncurrent Liabilities:				
Compensated Absences:				
Payable within One Year	6,373,544	891,769	7,265,313	6,725,981
Payable in More Than One Year	5,257,577	582,052	5,839,629	3,898,697
Claims and Judgements:				
Payable within One Year	4,051,875	-	4,051,875	2,746,099
Payable in More Than One Year	2,303,631	-	2,303,631	3,165,285
Bonds, Notes and Leases Payable:				
Due within One Year	8,543,258	24,664,469	33,207,727	26,995,375
Due in More Than One Year	158,878,797	685,433,106	844,311,903	811,878,160
Net Pension Obligation	3,980,776	-	3,980,776	3,570,383
Accrued Landfill Closure/Postclosure Care Costs	-	8,950,000	8,950,000	8,391,000
Total Liabilities	210,254,354	865,682,302	1,075,936,656	1,033,317,386
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	433,488,477	658,947,439	1,092,435,916	1,043,912,151
Restricted for:				
Debt Service, Net of Related Debt	7,166,128	22,756,351	29,922,479	27,879,990
Capital Projects	136,250,781	3,920,317	140,171,098	124,299,751
Grantor Loan Programs	19,143,000	-	19,143,000	17,497,000
Other	654,710	92,890	747,600	732,655
Trust Donations:				
Expendable	1,910,741	-	1,910,741	1,749,588
Nonexpendable	160,000	-	160,000	160,000
Health Care:				
Expendable	13,078,901	-	13,078,901	8,962,236
Nonexpendable	37,000,000	-	37,000,000	37,000,000
Unrestricted (Deficit)	57,757,668	(19,453,689)	38,303,979	57,880,201
Total Net Assets	\$ 706,610,406	666,263,308	1,372,873,714	1,320,073,572

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, 2007
With Summarized Financial Information for the Year Ended August 31, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and		Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals	
							2007	2006
Governmental Activities:								
General Government	\$ (30,681,069)	19,617,633	1,395,767	335,254	(9,332,415)	-	(9,332,415)	(13,062,683)
Public Safety	(71,999,597)	5,490,790	3,249,163	224,212	(63,035,432)	-	(63,035,432)	(59,818,823)
Streets and Highways	(31,953,438)	6,105,933	16,223,950	13,727,190	4,103,635	-	4,103,635	9,669,657
Culture and Recreation	(26,528,155)	3,485,195	1,888,443	2,185,481	(18,969,036)	-	(18,969,036)	(17,188,145)
Economic Opportunity	(15,486,850)	809,767	9,392,662	55,289	(5,229,132)	-	(5,229,132)	(5,773,555)
Health and Welfare	(20,335,733)	3,554,840	15,646,927	-	(1,133,966)	-	(1,133,966)	(6,403,015)
Mass Transit	(10,891,704)	1,525,089	6,772,408	-	(2,594,207)	-	(2,594,207)	(6,328,405)
Equipment Management	(2,363,486)	1,264,810	-	-	(1,098,676)	-	(1,098,676)	(92,656)
Engineering Services	(3,148,005)	2,287,906	-	169,807	(690,292)	-	(690,292)	(328,452)
Interest on Long-Term Debt	(5,826,378)	303,712	1,520,000	1,293,418	(2,709,248)	-	(2,709,248)	(1,445,764)
Total Governmental Activities	(219,214,415)	44,445,675	56,089,320	17,990,651	(100,688,769)	-	(100,688,769)	(100,771,841)
Business-Type Activities:								
Parking Lots	(217,915)	216,723	-	-	-	(1,192)	(1,192)	14,228
Golf	(3,167,880)	2,903,859	-	-	-	(264,021)	(264,021)	(181,506)
Parking Facilities	(4,616,046)	6,264,615	-	-	-	1,648,569	1,648,569	1,878,217
Municipal Auditorium	(2,274,043)	1,620,807	-	-	-	(653,236)	(653,236)	(469,564)
Solid Waste Management	(6,835,512)	5,202,465	-	-	-	(1,633,047)	(1,633,047)	(2,017,782)
Emergency Medical Services	(3,679,318)	3,764,181	-	-	-	84,863	84,863	(503,833)
Wastewater System	(18,230,853)	19,379,833	141,346	3,047,677	-	4,338,003	4,338,003	5,493,657
Water System	(23,544,989)	25,159,477	-	3,420,280	-	5,034,768	5,034,768	8,282,208
Electric System	(209,962,000)	204,527,000	-	4,892,000	-	(543,000)	(543,000)	(9,382,000)
Total Business-Type Activities	(272,528,556)	269,038,960	141,346	11,359,957	-	8,011,707	8,011,707	3,113,625
Total Primary Government	\$ (491,742,971)	313,484,635	56,230,666	29,350,608	(100,688,769)	8,011,707	(92,677,062)	(97,658,216)
General Revenues:								
Property Tax					45,981,349	-	45,981,349	43,081,366
Motor Vehicle Tax					4,298,290	-	4,298,290	4,249,847
Wheel Tax					10,059,772	-	10,059,772	9,250,300
Sales and Use Tax					54,363,413	-	54,363,413	54,348,587
Sundry and In Lieu Tax					37,235	-	37,235	35,020
Occupation Tax					9,534,401	2,195,132	11,729,533	11,458,226
Unrestricted Grants and Contributions					1,573,535	-	1,573,535	1,589,033
Unrestricted Investment Earnings					6,355,562	9,333,779	15,689,341	9,838,458
Miscellaneous General Revenues					907,513	176,226	1,083,739	1,277,957
Gain on Sale of Capital Assets					548,626	112,371	660,997	671,598
Transfers					1,753,685	(1,753,685)	-	-
Total General Revenues and Transfers					135,413,381	10,063,823	145,477,204	135,800,392
Change in Net Assets					34,724,612	18,075,530	52,800,142	38,142,176
Net Assets - Beginning					671,885,794	648,187,778	1,320,073,572	1,281,931,396
Net Assets - Ending					\$ 706,610,406	666,263,308	1,372,873,714	1,320,073,572

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

CITY OF LINCOLN, NEBRASKA
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2007

	General Fund	Street Construction Fund	Federal Grants Fund	Other Governmental Funds	Total
ASSETS					
Cash and Cash Equivalents	\$ 4,073,318	7,613,078	-	21,257,578	32,943,974
Investments	10,432,332	28,083,624	-	104,217,711	142,733,667
Invested Securities Lending Collateral	-	-	-	4,749,143	4,749,143
Receivables, (Net of Allowance for Uncollectibles)	4,915,768	348,605	19,205,301	6,394,506	30,864,180
Due from Other Funds	3,507,480	10,509,125	-	5,989,879	20,006,484
Due from Other Governments	10,045,198	10,953,020	2,650,280	1,863,028	25,511,526
Inventories	531,436	59,243	-	682,250	1,272,929
Prepaid Items	13,563,230	-	-	-	13,563,230
Total Assets	<u>47,068,762</u>	<u>57,566,695</u>	<u>21,855,581</u>	<u>145,154,095</u>	<u>271,645,133</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	733,331	2,293,848	556,599	1,470,253	5,054,031
Contracts Payable	-	700,299	-	645,272	1,345,571
Accrued Liabilities	1,499,237	70,149	225,610	1,212,191	3,007,187
Due to Other Funds	12,767,058	6,083	1,113,479	12,720,079	26,606,699
Due to Other Governments	241,159	66	712,592	104,006	1,057,823
Unearned Revenue	-	-	-	1,539,924	1,539,924
Obligations under Securities Lending	-	-	-	4,749,143	4,749,143
Deferred Revenue	1,415,273	7,978,533	688,759	3,273,992	13,356,557
Total Liabilities	<u>16,656,058</u>	<u>11,048,978</u>	<u>3,297,039</u>	<u>25,714,860</u>	<u>56,716,935</u>
Fund Balances:					
Reserved for:					
Inventories	531,436	59,243	-	682,250	1,272,929
Prepaid Items	417,321	-	-	-	417,321
Improvements	1,593,303	-	-	8,500	1,601,803
Grantor Loan Programs	-	-	19,143,000	-	19,143,000
Restricted Funds	654,710	-	-	-	654,710
Debt Service	-	-	-	13,976,879	13,976,879
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	379,035	-	-	-	379,035
Designated for Subsequent Years Expenditures	3,079,398	-	-	-	3,079,398
Designated for Encumbrances	569,068	-	-	-	569,068
Undesignated (Deficit)	23,188,433	-	-	-	23,188,433
Special Revenue Funds:					
Designated for Subsequent Years Expenditures	-	9,309	-	965,028	974,337
Designated for Encumbrances	-	21,659,898	-	1,562,246	23,222,144
Undesignated (Deficit)	-	24,789,267	(584,458)	16,967,143	41,171,952
Debt Service Funds	-	-	-	9,933,914	9,933,914
Capital Projects Funds:					
Designated for Encumbrances	-	-	-	2,750,856	2,750,856
Undesignated	-	-	-	21,823,160	21,823,160
Permanent Funds	-	-	-	13,609,259	13,609,259
Total Fund Balances	<u>30,412,704</u>	<u>46,517,717</u>	<u>18,558,542</u>	<u>119,439,235</u>	<u>214,928,198</u>
Total Liabilities and Fund Balances	<u>\$ 47,068,762</u>	<u>57,566,695</u>	<u>21,855,581</u>	<u>145,154,095</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.	541,733,317
Investment in joint venture is not a financial resource and, therefore, not reported in the funds.	95,645,067
Other long-term assets are not available to pay for current-period expenditures and, therefore, deferred in the funds.	13,356,557
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.	23,993,386
Accrued pension contribution, special termination and other liabilities require the use of unavailable financial resources and, therefore, are not reported in the funds.	(1,118,613)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds.	(181,927,506)
Net assets of governmental activities	<u>\$ 706,610,406</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, 2007

	General Fund	Street Construction Fund	Federal Grants Fund	Other Governmental Funds	Total
REVENUES					
Taxes:					
Property	\$ 26,854,114	-	-	19,149,605	46,003,719
Motor Vehicle	4,298,290	-	-	-	4,298,290
Wheel	-	-	-	10,059,772	10,059,772
Sales and Use	54,363,413	-	-	-	54,363,413
Sundry and In Lieu	25,353	-	-	9,762	35,115
Occupation	9,054,831	-	-	-	9,054,831
Special Assessment	2,306	-	-	1,510,942	1,513,248
Intergovernmental	2,963,083	25,885,965	21,357,361	13,721,634	63,928,043
Permits and Fees	3,825,854	4,250,783	699,354	10,350,248	19,126,239
Reimbursement for Services	5,220,138	2,971	402,255	865,748	6,491,112
Program Income	-	-	34,155	-	34,155
Investment Earnings	873,087	1,086,774	31,579	8,380,125	10,371,565
Donations	645,793	-	79,058	222,588	947,439
Keno Proceeds	-	-	-	2,798,262	2,798,262
Miscellaneous	750,263	1,235,062	78,143	1,208,783	3,272,251
Total Revenues	<u>108,876,525</u>	<u>32,461,555</u>	<u>22,681,905</u>	<u>68,277,469</u>	<u>232,297,454</u>
EXPENDITURES					
Current:					
General Government	26,576,545	-	188,584	7,181,129	33,946,258
Public Safety	48,515,282	-	4,003,174	8,435,195	60,953,651
Streets and Highways	8,452,096	6,165,985	1,554	2,810,817	17,430,452
Culture and Recreation	11,145,161	-	2,116,924	8,457,459	21,719,544
Economic Opportunity	218,570	-	7,103,364	4,348,381	11,670,315
Health and Welfare	301,318	-	8,655,745	11,421,800	20,378,863
Mass Transit	-	-	146,138	14,731,219	14,877,357
Debt Service	80,112	-	-	11,509,608	11,589,720
Capital Outlay	-	30,970,732	-	13,985,222	44,955,954
Total Expenditures	<u>95,289,084</u>	<u>37,136,717</u>	<u>22,215,483</u>	<u>82,880,830</u>	<u>237,522,114</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>13,587,441</u>	<u>(4,675,162)</u>	<u>466,422</u>	<u>(14,603,361)</u>	<u>(5,224,660)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	3,305,338	10,911,613	516,849	27,938,872	42,672,672
Transfers Out	(21,337,665)	(4,650,376)	(556)	(14,654,706)	(40,643,303)
Issuance of Debt	5,500,000	27,000,000	-	12,088,425	44,588,425
Premium on Debt Issued	5,091	267,331	-	212,389	484,811
Discount on Debt Issued	-	-	-	(5,255)	(5,255)
Sale of Capital Assets	60,461	-	-	222,675	283,136
Total Other Financing Sources (Uses)	<u>(12,466,775)</u>	<u>33,528,568</u>	<u>516,293</u>	<u>25,802,400</u>	<u>47,380,486</u>
Net Change in Fund Balances	1,120,666	28,853,406	982,715	11,199,039	42,155,826
Fund Balances - Beginning	<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>
Fund Balances - Ending	<u>\$ 30,412,704</u>	<u>46,517,717</u>	<u>18,558,542</u>	<u>119,439,235</u>	<u>214,928,198</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, 2007

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

Net change in fund balances - total governmental funds	\$ 42,155,826
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.	19,497,770
The net effect of various miscellaneous transactions involving capital contributions is to increase net assets.	5,935,163
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,307,685)
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.	(38,089,050)
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.	(3,941,807)
Changes in the net pension asset/obligation do not represent financial activity in governmental funds.	(410,393)
Changes in the interest in the underlying net assets of the joint venture do not represent financial activity in governmental funds.	8,503,311
Some pension contribution expenses require the use of unavailable financial resources and, therefore, are not reported as expenditures in governmental funds.	1,285
Internal service funds are used by management to charge the costs of certain services to individual funds.	<u>2,380,192</u>
Change in net assets of governmental activities	<u>\$ 34,724,612</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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Real Estate and Personal Property Tax	\$ 29,062,234	29,062,234	32,650,333	3,588,099
Taxes Collected by Others	54,219,949	54,219,949	53,960,485	(259,464)
Sundry Taxes and In Lieu	26,002	26,002	25,431	(571)
Occupation Taxes	9,634,727	9,634,727	9,871,053	236,326
Intergovernmental	2,959,242	2,959,242	3,121,260	162,018
Permits and Fees	3,564,535	3,564,535	3,421,249	(143,286)
Reimbursement for Services	2,530,447	2,530,447	2,528,006	(2,441)
Court Fees	382,000	382,000	495,049	113,049
Recreation Receipts	2,153,529	2,153,529	2,124,846	(28,683)
Investment Earnings	558,367	558,367	827,437	269,070
Donations	645,311	645,311	646,886	1,575
Rental Income	535,631	535,631	621,442	85,811
Miscellaneous	506,002	506,002	518,105	12,103
Total Revenues	<u>106,777,976</u>	<u>106,777,976</u>	<u>110,811,582</u>	<u>4,033,606</u>
Expenditures:				
General Government:				
Legislative	324,492	307,223	268,865	38,358
Executive	1,298,453	1,356,653	1,259,758	96,895
Financial Administration	2,244,459	2,204,459	2,134,870	69,589
Law	2,047,700	2,052,700	2,030,374	22,326
Personnel Administration	906,578	906,578	887,945	18,633
Planning and Zoning	1,679,249	1,679,249	1,528,546	150,703
Urban Development	855,139	881,139	887,928	(6,789)
Miscellaneous	18,699,067	18,713,448	17,513,159	1,200,289
Total General Government	<u>28,055,137</u>	<u>28,101,449</u>	<u>26,511,445</u>	<u>1,590,004</u>
Public Safety:				
Police	29,412,464	29,028,164	28,301,649	726,515
Fire	19,346,382	19,286,010	18,727,388	558,622
Traffic Engineering	1,607,818	1,609,393	1,543,467	65,926
Total Public Safety	<u>50,366,664</u>	<u>49,923,567</u>	<u>48,572,504</u>	<u>1,351,063</u>
Streets and Highways:				
Street Maintenance	2,308,424	2,328,086	2,435,640	(107,554)
Street Lighting	3,632,410	3,632,410	6,023,357	(2,390,947)
Total Streets and Highways	<u>5,940,834</u>	<u>5,960,496</u>	<u>8,458,997</u>	<u>(2,498,501)</u>
Culture and Recreation:				
Parks and Recreation	11,645,704	11,608,420	11,186,659	421,761
Libraries	136,582	136,582	136,582	-
Total Culture and Recreation	<u>11,782,286</u>	<u>11,745,002</u>	<u>11,323,241</u>	<u>421,761</u>
Economic Opportunity:				
Lincoln Area Agency on Aging	219,140	219,140	219,140	-
Health and Welfare:				
Lincoln/Lancaster County Health	316,527	316,527	316,527	-
Debt Service:				
Issuance and Management Costs	-	-	80,112	(80,112)
Total Expenditures	<u>96,680,588</u>	<u>96,266,181</u>	<u>95,481,966</u>	<u>784,215</u>
Excess of Revenues Over Expenditures	<u>10,097,388</u>	<u>10,511,795</u>	<u>15,329,616</u>	<u>4,817,821</u>
Other Financing Sources (Uses):				
Transfers In	2,553,019	2,553,019	3,302,291	749,272
Transfers Out	(19,399,059)	(19,687,394)	(21,337,665)	(1,650,271)
Proceeds from Issuance of Debt	5,500,000	5,500,000	5,500,000	-
Premium on Debt Issued	-	-	5,091	5,091
Sale of Capital Assets	62,659	62,659	60,461	(2,198)
Total Other Financing Sources (Uses)	<u>(11,283,381)</u>	<u>(11,571,716)</u>	<u>(12,469,822)</u>	<u>(898,106)</u>
Net Change in Fund Balances	<u>(1,185,993)</u>	<u>(1,059,921)</u>	<u>2,859,794</u>	<u>3,919,715</u>
Fund Balances - Beginning	<u>16,603,008</u>	<u>16,603,008</u>	<u>16,603,008</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 15,417,015</u>	<u>15,543,087</u>	<u>19,462,802</u>	<u>3,919,715</u>

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, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 12,794,018	12,794,018	15,826,903	3,032,885
Permits and Fees	-	-	2,314,448	2,314,448
Reimbursement for Services	400,000	400,000	3,061	(396,939)
Investment Earnings	200,000	200,000	99,984	(100,016)
Miscellaneous	-	-	930	930
Total Revenues	<u>13,394,018</u>	<u>13,394,018</u>	<u>18,245,326</u>	<u>4,851,308</u>
Expenditures -- Streets and Highways:				
Personal Services	3,262,440	3,262,440	3,283,321	(20,881)
Materials and Supplies	514,200	514,200	459,981	54,219
Other Services and Charges	2,941,093	2,941,093	2,159,282	781,811
Capital Outlay	76,100	76,100	68,476	7,624
Total Expenditures	<u>6,793,833</u>	<u>6,793,833</u>	<u>5,971,060</u>	<u>822,773</u>
Excess of Revenues Over Expenditures	<u>6,600,185</u>	<u>6,600,185</u>	<u>12,274,266</u>	<u>5,674,081</u>
Other Financing Sources (Uses):				
Transfers In	10,911,613	10,911,613	10,911,613	-
Transfers Out	(4,650,376)	(4,650,376)	(4,650,376)	-
Issuance of Debt	27,000,000	27,000,000	27,000,000	-
Premium on Debt Issued	-	-	267,330	267,330
Total Other Financing Sources (Uses)	<u>33,261,237</u>	<u>33,261,237</u>	<u>33,528,567</u>	<u>267,330</u>
Net Change in Fund Balances	39,861,422	39,861,422	45,802,833	5,941,411
Amount Budgeted on Project Basis	(15,313,743)	(15,313,743)	(15,313,743)	-
Fund Balances - Beginning	<u>13,403,554</u>	<u>13,403,554</u>	<u>13,403,554</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 37,951,233</u>	<u>37,951,233</u>	<u>43,892,644</u>	<u>5,941,411</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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 21,123,764	21,123,764	20,719,124	(404,640)
Permits and Fees	639,085	639,085	639,085	-
Reimbursement for Services	303,392	303,392	303,392	-
Client Contributions	324	324	324	-
Program Income	1,232,359	1,232,359	1,331,155	98,796
Recreation Receipts	12,793	12,793	12,793	-
Investment Earnings	27,865	27,865	27,979	114
Donations	79,057	79,057	79,057	-
Rental Income	113,873	113,873	102,303	(11,570)
Private Sector Share of Project	50	50	50	-
Miscellaneous	77,909	77,909	78,093	184
Total Revenues	<u>23,610,471</u>	<u>23,610,471</u>	<u>23,293,355</u>	<u>(317,116)</u>
Expenditures:				
General Government:				
Materials and Supplies	507	507	507	-
Other Services and Charges	97,617	97,617	97,617	-
Capital Outlay	129,675	129,675	129,675	-
Total General Government	<u>227,799</u>	<u>227,799</u>	<u>227,799</u>	<u>-</u>
Public Safety:				
Personal Services	1,194,129	1,194,129	1,194,129	-
Materials and Supplies	151,876	151,876	151,876	-
Other Services and Charges	1,168,894	1,168,894	1,168,894	-
Capital Outlay	551,679	551,679	551,679	-
Total Public Safety	<u>3,066,578</u>	<u>3,066,578</u>	<u>3,066,578</u>	<u>-</u>
Culture and Recreation:				
Personal Services	655,668	655,668	655,668	-
Materials and Supplies	28,988	28,988	28,988	-
Other Services and Charges	493,915	493,915	493,915	-
Capital Outlay	1,080,549	1,080,549	1,080,549	-
Total Culture and Recreation	<u>2,259,120</u>	<u>2,259,120</u>	<u>2,259,120</u>	<u>-</u>
Economic Opportunity:				
Personal Services	3,967,337	3,967,337	3,905,780	61,557
Materials and Supplies	127,662	127,662	129,703	(2,041)
Other Services and Charges	1,948,428	1,948,428	1,737,128	211,300
Capital Outlay	4,858	4,858	63,976	(59,118)
Loans and Grants	4,102,511	4,102,511	4,073,255	29,256
Total Economic Opportunity	<u>10,150,796</u>	<u>10,150,796</u>	<u>9,909,842</u>	<u>240,954</u>

(Continued)

(Federal Grants Fund, Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Health and Welfare:				
Personal Services	4,290,212	4,290,212	4,290,212	-
Materials and Supplies	262,466	262,466	262,466	-
Other Services and Charges	3,019,739	3,019,739	3,019,739	-
Capital Outlay	258,687	258,687	258,687	-
Loans and Grants	76,962	76,962	76,962	-
Total Health and Welfare	<u>7,908,066</u>	<u>7,908,066</u>	<u>7,908,066</u>	-
Mass Transit:				
Personal Services	142,867	142,867	142,867	-
Materials and Supplies	5	5	5	-
Other Services and Charges	2,434	2,434	2,434	-
Total Mass Transit	<u>145,306</u>	<u>145,306</u>	<u>145,306</u>	-
Total Expenditures	<u>23,757,665</u>	<u>23,757,665</u>	<u>23,516,711</u>	<u>240,954</u>
Deficiency of Revenues Under Expenditures	<u>(147,194)</u>	<u>(147,194)</u>	<u>(223,356)</u>	<u>(76,162)</u>
Other Financing Sources (Uses):				
Transfers In	516,849	516,849	516,849	-
Transfers Out	(556)	(556)	(556)	-
Total Other Financing Sources (Uses)	<u>516,293</u>	<u>516,293</u>	<u>516,293</u>	-
Net Change in Fund Balances	369,099	369,099	292,937	(76,162)
Fund Deficits - Beginning	<u>(1,360,278)</u>	<u>(1,360,278)</u>	<u>(1,360,278)</u>	-
Fund Deficits - Ending	<u>\$ (991,179)</u>	<u>(991,179)</u>	<u>(1,067,341)</u>	<u>(76,162)</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, 2007

	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	\$ 4,872,559	7,012,925	13,235,000	3,498,206	28,618,690	4,223,366
Investments	-	-	1,997,000	10,952,429	12,949,429	15,563,085
Restricted Assets:						
Cash and Cash Equivalents	-	-	14,287,000	92,890	14,379,890	-
Accounts Receivable, (Net of Allowance for Uncollectibles)	1,373,610	2,765,516	14,002,000	2,117,764	20,258,890	465,607
Accrued Interest Receivable	-	-	519,000	126,042	645,042	173,936
Unbilled Revenues	1,970,331	3,497,537	6,604,000	-	12,071,868	-
Due from Other Funds	2,105,923	4,242,746	-	872,339	7,221,008	2,447,240
Due from Other Governments	-	-	-	4,349	4,349	167,933
Inventories	93,689	822,851	12,758,000	187,710	13,862,250	603,426
Plant Operation Assets	-	-	6,383,000	-	6,383,000	-
Prepaid Expenses	-	-	828,000	7,697	835,697	314,625
Total Current Assets	10,416,112	18,341,575	70,613,000	17,859,426	117,230,113	23,959,218
Noncurrent Assets:						
Restricted Assets:						
Cash and Cash Equivalents	-	-	17,239,000	785,374	18,024,374	-
Investments	24,361,075	33,947,525	27,336,000	3,826,020	89,470,620	-
Accounts Receivable	-	-	-	23	23	-
Accrued Interest Receivable	326,516	358,063	-	62,632	747,211	-
Due from Other Funds	-	-	-	160,102	160,102	-
Total Restricted Assets	24,687,591	34,305,588	44,575,000	4,834,151	108,402,330	-
Deferred Charges	860,136	710,058	10,498,000	492,147	12,560,341	-
Capital Assets:						
Land	3,184,797	4,712,177	-	10,676,172	18,573,146	48,250
Buildings	52,787,209	95,103,963	-	49,269,005	197,160,177	373,146
Improvements Other Than Buildings	206,422,389	232,790,759	-	30,466,044	469,679,192	1,159,425
Machinery and Equipment	7,864,371	5,644,686	-	10,734,163	24,243,220	23,649,110
Utility Plant	-	-	892,674,000	-	892,674,000	-
Construction in Progress	39,104,516	7,944,302	179,170,000	112,429	226,331,247	-
Less Accumulated Depreciation	(70,308,234)	(85,417,597)	(337,516,000)	(39,435,688)	(532,677,519)	(15,047,764)
Total Capital Assets, Net	239,055,048	260,778,290	734,328,000	61,822,125	1,295,983,463	10,182,167
Total Noncurrent Assets	264,602,775	295,793,936	789,401,000	67,148,423	1,416,946,134	10,182,167
Total Assets	275,018,887	314,135,511	860,014,000	85,007,849	1,534,176,247	34,141,385
LIABILITIES						
Current Liabilities:						
Accounts Payable	288,049	540,974	14,615,000	581,138	16,025,161	310,215
Construction Contracts	3,932,978	4,326,913	1,768,000	-	10,027,891	-
Accrued Liabilities	376,864	1,110,356	9,314,000	217,082	11,018,302	435,888
Accrued Compensated Absences	298,861	350,348	-	242,560	891,769	657,185
Due to Other Funds	-	-	-	399,752	399,752	997,498
Due to Other Governments	-	-	-	135,029	135,029	982
Unearned Revenue	-	-	-	924,867	924,867	595,059
Claims	-	-	-	-	-	4,051,875
Accrued Interest	951,707	142,264	9,046,000	45,685	10,185,656	465
Commercial Paper Notes Payable	-	-	90,000,000	-	90,000,000	-
Current Portion of Capital Lease	-	-	-	444,469	444,469	58,886
Current Portion of Long-Term Debt	2,415,000	5,555,000	14,430,000	1,820,000	24,220,000	-
Other	-	-	6,844,000	-	6,844,000	-
Total Current Liabilities	8,263,459	12,025,855	146,017,000	4,810,582	171,116,896	7,108,053
Noncurrent Liabilities:						
Due to Other Funds	-	-	-	1,830,885	1,830,885	-
Accrued Compensated Absences	187,035	339,216	-	55,801	582,052	628,417
Claims	-	-	-	-	-	2,303,631
Long-Term Debt, Net	85,695,062	68,835,091	513,590,000	16,835,424	684,955,577	-
Capital Lease Payable	-	-	-	477,529	477,529	107,898
Accrued Landfill Closure/Postclosure Care Costs	-	-	-	8,950,000	8,950,000	-
Total Noncurrent Liabilities	85,882,097	69,174,307	513,590,000	28,149,639	696,796,043	3,039,946
Total Liabilities	94,145,556	81,200,162	659,607,000	32,960,221	867,912,939	10,147,999
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	173,291,909	204,223,192	235,084,000	46,348,338	658,947,439	10,015,384
Restricted for:						
Debt Service	410,983	205,715	21,974,000	165,653	22,756,351	-
Capital Projects	687,874	2,203,158	-	1,029,285	3,920,317	-
Other	-	-	-	92,890	92,890	-
Unrestricted	6,482,565	26,303,284	(56,651,000)	4,411,462	(19,453,689)	13,978,002
Total Net Assets	\$ 180,873,331	232,935,349	200,407,000	52,047,628	666,263,308	23,993,386

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, 2007

	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	\$ 19,402,047	25,249,632	204,527,000	3,764,181	252,942,860	46,227,490
Fees	-	-	-	7,571,304	7,571,304	-
Parking Facility Revenue	-	-	-	6,471,758	6,471,758	-
Performance Revenue	-	-	-	1,527,542	1,527,542	-
Other Operating Revenue	-	-	-	711,568	711,568	-
Total Operating Revenues	<u>19,402,047</u>	<u>25,249,632</u>	<u>204,527,000</u>	<u>20,046,353</u>	<u>269,225,032</u>	<u>46,227,490</u>
Operating Expenses						
Personal Services	-	-	-	6,804,685	6,804,685	12,625,109
Contractual Services	-	-	-	3,789,152	3,789,152	-
Operation and Maintenance	9,888,570	12,190,525	11,427,000	5,532,172	39,038,267	30,577,708
Purchased Power	-	-	115,051,000	-	115,051,000	-
Depreciation	6,092,258	6,724,437	28,665,000	3,399,897	44,881,592	2,464,483
Administrative Costs	1,574,394	2,160,611	21,964,000	-	25,699,005	-
Total Operating Expenses	<u>17,555,222</u>	<u>21,075,573</u>	<u>177,107,000</u>	<u>19,525,906</u>	<u>235,263,701</u>	<u>45,667,300</u>
Operating Income	<u>1,846,825</u>	<u>4,174,059</u>	<u>27,420,000</u>	<u>520,447</u>	<u>33,961,331</u>	<u>560,190</u>
Nonoperating Revenues (Expenses)						
Investment Earnings	1,256,533	2,587,058	4,468,000	1,022,188	9,333,779	1,038,248
Gain on Disposal of Capital Assets	-	-	-	(15,605)	(15,605)	115,684
Occupation Tax	-	-	-	2,195,132	2,195,132	-
Grants	141,346	-	-	-	141,346	154,628
Payments in Lieu of Taxes	-	-	(7,665,000)	-	(7,665,000)	-
Amortization of Deferred Charges	(33,217)	(70,033)	(660,000)	(51,555)	(814,805)	-
Interest Expense and Fiscal Charges	(642,414)	(2,399,383)	(24,530,000)	(1,095,123)	(28,666,920)	(6,625)
Total Nonoperating Revenues (Expenses)	<u>722,248</u>	<u>117,642</u>	<u>(28,387,000)</u>	<u>2,055,037</u>	<u>(25,492,073)</u>	<u>1,301,935</u>
Income (Loss) Before Contributions and Transfers	<u>2,569,073</u>	<u>4,291,701</u>	<u>(967,000)</u>	<u>2,575,484</u>	<u>8,469,258</u>	<u>1,862,125</u>
Capital Contributions	<u>3,047,677</u>	<u>3,420,280</u>	<u>4,892,000</u>	<u>712,421</u>	<u>12,072,378</u>	<u>81,330</u>
Transfers In	-	-	-	529,049	529,049	436,737
Transfers Out	-	-	(1,385,000)	(1,610,155)	(2,995,155)	-
Change in Net Assets	<u>5,616,750</u>	<u>7,711,981</u>	<u>2,540,000</u>	<u>2,206,799</u>	<u>18,075,530</u>	<u>2,380,192</u>
Net Assets - Beginning	<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>
Net Assets - Ending	<u>\$ 180,873,331</u>	<u>232,935,349</u>	<u>200,407,000</u>	<u>52,047,628</u>	<u>666,263,308</u>	<u>23,993,386</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, 2007

	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	\$ 19,091,648	23,946,047	209,610,000	19,583,834	272,231,529	11,644,581
Receipts from Interfund Services Provided	164,809	557,343	4,638,000	184,536	5,544,688	33,688,029
Payments to Suppliers for Goods and Services	(3,307,614)	(4,013,976)	(143,474,000)	(7,465,923)	(158,261,513)	(28,131,365)
Payments to Employees	(6,274,982)	(7,015,101)	(20,312,000)	(6,778,412)	(40,380,495)	(12,085,543)
Payments for Interfund Services Provided	(1,766,457)	(2,811,145)	(1,750,000)	(1,513,015)	(7,840,617)	(2,230,218)
Other Receipts	-	-	-	711,568	-	-
Net Cash Provided by Operating Activities	<u>7,907,404</u>	<u>10,663,168</u>	<u>48,712,000</u>	<u>4,722,588</u>	<u>72,005,160</u>	<u>2,885,484</u>
Cash Flows from Noncapital Financing Activities						
Occupation Tax	-	-	-	2,131,822	2,131,822	-
Payments in Lieu of Taxes	-	-	(7,107,000)	-	(7,107,000)	-
Transfers from Other Funds	-	-	-	529,049	529,049	436,737
Transfers to Other Funds	-	-	(1,299,000)	(1,610,155)	(2,909,155)	-
Advances from General Fund	-	-	-	496,766	496,766	963,171
Repayment of Advances from General Fund	-	-	-	(338,870)	(338,870)	-
Advances to Other Funds	(204,796)	-	-	-	(204,796)	-
Payments from Other Funds	-	1,307,388	-	427,456	1,734,844	236,882
Interest Paid	-	-	-	(74,878)	(74,878)	-
Federal Grant Revenue	141,346	-	-	-	141,346	251,394
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(63,450)</u>	<u>1,307,388</u>	<u>(8,406,000)</u>	<u>1,561,190</u>	<u>(5,600,872)</u>	<u>1,888,184</u>
Cash Flows from Capital and Related Financing Activities						
Additions to Capital Assets	(17,144,983)	(11,116,135)	(74,990,000)	(4,410,326)	(107,661,444)	(2,582,243)
Proceeds from Sale of Capital Assets	-	-	-	102,524	102,524	265,491
Proceeds from Long-Term Debt	20,202,038	-	-	595,560	20,797,598	-
Net Cost of Retiring Plant	-	-	(290,000)	-	(290,000)	-
Capital Contributions	-	-	5,194,000	-	5,194,000	-
Principal Payments of Capital Lease	-	-	-	(377,070)	(377,070)	(56,954)
Principal Payments of Long-Term Debt	(2,005,000)	(5,340,000)	(11,050,000)	(1,740,000)	(20,135,000)	-
Interest and Fiscal Charges Paid	(427,372)	(2,610,005)	(29,640,000)	(1,012,629)	(33,690,006)	(6,784)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>624,683</u>	<u>(19,066,140)</u>	<u>(110,776,000)</u>	<u>(6,841,941)</u>	<u>(136,059,398)</u>	<u>(2,380,490)</u>
Cash Flows from Investing Activities						
Proceeds from Sale and Maturities of Investments	4,039,834	19,548,800	345,943,000	9,418,746	378,950,380	6,562,686
Purchases of Investments	(10,870,376)	(13,730,491)	(231,233,000)	(8,698,833)	(264,532,700)	(8,273,762)
Interest and Other Receipts	930,306	1,937,288	491,000	725,242	4,083,836	758,891
Net Cash Provided (Used) by Investing Activities	<u>(5,900,236)</u>	<u>7,755,597</u>	<u>115,201,000</u>	<u>1,445,155</u>	<u>118,501,516</u>	<u>(952,185)</u>
Net Increase in Cash and Cash Equivalents	2,568,401	660,013	44,731,000	886,992	48,846,406	1,440,993
Cash and Cash Equivalents - Beginning	2,304,158	6,352,912	30,000	3,489,478	12,176,548	2,782,373
Cash and Cash Equivalents - Ending	<u>\$ 4,872,559</u>	<u>7,012,925</u>	<u>44,761,000</u>	<u>4,376,470</u>	<u>61,022,954</u>	<u>4,223,366</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities						
Operating Income	\$ 1,846,825	4,174,059	27,420,000	520,447	33,961,331	560,190
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:						
Depreciation	6,092,258	6,724,437	28,665,000	3,399,897	44,881,592	2,464,483
Changes in Assets and Liabilities:						
Accounts Receivable and Unbilled Revenues	(139,590)	(737,442)	(2,422,000)	(304,760)	(3,603,792)	(362,390)
Due from Other Funds	-	-	-	5,102	5,102	(728,646)
Due from Other Governments	-	-	-	(1,537)	(1,537)	160,619
Inventories	57,968	37,817	(3,622,000)	(9,113)	(3,535,328)	(21,132)
Plant Operation Assets	-	-	(1,497,000)	-	(1,497,000)	-
Prepaid Expenses	-	-	747,000	18,348	765,348	34,096
Other Assets	-	-	(90,000)	-	(90,000)	-
Accounts Payable	(32,707)	(120,410)	(619,000)	(211,274)	(983,391)	(240,497)
Accrued Liabilities	30,035	445,303	-	16,216	491,554	206,782
Accrued Compensated Absences	52,615	139,404	-	10,057	202,076	332,784
Due to Other Funds	-	-	-	1,199	1,199	(380)
Due to Other Governments	-	-	-	16,989	16,989	(84)
Unearned Revenue	-	-	-	702,017	702,017	35,537
Claims	-	-	-	-	-	444,122
Deferred Credits and Other Liabilities	-	-	130,000	-	130,000	-
Accrued Landfill Closure/Postclosure Care Costs	-	-	-	559,000	559,000	-
Total Adjustments	<u>6,060,579</u>	<u>6,489,109</u>	<u>21,292,000</u>	<u>4,202,141</u>	<u>38,043,829</u>	<u>2,325,294</u>
Net Cash Provided by Operating Activities	<u>\$ 7,907,404</u>	<u>10,663,168</u>	<u>48,712,000</u>	<u>4,722,588</u>	<u>72,005,160</u>	<u>2,885,484</u>
Supplemental Disclosure of Noncash Investing, Capital, and Financing Activities:						
Contribution of Capital Assets	\$ 2,547,514	1,870,475	-	712,421	5,130,410	81,330
Capital Asset Trade-Ins	-	-	-	44,678	44,678	30,510
Purchase of Capital Assets on Account	3,932,978	4,326,913	-	12,227	8,272,118	-
Change in Fair Value of Investments	222,970	630,439	2,544,000	245,710	3,643,119	228,530

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, 2007

	<u>Police & Fire Pension Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 11,302,832	3,599,076
Investments:		
Pooled Investment Funds	1,171,758	-
U.S. Agency Obligations	4,973,954	2,829,592
Corporate Bonds	1,980,000	-
Municipal Bonds	1,058,499	-
Mutual Funds	157,222,042	-
Real Estate Limited Partnership	20,255,952	-
Other	607,550	-
Total Investments	<u>187,269,755</u>	<u>2,829,592</u>
Receivables:		
Contributions	455,335	-
Accrued Interest	909,104	40,620
Other	-	34,493
Due from Other Governments	209	-
Contractor Retainage	<u>-</u>	<u>740,204</u>
Total Assets	<u>199,937,235</u>	<u>7,243,985</u>
LIABILITIES		
Warrants Payable	-	1,803,986
Accounts Payable	137,049	173,048
Accrued Liabilities	2,416	-
Accrued Compensated Absences	13,822	-
Due to Other Governments	-	3,676,845
Due to Homeowners	-	39,952
Due to Contractors	-	1,248,107
Due to Joint Venture	-	184,121
Due to Bondholders	<u>-</u>	<u>117,926</u>
Total Liabilities	<u>153,287</u>	<u>7,243,985</u>
NET ASSETS		
Held in Trust for Pension Benefits and Other Purposes	<u>\$ 199,783,948</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, 2007

	<u>Police & Fire Pension Trust Fund</u>
Additions:	
Contributions:	
Employer	\$ 3,527,523
Employee	2,043,976
Total Contributions	<u>5,571,499</u>
Investment Earnings:	
Interest	1,192,046
Dividends	2,645,110
Net Increase in Fair Value of Investments	<u>20,917,245</u>
Net Investment Earnings	<u>24,754,401</u>
Total Additions	<u>30,325,900</u>
Deductions:	
Benefit Payments	8,515,087
Refunds of Contributions	956,618
Administrative Costs	328,612
Total Deductions	<u>9,800,317</u>
Change in Net Assets	20,525,583
Net Assets Held in Trust for Pension Benefits and Other Purposes - Beginning	<u>179,258,365</u>
Net Assets Held in Trust for Pension Benefits - and Other Purposes - Ending	<u>\$ 199,783,948</u>

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

**NOTES TO THE
FINANCIAL STATEMENTS**

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

(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, 2007. 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, 2006. The amounts included in the City's 2007 financial statements for LES are amounts as of and for the year ended December 31, 2006.

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, 2007

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, and intergovernmental revenues 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.

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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

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

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

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

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

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

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

ASSETS, LIABILITIES, AND NET ASSETS OR FUND EQUITY

Deposits and Investments

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

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

Investments in the Pension Trust Fund are carried at fair value. Investments in other funds are carried at fair value, except for short-term investments which are reported at amortized cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value, based on relevant

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

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.

Investment in Joint Venture

Investment in joint venture consists of the City's interest in the Joint Antelope Valley Authority (see Note 21), 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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

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.

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, and is recorded based on the termination method. 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.

Termination Benefits

The City established a Temporary Retirement Incentive Program, offered February 1, 2007 until May 7, 2007, for the purpose of encouraging eligible employees considering an early leave decision to accelerate their retirement plans. Eligible employees included those age 55 with 20 years of service or age 62 and older. Forty-seven employees elected to voluntarily resign from City employment beginning September 1, 2007, but no later than November 30, 2007. As material inducement the City has agreed to contribute \$15,000 plus an amount equal to 15% of accrued sick leave balance at the time of retirement to the employee's Post Employment Health Plan account. Such amounts are in addition to any accrued sick leave otherwise payable upon retirement.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

The City records a liability and expense at the government-wide level and in the proprietary funds upon election by the employees to participate in the Program. The liability at August 31, 2007 and expense in the 2007 government-wide financial statements approximated \$880,000. In the governmental fund financial statements, liability and expense are not recognized until employees actually terminate employment, therefore no governmental fund-level expense was recognized in fiscal 2007 for this Program.

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 \$22,485,375 of the General Fund's unreserved fund balance of \$27,215,934 meets the requirements of this policy, leaving an additional unreserved balance of \$4,730,559.

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), grantors, 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 \$242,133,819 of restricted net assets, of which \$19,340,511 is restricted by enabling legislation.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

Unrestricted – This component consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

BUDGETARY DATA

The City Council follows these procedures, set out in the City Charter, in establishing the budgetary data reflected in the financial statements:

- 1) At least 40 days prior to the end of the budget and fiscal year, the Mayor submits to the City Council a proposed annual budget for the ensuing year. The annual budget is a complete financial plan for the ensuing budget year and consists of an operating budget and a capital budget.
- 2) Public hearing on the proposed budget is scheduled for not later than 10 days prior to the budget adoption date.
- 3) Not later than 5 days prior to the end of the fiscal year, the budget is legally adopted by resolution of the City Council.
- 4) The Mayor is authorized to transfer unencumbered balances between appropriations of the same department or agency. The Mayor also has authority to lower appropriations in any fund where actual revenues are less than appropriated in order to avoid incurring a budget deficit for the year.

Appropriation transfers between departments or agencies may only be authorized by resolution of the City Council. The Council may not make any appropriations in addition to those authorized in the annual budget, except that it may authorize emergency appropriations in the event of an emergency threatening serious loss of life, health, or property in the community.

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

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

- 6) Appropriation controls are required at the departmental level. However, as a matter of policy and practice, appropriations generally are controlled at the next level of organization (division) or by fund within a department.
- 7) Operating appropriations lapse at the end of the fiscal year except for capital improvement appropriations and year-end encumbrances against operating budgets. Capital improvement appropriations are continuing appropriations through completion of the project.
- 8) Budgets are adopted by resolution for the following fund types: general, special revenue, debt service, capital projects, permanent, enterprise, internal service, and pension trust. Legally adopted annual budgets are not established for certain special revenue (Advance Acquisition, Tax Sales Revolving, Police & Fire Pension Contributions, Special Assessment, Property Tax Refunds, Impact Fees, Parks & Recreation Special Projects, and Seniors Foundation of Lincoln & Lancaster County), 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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

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, 2006, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ materially from those estimates.

NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued its Statement 45, *Accounting and 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 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Statement 49 addresses standards for pollution remediation obligations dealing with the current or potential detrimental effects of existing pollution by participation in pollution remediation activities such as site assessments and cleanups. The City will review these standards for possible application during the year ending August 31, 2009.

GASB has also issued its Statement 50, *Pension Disclosures*. Statement 50 aligns financial reporting requirements for pensions with those of other postemployment benefits. The City will review these standards in preparation for meeting the implementation deadline as established by the Statement.

(2) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

The governmental funds balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds." The details of the \$181,927,506 difference are as follows:

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

Bonds Payable	\$ 141,928,447
Less deferred charge for issuance costs	(1,304,055)
Less issuance discounts	(26,452)
Plus issuance premiums	2,728,016
Capital Leases Payable	22,625,260
Accrued Interest Payable	1,649,995
Net Pension Obligation	3,980,776
Compensated Absences	<u>10,345,519</u>
Net difference	<u>\$ 181,927,506</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 \$19,497,770 difference are as follows:

Capital outlay	\$ 39,837,246
Depreciation expense	<u>(20,339,476)</u>
Net difference	<u>\$ 19,497,770</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 \$(38,089,050) difference are as follows:

Debt issued or incurred:	
Issuance of general obligation stormwater drainage and flood management system bonds	\$ (8,295,000)
Issuance of general obligation highway allocation fund bonds	(27,000,000)
Issuance of tax allocation bonds	(3,793,428)
Issuance of certificates of participation	(5,500,000)
Deferred charge for issuance costs	416,384
Issuance discounts	5,255
Issuance premiums	(484,811)
Amortization of deferred items	(27,139)
Principal repayments	<u>6,589,689</u>
Net difference	<u>\$ (38,089,050)</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 \$(3,941,807) difference are as follows:

Loss on disposal of capital assets	\$ (764,030)
Termination benefits	(631,337)
Other expense	(107,481)
Accrued interest	(493,555)
Compensated absences	<u>(1,945,404)</u>
Net difference	<u>\$ (3,941,807)</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

(3) **RESTRICTED ASSETS**

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

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

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

A recap of restrictions and related balances at August 31, 2007 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	\$ -	200,092	-	-	-	-	14,287,000	14,487,092
Reserve	316,500	1,815,575	-	400,000	6,404,184	8,120,246	18,501,000	35,557,505
Depreciation and Replacement	100,000	682,850	-	-	-	-	-	782,850
Construction	-	-	-	1,248,342	18,283,407	26,185,342	26,074,000	71,791,091
Capital Improvements	50,669	11,223	8,900	-	-	-	-	70,792
Marketing	-	-	92,890	-	-	-	-	92,890
	\$ 467,169	2,709,740	101,790	1,648,342	24,687,591	34,305,588	58,862,000	122,782,220

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.

(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, 2007, 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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

INVESTMENTS

At August 31, 2007, the City had the following investments, maturities and credit ratings:

Type	August 31, 2007					Credit Rating Moody / S&P
	Fair Value	Maturities in Years				
		Less than 1	1-5	6-10	More than 10	
General City:						
U.S. Treasury Obligations	\$ 45,068,016	24,715,000	20,353,016	-	-	N/A
U.S. Sponsored Agency Obligations	183,348,669	82,291,748	97,126,058	3,930,863	-	Aaa / AAA
Collateralized Repurchase Agreements	380,287	380,287	-	-	-	N/A
Collateralized Investment Agreements	1,120,000	-	-	1,120,000	-	Aaa / A
Collateralized Investment Agreements	3,139,981	-	-	-	3,139,981	Aaa/AAA
Collateralized Investment Agreements	4,930,000	-	-	-	4,930,000	Aa/AA
Money Market Mutual Funds - U.S. Treasury	1,739,119	1,739,119	-	-	-	N/A
Money Market Mutual Funds - U.S. Agencies	40,668,825	40,668,825	-	-	-	Aaa / AAA
Money Market Mutual Funds	60,669	60,669	-	-	-	Not Rated
Corporate Bonds	29,315	-	-	29,315	-	A / A
External Investment Trust	5,890,000	5,890,000	-	-	-	Not Rated
Tax Increment Financing Investments	1,908,447	-	-	614,598	1,293,849	Not Rated
Total General City	288,283,328	155,745,648	117,479,074	5,694,776	9,363,830	
Community Health Endowment:						
U.S. Treasury Obligations	3,847,207	737,734	998,072	1,394,140	717,261	Aaa / AAA
U.S. Sponsored Agency Obligations	1,739,957	74,883	978,580	113,060	573,434	Aaa / AAA
U.S. Sponsored Agency Obligations	5,258,208	-	9,246	124,519	5,124,443	Not rated
Money Market Mutual Funds	5,615,614	5,615,614	-	-	-	Not rated
Mortgage-backed Securities	1,032,844	-	51,136	-	981,708	Aaa / AAA
Corporate Bonds	1,056,069	117,879	437,854	322,458	177,878	A / A
Corporate Bonds	48,543	-	-	48,543	-	A / BBB
Corporate Bonds	264,312	-	152,385	111,927	-	Aa / A
Corporate Bonds	483,133	14,996	213,940	194,197	60,000	Aa / AA
Corporate Bonds	2,388,660	-	212,291	396,119	1,780,250	Aaa / AAA
Corporate Bonds	153,782	-	153,782	-	-	Baa / A
Corporate Bonds	1,216,867	-	434,840	482,813	299,214	Baa / BBB
Foreign Obligations	34,150	-	15,638	-	18,512	A / A
Foreign Obligations	161,665	-	-	161,665	-	Aaa / AAA
Foreign Obligations	50,530	-	38,842	11,688	-	Aaa / AAA
Foreign Obligations	45,596	-	21,071	-	24,525	Baa / BB
Mutual Funds - Fixed Income	26,104,636	26,104,636	-	-	-	Not rated
Securities Lending Collateral	4,749,143	4,749,143	-	-	-	Not rated
Total Community Health Endowment:	54,250,916	37,414,885	3,717,677	3,361,129	9,757,225	
Police & Fire Pension Trust:						
U.S. Sponsored Agency Obligations	4,973,954	4,973,954	-	-	-	Aaa / AAA
Corporate Bonds	1,980,000	-	-	-	1,980,000	NotRated/A
Tax Exempt Bonds	1,058,499	-	1,058,499	-	-	Not Rated
Money Market Mutual Funds	10,325,691	10,325,691	-	-	-	Not Rated
Mutual Funds - Fixed Income	27,395,973	27,395,973	-	-	-	Not Rated
	45,734,117	42,695,618	1,058,499	-	1,980,000	
Mutual Funds	130,433,619	-	-	-	-	
Real Estate Limited Partnerships	20,255,952	-	-	-	-	
Total Police & Fire Pension Trust	196,423,688	-	-	-	-	
Total Primary Government	\$ 538,957,932	-	-	-	-	

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

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.

Custodial Credit Risk. 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, 2007 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.

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 \$60,669 non-rated money market fund is held in the J.J. Hompes fund. The money market fund is 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	33.66 %	40.00 %
Federal Home Loan Mortgage Corporation	12.66	40.00
Federal National Mortgage Association	8.63	40.00
Federal Farm Credit Bank	8.66	40.00

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

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.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, CHE 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 CHE's investments at August 31, 2007 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.

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 25% 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, 2007, 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, 2007.

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.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Police & Fire Pension Trust 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 Police & Fire Pension Trust's investments at August 31, 2007 are subject to custodial credit risk, as they are held in an account in the City's name, and by an agent who is not the counterparty to the investment transactions.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

Interest Rate Risk. The Investment Board for the Police & Fire Pension Trust compares the risk and return characteristics derived from the actual performance of the Fund, separate asset classes and specific securities to appropriate benchmarks, financial indices and/or funds at least annually. Asset allocation, investments, and/or investment managers are adjusted as necessary by this monitoring.

Credit Risk. The policy states that the plan will select appropriate investments, or investment manager(s), to fill each asset class allocation. The individual investment, or investment managers, chosen shall be those determined to meet the board's objectives in terms of their overall combination of risk, return, and liquidity.

Concentration of Credit Risk. It is the desire of the board that no more than 5% of assets may be from a single corporate or sovereign issuer exclusive of the U.S. government. The board reviews assets to monitor the concentration of overlapping securities held by multiple mutual funds.

Summary of Deposit and Investment Balances

Following is a reconciliation of the City's deposit and investment balances as of August 31, 2007:

	<u>Totals</u>		
Investments	\$	538,957,932	
Deposits and Cash on Hand		29,699,561	
	\$	<u>568,657,493</u>	
		<u>Government-wide</u>	<u>Fiduciary Funds</u>
		<u>Statement of</u>	<u>Statement of</u>
		<u>Net Assets</u>	<u>Net Assets</u>
			<u>Totals</u>
Cash and Cash Equivalents	\$	65,786,030	14,901,908
Investments		134,086,181	190,099,347
Invested Securities Lending		4,749,143	-
Restricted Assets:			
Cash and Cash Equivalents		32,404,264	-
Investments		126,630,620	-
	\$	<u>363,656,238</u>	<u>205,001,255</u>
			<u>568,657,493</u>

The City invests in various investment securities that are exposed to various risks such as interest rate, market and credit risks as disclosed above. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could affect the fair value of the security portfolio. Management does not believe the changes have had a significant impact on the financial statements.

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 106 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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

(5) **RECEIVABLES**

Receivables at August 31, 2007, consist of the following (in thousands):

Fund	Taxes	Accounts	Loans	Contributions	Special Assessment		Accrued Interest	Gross Receivables	Allowance For Uncollectibles	Net
					Current	Deferred				
General	\$ 4,003	795	-	-	-	-	118	4,916	-	4,916
Street Construction	-	86	-	-	-	-	263	349	-	349
Federal Grants	-	56	22,809	-	-	-	6	22,871	3,666	19,205
Wastewater System	-	3,344	-	-	-	-	327	3,671	-	3,671
Water System	-	6,263	-	-	-	-	358	6,621	-	6,621
Electric System	-	20,606	-	-	-	-	519	21,125	-	21,125
Nonmajor -										
Special Revenue	1,721	362	-	-	-	-	258	2,341	-	2,341
Debt Service	943	-	-	-	520	2,109	203	3,775	197	3,578
Capital Projects	-	74	-	-	-	-	241	315	-	315
Permanent	-	-	-	-	-	-	160	160	-	160
Enterprise	-	3,171	-	-	-	-	189	3,360	1,053	2,307
Internal Service	-	466	-	-	-	-	174	640	-	640
Fiduciary	-	34	-	455	-	-	950	1,439	-	1,439
	<u>\$ 6,667</u>	<u>35,257</u>	<u>22,809</u>	<u>455</u>	<u>520</u>	<u>2,109</u>	<u>3,766</u>	<u>71,583</u>	<u>4,916</u>	<u>66,667</u>

Enterprise funds customer accounts receivable include unbilled charges for services.

Delinquent special assessment receivables at August 31, 2007, were \$265,737.

(6) **DUE FROM OTHER GOVERNMENTS**

The total of Due From Other Governments of \$25,683,808 includes the following significant items:

Fund/Fund Type	Amount	Service
General/General	\$ 9,515,998	State of Nebraska, July/August Sales and Use Tax
	409,258	August Motor Vehicle Taxes Collected by Lancaster County
	16,439	Federal Government, Cost Reimbursements
	96,767	Lancaster County, Cost Reimbursements
Street Construction/Special Revenue	2,982,676	State of Nebraska, July/August Highway User Fees
	399,950	State of Nebraska, Cost Reimbursements
	7,570,394	Federal Government, Cost Reimbursements
Federal Grants/Special Revenue	2,650,280	Federal Government, Cost Reimbursements
Lincoln Area Agency on Aging/Special Revenue	30,040	Federal Government, Cost Reimbursements
Lincoln/Lancaster Co. Health/Special Revenue	442,728	Lancaster County, Cost Reimbursements
Snow Removal/Special Revenue	101,533	August Motor Vehicle Taxes Collected by Lancaster County
StarTran/Special Revenue	116,271	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	893,885	August Motor Vehicle Taxes Collected by Lancaster County
Strom Sewer Construction/Capital Projects	103,928	Federal Government, Cost Reimbursements
Information Services/Internal Service	139,700	Lancaster County Billings
Copy Services/Internal Service	<u>18,144</u>	Lancaster County Billings
Subtotal	25,654,658	
All other	<u>29,150</u>	
Total Due From Other Governments	<u>\$ 25,683,808</u>	

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

(7) CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2007, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 57,733,188	3,477,751	82,560	61,128,379
Construction in Progress	103,953,098	24,983,750	39,293,661	89,643,187
Total Capital Assets, not being Depreciated	<u>161,686,286</u>	<u>28,461,501</u>	<u>39,376,221</u>	<u>150,771,566</u>
Capital Assets, being Depreciated:				
Buildings	73,921,877	1,087,022	10,194	74,998,705
Improvements Other Than Buildings	52,680,408	7,061,384	1,083,357	58,658,435
Machinery and Equipment	67,517,860	10,479,350	4,938,079	73,059,131
Infrastructure	391,230,456	41,498,530	2,068,759	430,660,227
Total Capital Assets, being Depreciated	<u>585,350,601</u>	<u>60,126,286</u>	<u>8,100,389</u>	<u>637,376,498</u>
Less Accumulated Depreciation for:				
Buildings	25,489,409	1,839,846	10,194	27,319,061
Improvements Other Than Buildings	20,147,078	1,696,391	216,373	21,627,096
Machinery and Equipment	35,992,979	6,406,049	4,653,477	37,745,551
Infrastructure	123,546,522	12,861,673	13,232	136,394,963
Total Accumulated Depreciation	<u>205,175,988</u>	<u>22,803,959</u>	<u>4,893,276</u>	<u>223,086,671</u>
Total Capital Assets, being Depreciated, Net	<u>380,174,613</u>	<u>37,322,327</u>	<u>3,207,113</u>	<u>414,289,827</u>
Governmental Activities Capital Assets, Net	<u>\$ 541,860,899</u>	<u>65,783,828</u>	<u>42,583,334</u>	<u>565,061,393</u>
	Beginning Balances	Increases	Decreases	Ending Balances
Business-type Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 17,682,928	890,371	153	18,573,146
Construction in Progress	175,336,300	106,983,344	55,988,397	226,331,247
Total Capital Assets, not being Depreciated	<u>193,019,228</u>	<u>107,873,715</u>	<u>55,988,550</u>	<u>244,904,393</u>
Capital Assets, being Depreciated:				
Buildings	196,009,994	1,150,183	-	197,160,177
Improvements Other Than Buildings	438,948,427	30,730,959	194	469,679,192
Machinery and Equipment	22,805,943	2,408,584	971,307	24,243,220
Utility Plant	867,075,000	28,308,000	2,709,000	892,674,000
Total Capital Assets, being Depreciated	<u>1,524,839,364</u>	<u>62,597,726</u>	<u>3,680,501</u>	<u>1,583,756,589</u>
Less Accumulated Depreciation for:				
Buildings	57,124,202	4,438,142	-	61,562,344
Improvements Other Than Buildings	109,108,636	10,065,032	194	119,173,474
Machinery and Equipment	13,540,102	1,713,418	827,819	14,425,701
Utility Plant	311,560,000	28,665,000	2,709,000	337,516,000
Total Accumulated Depreciation	<u>491,332,940</u>	<u>44,881,592</u>	<u>3,537,013</u>	<u>532,677,519</u>
Total Capital Assets, being Depreciated, Net	<u>1,033,506,424</u>	<u>17,716,134</u>	<u>143,488</u>	<u>1,051,079,070</u>
Business-type Activities Capital Assets, Net	<u>\$ 1,226,525,652</u>	<u>125,589,849</u>	<u>56,132,038</u>	<u>1,295,983,463</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 1,014,223
Public Safety	1,848,391
Streets and Highways, including Infrastructure	12,322,015
Culture and Recreation	3,420,429
Economic Opportunity	64,104
Health and Welfare	248,951
Mass Transit	1,421,363
Internal Service Funds Capital Assets	
Depreciation is charged to the various functions based on usage of the assets.	<u>2,464,483</u>
Total Depreciation Expense - Governmental	\$ <u><u>22,803,959</u></u>
Business-type Activities:	
Parking Lots	\$ 28,573
Golf	599,870
Parking Facilities	1,047,176
Pershing Municipal Auditorium	75,933
Solid Waste Management	1,486,664
Emergency Medical Services	161,681
Wastewater System	6,092,258
Water System	6,724,437
Lincoln Electric System	<u>28,665,000</u>
Total Depreciation Expense - Business-type	\$ <u><u>44,881,592</u></u>

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Lincoln Wastewater System:				
Capital Assets, not being Depreciated:				
Land	\$ 2,861,569	323,228	-	3,184,797
Construction in Progress	<u>34,995,029</u>	<u>15,949,354</u>	<u>11,839,867</u>	<u>39,104,516</u>
Total Capital Assets, not being Depreciated	<u>37,856,598</u>	<u>16,272,582</u>	<u>11,839,867</u>	<u>42,289,313</u>
Capital Assets, being Depreciated:				
Buildings	51,969,327	817,882	-	52,787,209
Improvements Other Than Buildings	193,165,147	13,257,242	-	206,422,389
Machinery and Equipment	<u>7,329,068</u>	<u>574,092</u>	<u>38,789</u>	<u>7,864,371</u>
Total Capital Assets, being Depreciated	<u>252,463,542</u>	<u>14,649,216</u>	<u>38,789</u>	<u>267,073,969</u>
Less Accumulated Depreciation for:				
Buildings	15,993,881	1,214,877	-	17,208,758
Improvements Other Than Buildings	45,137,731	4,396,800	-	49,534,531
Machinery and Equipment	<u>3,109,934</u>	<u>480,581</u>	<u>25,570</u>	<u>3,564,945</u>
Total Accumulated Depreciation	<u>64,241,546</u>	<u>6,092,258</u>	<u>25,570</u>	<u>70,308,234</u>
Total Capital Assets, being Depreciated, Net	<u>188,221,996</u>	<u>8,556,958</u>	<u>13,219</u>	<u>196,765,735</u>
Wastewater System Capital Assets, Net	\$ <u><u>226,078,594</u></u>	<u><u>24,829,540</u></u>	<u><u>11,853,086</u></u>	<u><u>239,055,048</u></u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Water System:				
Capital Assets, not being Depreciated:				
Land	\$ 4,712,330	-	153	4,712,177
Construction in Progress	4,573,634	15,152,747	11,782,079	7,944,302
Total Capital Assets, not being Depreciated	<u>9,285,964</u>	<u>15,152,747</u>	<u>11,782,232</u>	<u>12,656,479</u>
Capital Assets, being Depreciated:				
Buildings	94,771,662	332,301	-	95,103,963
Improvements Other Than Buildings	219,401,356	13,389,597	194	232,790,759
Machinery and Equipment	5,521,580	388,906	265,800	5,644,686
Total Capital Assets, being Depreciated	<u>319,694,598</u>	<u>14,110,804</u>	<u>265,994</u>	<u>333,539,408</u>
Less Accumulated Depreciation for:				
Buildings	23,242,487	2,133,162	-	25,375,649
Improvements Other Than Buildings	51,961,568	4,184,275	194	56,145,649
Machinery and Equipment	3,750,739	407,000	261,440	3,896,299
Total Accumulated Depreciation	<u>78,954,794</u>	<u>6,724,437</u>	<u>261,634</u>	<u>85,417,597</u>
Total Capital Assets, being Depreciated, Net	<u>240,739,804</u>	<u>7,386,367</u>	<u>4,360</u>	<u>248,121,811</u>
Water System Capital Assets, Net	<u>\$ 250,025,768</u>	<u>22,539,114</u>	<u>11,786,592</u>	<u>260,778,290</u>
	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Electric System:				
Capital Assets, not being Depreciated:				
Construction in Progress	\$ 132,770,000	74,708,000	28,308,000	179,170,000
Capital Assets, being Depreciated:				
Utility Plant	867,075,000	28,308,000	2,709,000	892,674,000
Less Accumulated Depreciation	311,560,000	28,665,000	2,709,000	337,516,000
Total Capital Assets, being Depreciated, Net	<u>555,515,000</u>	<u>(357,000)</u>	<u>-</u>	<u>555,158,000</u>
Electric System Capital Assets, Net	<u>\$ 688,285,000</u>	<u>74,351,000</u>	<u>28,308,000</u>	<u>734,328,000</u>

During 2007, Lincoln Wastewater System incurred \$3,297,828 of interest cost, of which \$2,665,414 was capitalized into construction in progress. Lincoln Water System incurred \$3,473,462 of interest cost, of which \$1,001,995 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 2006 was 4.8%.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

(8) **INTERFUND BALANCES AND ACTIVITY**

Balances Due To/From Other Funds at August 31, 2007, consist of the following:

	Due To	Due From						Total
	General Fund	Street Construction	Federal Grants	Nonmajor Governmental	Nonmajor Enterprise	Internal Service		
General Fund	\$ -	-	293,507	25,506	2,225,236	963,231	3,507,480	
Street Construction	2,217,847	-	-	8,291,278	-	-	10,509,125	
Nonmajor Governmental	4,493,324	-	5,331	1,491,224	-	-	5,989,879	
Lincoln Wastewater System	1,418,049	-	-	687,874	-	-	2,105,923	
Lincoln Water System	2,039,588	-	-	2,203,158	-	-	4,242,746	
Nonmajor Enterprise	1,026,517	5,924	-	-	-	-	1,032,441	
Internal Service	1,571,733	159	814,641	21,039	5,401	34,267	2,447,240	
	<u>\$ 12,767,058</u>	<u>6,083</u>	<u>1,113,479</u>	<u>12,720,079</u>	<u>2,230,637</u>	<u>997,498</u>	<u>29,834,834</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 \$1,830,739 from the Emergency Medical Services Enterprise Fund for an advance made for cash flow needs; none of this amount is expected to be repaid within one year. Other balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

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

Transfers To/From Other Funds for the year ended August 31, 2007, consist of the following:

	Transfer To	Transfer From						Total
	General Fund	Street Construction	Federal Grants	Nonmajor Governmental	Lincoln Electric System	Nonmajor Enterprise		
General Fund	\$ -	-	-	1,080,838	1,385,000	839,500	3,305,338	
Street Construction	2,587,290	-	-	8,324,323	-	-	10,911,613	
Federal Grants	507,520	-	-	9,329	-	-	516,849	
Nonmajor Governmental	17,647,500	4,283,994	556	5,236,167	-	770,655	27,938,872	
Nonmajor Enterprise	525,000	-	-	4,049	-	-	529,049	
Internal Service	70,355	366,382	-	-	-	-	436,737	
Total	<u>\$ 21,337,665</u>	<u>4,650,376</u>	<u>556</u>	<u>14,654,706</u>	<u>1,385,000</u>	<u>1,610,155</u>	<u>43,638,458</u>	

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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

(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 \$4,766,048, \$3,883,753, and \$5,327,078, 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, street lights, 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	11,914,750	-
Improvements	219,925	-
Infrastructure	6,972,510	-
Machinery and Equipment	1,838,042	3,113,553
Less Accumulated Depreciation, (where applicable)	(1,907,191)	(1,743,574)
Total	\$ 19,553,786	\$ 1,579,979

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.

Established by City Ordinance, LES may borrow up to \$150 million under a commercial paper note program. At December 31, 2006, 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, 2006, was 3.4 percent. The annual requirement to pay interest on this outstanding debt is approximately \$3 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. LES uses these vehicles as part of their long-term financing strategy. As such, commercial paper is renewed as it matures. The average length of maturity of commercial paper for 2006 was 114 days.

	Beginning Balance	Additions	Reductions	Ending Balance
Lincoln Electric System:				
Commercial Paper Notes	\$ 90,000	521,850	(521,850)	90,000

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

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
Governmental Activities:							
General Obligation Bonds:							
General Bonds:							
14,435	03/01/99	Various Purpose Series A	3.000 - 4.600	Serial 2000 to 2014	2009	Semiannually	\$ 7,840
7,365	03/01/99	Various Purpose Series A	4.750	Term 2019	2009	"	7,365
8,220	03/01/99	Various Purpose Series B	3.000 - 4.250	Serial 1999 to 2011	2007	"	2,465
6,350	05/29/02	Storm Sewer and Drainage	3.000 - 5.000	Serial 2004 to 2020	2010	"	5,535
1,150	05/29/02	Storm Sewer and Drainage	5.00	Term 2022	2010	"	1,150
15,595	07/08/03	Various Purpose	2.625 - 3.750	Serial 2004 to 2017	2013	"	9,680
3,710	07/08/03	Various Purpose	4.000 / 4.125	Term 2020 & 2023	2013	"	3,710
6,555	06/01/05	Storm Sewer Refunding	2.500 - 4.375	Serial 2005 to 2017	2011	"	5,755
9,950	06/15/05	Storm Sewer Construction	3.250 - 4.250	Serial 2006 to 2025	2015	"	9,225
8,295	06/27/07	Stormwater Drainage and Flood Mgmt	4.625 - 5.000	Serial 2008 to 2027	2017	"	8,295
Total General Bonds							\$ 61,020
Tax Allocation Bonds:							
1,035	04/21/04	Tax Allocation Bonds	2.000 - 3.200	Serial 2004 to 2011	2008	Semiannually	670
5,500	04/21/04	Tax Allocation Bonds	3.000 - 4.800	Serial 2004 to 2015	2010	"	4,530
365	08/15/05	Tax Allocation Bonds	4.750	Serial 2006 to 2018	Anytime	"	320
245	10/01/06	Tax Allocation Bonds	5.100	Serial 2008 to 2015	Anytime	"	245
2,205	04/05/07	Tax Allocation Bonds	5.000 - 5.550	Serial 2009 to 2018	2012	"	2,205
586	06/01/07	Tax Allocation Bonds	5.240	Serial 2008 to 2018	Anytime	"	586
388	06/01/07	Tax Allocation Bonds	5.240	Serial 2007 to 2020	Anytime	"	388
369	06/15/07	Tax Allocation Bonds	5.400	Serial 2007 to 2014	Anytime	"	369
Total Tax Allocation Bonds							\$ 9,313
Tax Supported Bonds:							
3,200	06/13/00	Municipal Infrastructure Redevelopment	4.750 - 5.100	Serial 2001 to 2009	2005	Semiannually	\$ 1,080
35,000	03/17/04	Highway Allocation Fund	2.000 - 3.000	Serial 2007 to 2023	2014	"	35,000
27,000	12/05/06	Highway Allocation Fund	4.000 - 5.000	Serial 2008 to 2027	2016	"	27,000
Total Tax-Supported Bonds							\$ 63,080
TOTAL GENERAL OBLIGATION BONDS							\$ 133,413
Tax Supported Bonds:							
11,080	3/13/02	Antelope Valley Project	1.500 - 5.000	Serial 2002 to 2016	2012	Semiannually	\$ 8,515
Business-Type Activities:							
Revenue Bonds:							
39,235	07/31/03	Wastewater Revenue	2.000 - 5.000	Serial 2004 to 2023	2013	Semiannually	\$ 32,920
15,765	07/31/03	Wastewater Revenue	4.625 / 5.000	Term 2025 & 2028	2013	"	15,765
18,000	08/03/05	Wastewater Revenue	4.000 - 5.000	Serial 2006 to 2030	2015	"	16,995
16,710	04/18/07	Wastewater Revenue	4.000 - 4.500	Serial 2008 to 2029	2017	"	16,710
3,750	04/18/07	Wastewater Revenue	4.375	Term 2032	2017	"	3,750
Total Wastewater Bonds							\$ 86,140
11,850	11/22/02	Water Revenue	2.750 - 5.000	Serial 2005 to 2017	2012	Semiannually	\$ 9,580
6,660	11/22/02	Water Revenue	5.000	Term 2022	2012	"	6,660
32,180	05/01/03	Water Revenue	5.000	Serial 2004 to 2012	-	"	18,795
40,000	11/16/04	Water Revenue	3.000 - 5.000	Serial 2005 to 2025	2014	"	37,175
Total Water Bonds							\$ 72,210
6,815	09/08/99	Parking Revenue Series A	4.000 - 5.000	Serial 2000 to 2009	2009	Semiannually	\$ 2,170
6,695	09/08/99	Parking Revenue Series A	5.375	Term 2014	2009	"	6,695
4,360	12/18/01	Parking Revenue	3.750 - 5.000	Serial 2002 to 2017	2011	"	2,970
1,640	12/18/01	Parking Revenue	5.125	Term 2021	2011	"	1,640
Total Parking Bonds							\$ 13,475
3,165	11/27/01	Golf Course Revenue Refunding	2.300 - 4.050	Serial 2002 to 2011	2008	Semiannually	\$ 1,375
4,000	08/17/06	Solid Waste Management Revenue	4.000 - 4.250	Serial 2007 to 2021	2013	Semiannually	\$ 3,815
45,560	02/15/98	Electric Revenue Bonds Series A	4.500 - 5.000	Serial 2008 to 2018	2008	Semiannually	\$ 31,075
141,150	08/15/01	Electric Revenue Bonds	4.000 - 5.250	Serial 2006 to 2020	2011	"	140,150
148,190	10/01/02	Electric Revenue Bonds	4.000 - 5.000	Serial 2004 to 2025	2012	"	122,945
93,045	10/01/03	Electric Revenue Bonds	3.000 - 5.000	Serial 2004 to 2026	2014	"	90,195
33,265	10/01/03	Electric Revenue Bonds	4.750	Term 2028	2014	"	33,265
61,290	10/01/05	Electric Revenue Bonds	5.000	Serial 2029 to 2032	2015	"	61,290
53,710	10/01/05	Electric Revenue Bonds	4.750	Term 2035	2015	"	53,710
Total Electric Bonds							\$ 532,630
TOTAL REVENUE BONDS							\$ 709,645

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

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
2008	\$ 6,210	5,611	615	372	1,718	883
2009	7,376	5,401	635	350	1,749	842
2010	6,740	5,120	660	326	1,723	784
2011	7,223	4,851	685	299	1,727	725
2012	7,883	4,543	710	271	1,797	663
2013 - 2017	40,918	17,476	5,210	773	8,357	2,276
2018 - 2022	36,018	8,743	-	-	3,206	1,043
2023 - 2027	21,045	2,008	-	-	2,515	368
	<u>\$ 133,413</u>	<u>53,753</u>	<u>8,515</u>	<u>2,391</u>	<u>22,792</u>	<u>7,584</u>

Fiscal Year Ended August 31	Business-Type Activities			
	Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2008	\$ 24,220	34,490	444	33
2009	25,390	33,294	140	20
2010	26,510	32,150	146	13
2011	29,275	30,910	127	7
2012	27,365	29,572	65	1
2013 - 2017	148,385	127,774	-	-
2018 - 2022	163,860	87,112	-	-
2023 - 2027	103,690	54,016	-	-
2028 - 2032	90,880	29,569	-	-
2033 - 2037	70,070	8,548	-	-
	<u>\$ 709,645</u>	<u>467,435</u>	<u>922</u>	<u>74</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
2008	\$ 2,415	4,031	5,555	3,376	14,430	26,186
2009	2,620	3,820	5,795	3,128	15,085	25,531
2010	2,695	3,731	6,050	2,874	15,780	24,817
2011	2,785	3,607	6,310	2,603	18,095	24,069
2012	2,880	3,504	5,380	2,315	17,295	23,223
2013 - 2017	16,055	15,536	15,375	8,875	111,090	101,968
2018 - 2022	19,585	11,492	18,950	4,746	122,115	70,465
2023 - 2027	24,420	6,470	8,795	803	70,475	46,742
2028 - 2032	12,685	1,282	-	-	78,195	28,287
2033 - 2037	-	-	-	-	70,070	8,548
	<u>\$ 86,140</u>	<u>53,473</u>	<u>72,210</u>	<u>28,720</u>	<u>532,630</u>	<u>379,836</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

Long-term liability activity for the year ended August 31, 2007, was as follows (in thousands of dollars):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
General Bonds	\$ 56,665	8,295	(3,940)	61,020	4,260
Tax Allocation Bonds	6,247	3,793	(727)	9,313	620
Tax Supported Bonds	36,435	27,000	(355)	63,080	1,330
Tax Supported Antelope Valley					
Project Bonds	9,110	-	(595)	8,515	615
Capital Leases	18,321	5,500	(1,029)	22,792	1,718
Gross Bonds and Leases Payable	<u>126,778</u>	<u>44,588</u>	<u>(6,646)</u>	<u>164,720</u>	<u>8,543</u>
Deferred Amounts:					
For Issuance Premiums	2,271	485	(28)	2,728	-
For Issuance Discounts	(23)	(5)	2	(26)	-
Net Bonds and Leases Payable	<u>129,026</u>	<u>45,068</u>	<u>(6,672)</u>	<u>167,422</u>	<u>8,543</u>
Other Liabilities:					
Compensated Absences	9,353	8,185	(5,907)	11,631	6,374
Claims and Judgements	5,911	16,206	(15,762)	6,355	4,052
Net Pension Obligation	<u>3,570</u>	<u>411</u>	<u>-</u>	<u>3,981</u>	<u>-</u>
Governmental Activity Long-Term Liabilities	<u>\$ 147,860</u>	<u>69,870</u>	<u>(28,341)</u>	<u>189,389</u>	<u>18,969</u>
Business-Type Activities:					
Bonds, Notes and Leases Payable:					
Wastewater Revenue Bonds	\$ 67,685	20,460	(2,005)	86,140	2,415
Water Revenue Bonds	77,550	-	(5,340)	72,210	5,555
Parking Revenue Bonds	14,715	-	(1,240)	13,475	1,305
Golf Course Revenue Bonds	1,690	-	(315)	1,375	325
Solid Waste Management Revenue Bonds	4,000	-	(185)	3,815	190
Electric System Revenue Bonds	543,680	-	(11,050)	532,630	14,430
Capital Leases	704	595	(377)	922	444
Gross Bonds, Notes and Leases Payable	<u>710,024</u>	<u>21,055</u>	<u>(20,512)</u>	<u>710,567</u>	<u>24,664</u>
Deferred Amounts:					
For Issuance Premiums	20,743	-	(2,441)	18,302	-
For Issuance Discounts	(17,628)	(12)	1,775	(15,865)	-
For Refunding	(3,292)	-	386	(2,906)	-
Net Bonds, Notes and Leases Payable	<u>709,847</u>	<u>21,043</u>	<u>(20,792)</u>	<u>710,098</u>	<u>24,664</u>
Other Liabilities:					
Compensated Absences	1,272	1,021	(819)	1,474	892
Accrued Landfill Closure/Postclosure Care Costs	<u>8,391</u>	<u>737</u>	<u>(178)</u>	<u>8,950</u>	<u>-</u>
Business-Type Activity Long-Term Liabilities	<u>\$ 719,510</u>	<u>22,801</u>	<u>(21,789)</u>	<u>720,522</u>	<u>25,556</u>

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, 2007

Long-term liability activity for the major enterprise funds for the year ended August 31, 2007, was as follows (in thousands of dollars):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Lincoln Wastewater System:					
Bonds Payable:					
Wastewater Revenue Bonds	67,685	20,460	(2,005)	86,140	2,415
Deferred For Issuance Premiums	2,075	-	(93)	1,982	-
Deferred For Issuance Discounts	-	(12)	-	(12)	-
Net Bonds Payable	<u>69,760</u>	<u>20,448</u>	<u>(2,098)</u>	<u>88,110</u>	<u>2,415</u>
Other Liabilities:					
Compensated Absences	433	331	(278)	486	299
Total Long-Term Liabilities	<u>\$ 70,193</u>	<u>20,779</u>	<u>(2,376)</u>	<u>88,596</u>	<u>2,714</u>
Lincoln Water System:					
Bonds Payable:					
Water Revenue Bonds	\$ 77,550	-	(5,340)	72,210	5,555
Deferred for Issuance Premiums	3,189	-	(336)	2,853	-
Deferred for Refunding	(809)	-	136	(673)	-
Net Bonds Payable	<u>79,930</u>	<u>-</u>	<u>(5,540)</u>	<u>74,390</u>	<u>5,555</u>
Other Liabilities:					
Compensated Absences	550	446	(306)	690	350
Total Long-Term Liabilities	<u>\$ 80,480</u>	<u>446</u>	<u>(5,846)</u>	<u>75,080</u>	<u>5,905</u>
Lincoln Electric System:					
Bonds and Notes Payable:					
Electric System Revenue Bonds	\$ 543,680	-	(11,050)	532,630	14,430
Deferred for Issuance Premiums	15,466	-	(2,011)	13,455	-
Deferred for Issuance Discounts	(17,628)	-	1,775	(15,853)	-
Deferred for Refunding	(2,457)	-	245	(2,212)	-
Total Long-Term Liabilities	<u>\$ 539,061</u>	<u>-</u>	<u>(11,041)</u>	<u>528,020</u>	<u>14,430</u>

(10) 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, 2007, which discloses the nature and amount of the adjustments necessary to convert the actual GAAP data to the budgetary basis, is presented below:

	General Fund	Street Construction Fund	Federal Grants Fund
Net Change in Fund Balances:			
Balance on a GAAP basis	\$ 1,120,666	28,853,406	982,715
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.	1,739,128	1,635,684	(689,778)
Entity differences occur when the budget excludes programs or entities that fall within the financial reporting entity as defined by GAAP.	-	15,313,743	-
Balance on a budget basis	<u>\$ 2,859,794</u>	<u>45,802,833</u>	<u>292,937</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

(11) **DEFICIT NET ASSETS**

The following funds had a net asset or fund balance deficit as of August 31, 2007:

Special Revenue - Impact Fees Fund	\$ (7,080)
Enterprise - Emergency Medical Services Fund	(1,060,448)
Internal Service - Engineering Revolving Fund	(815,701)

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

The Emergency Medical Services Fund has reversed the operating losses that had occurred in the three prior fiscal years. This was accomplished by increasing revenues with new rate schedules and decreasing operating expenses.

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

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

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

General Fund	
Urban Development	\$ 6,789
Street Maintenance	107,554
Street Lighting	2,390,947

(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

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

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, 2007, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	370
Terminated plan members entitled to but not yet receiving benefits	28
Active plan members (non-DROP)	531
DROP members	<u>47</u>
Total	<u>976</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 2007 was 13.08% of annual covered payroll. Actual contributions by the City were 11.4% 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	\$ 4,056
Interest on net pension obligation	268
Adjustment to annual required contribution	<u>(419)</u>
Annual pension cost	3,905
Contributions made	<u>3,494</u>
Increase in net pension obligation	411
Net pension obligation beginning	<u>3,570</u>
Net pension obligation ending	<u>\$ 3,981</u>

The annual required contribution for the current year was determined as part of the August 31, 2005, 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 August 31	Annual Pension Cost (APC)	Annual Pension Contribution	Percentage of APC Contributed	Net Pension Obligation
2007	\$ 3,905	\$ 3,494	89 %	\$ 3,981
2006	3,972	2,893	73	3,570
2005	3,623	2,562	71	2,491

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

ELECTRIC SYSTEM

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

LES has a defined contribution retirement plan covering all employees upon employment; however, employees are not eligible to receive employer contributions until they have been employed six months. The plan is a straight-money purchase plan, administered by 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 \$2,952,000 (9.59% of covered payroll) and its employees contributed approximately \$1,891,000 (6.14% 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, 2006, was \$1,505,823. City contributions totaled \$176,047 or 11.7% of covered payroll.

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, 2006, total payroll was approximately \$70,844,000 and covered payroll was approximately \$60,517,000. City contributions totaled \$6,714,670 or 11.1% of covered payroll and employee contributions totaled \$3,537,784 or 5.8% of covered payroll. Employees made \$97,625 in voluntary contributions for the year ended December 31, 2006.

(14) 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 2006 tax levy, for the 2006-2007 fiscal year, was \$64,793,826 below the legal limit, with a tax rate per \$100 valuation of \$0.28337. The assessed value upon which the 2006 levy was based was \$15,342,163,788.

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

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

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 2006-2007 are recorded as revenue in the Fund Financial Statements when expected to be collected within 60 days after August 31, 2007. 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.

(15) 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, 2007, the City had a self-insured retention for workers' compensation exposures up to \$500,000 per individual; building and contents property 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, health benefits (beginning November, 2006), 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 was covered by a policy that provided statutory limits above the City's retention of \$500,000 per individual. Law enforcement liability was covered by a policy that provided limits of \$5 million per occurrence and \$6 million in annual aggregate. General liability was covered by a policy that provided limits of \$5 million per occurrence and \$6 million in annual aggregate. Public officials liability was covered by a policy that provided limits of \$5 million per occurrence and \$5 million in annual aggregate. Public transportation liability was covered by a policy that provided a limit of \$5 million. Auto liability was covered by a policy which provided a limit of \$5 million. Health had excess loss indemnity coverage above \$150,000 per claim and above 100% of the plan aggregate. 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 no significant insurance recoveries in the current year.

The City annually retains the services of independent actuaries to analyze the self-insured workers' compensation, general liability, public transportation liability, law enforcement liability, auto liability, and long-term disability exposures. Such analysis has been used to assist the City with its financial planning and management of the self-insurance program. Included in the specific objectives of the studies were to:

- Estimate the outstanding liabilities for the current fiscal year ended August 31,
- Forecast ultimate incurred losses and incurred but not reported losses for future years, and
- Estimate the required funding level for the City's self-insured liabilities.

The City funds its self-insurance program on an "incurred loss" basis. The governmental and proprietary funds pay annual premium amounts, based on past experience of incurred losses, to the Insurance Revolving Fund. Claim liabilities of \$6,355,506 were recorded at August 31, 2007. Excluding health care claims approximating \$1,391,000, the remaining liability 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

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

expenses regardless of their allocation to specific claims. These liabilities have been discounted using a 4.37% 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, 2007 and 2006:

<u>2007</u>	Worker's Compensation and Others	Long-Term Disability	Health	Total
Balance at September 1	\$ 5,130,000	781,384	-	5,911,384
Current year claims and changes in estimates	3,002,000	(90,437)	13,294,165	16,205,728
Claims payments	<u>(3,773,000)</u>	<u>(85,438)</u>	<u>(11,903,168)</u>	<u>(15,761,606)</u>
Balance at August 31	<u>\$ 4,359,000</u>	<u>605,509</u>	<u>1,390,997</u>	<u>6,355,506</u>

<u>2006</u>	Worker's Compensation and Others	Long-Term Disability	Health	Total
Balance at September 1	\$ 4,407,000	719,431	-	5,126,431
Current year claims and changes in estimates	3,544,000	147,887	-	3,691,887
Claims payments	<u>(2,821,000)</u>	<u>(85,934)</u>	<u>-</u>	<u>(2,906,934)</u>
Balance at August 31	<u>\$ 5,130,000</u>	<u>781,384</u>	<u>-</u>	<u>5,911,384</u>

(16) 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.

At August 31, 2007, approximately 98% of the full-time, regular City's employees are represented by a Union. The existing union contracts will expire either in August 2008 or August 2009.

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

The City has been identified as a potentially responsible party (PRP) or equivalent status in relation to several sites with environmental remediation activities. Management currently believes that the liability of the City in connection with these activities will be immaterial. However, the ultimate cost will depend on the extent of remediation required. Management does not believe that changes in these cost estimates will have an adverse effect on the City's financial condition or results of operations.

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

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, 2007, the City's commitment to developers is estimated to be \$26,300,000.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

STREET CONSTRUCTION PROJECTS

The City's Street Construction Capital Projects Fund has commitments under major construction contracts in progress of approximately \$23,000,000 as of August 31, 2007, 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 \$10,500,000 at August 31, 2007.

LINCOLN WATER SYSTEM

The Lincoln Water System has commitments under major construction contracts in progress of approximately \$9,166,000 as of August 31, 2007.

LINCOLN ELECTRIC SYSTEM (LES)

An agreement signed in May 2002 provides for LES joint ownership in the Council Bluffs No. 4 coal-fired unit located south of Council Bluffs, Iowa, for 100 megawatts of generating capacity. The plant is scheduled for commercial operation in June 2007 with MidAmerican Energy Company (MEC) acting as operating agent. In addition to joint ownership, LES executed a Power Purchase Agreement with MEC that resells 50 megawatts of the 100 megawatt capacity back to MEC for the first 19 months of operations to optimize the economics of LES's participation and better fit LES's anticipated load growth. LES's share of the total estimated cost of construction is approximately \$164.3 million dollars. As of December 31, 2006 approximately \$47 million of construction costs remain. Funding for this construction includes earnings, available funds, and short-and long-term financing.

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 2006. 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 2006.

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 improvements, debt service payments and fixed costs, and credits aggregate approximately \$19,000,000, \$21,600,000, \$20,900,000, \$17,600,000, and \$17,400,000, respectively, in each of the five years subsequent to December 31, 2006.

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 \$38,000,000 are reflected in utility plant at December 31, 2006.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

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 2006, LES billed the County approximately \$2,900,000 for demand and energy charges.

(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, 2007, the City had incurred a liability of approximately \$6,079,000 for the municipal solid waste landfill which represents the amount of costs reported to date based on the approximately 41 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 22 years).

As of August 31, 2007, the City had incurred a liability of approximately \$517,000 for the construction and demolition debris landfill which represents the amount of costs reported to date based on the approximately 45 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$622,000, which will be recognized as the remaining capacity is used (estimated to be approximately 20 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, 2007, a liability for closure and postclosure care costs is recorded in the amount of approximately \$2,354,000, which is based on appropriations identified in the City's capital improvement projects budgeting process. Additional corrective action costs related to possible landfill gas migration and groundwater conditions may be identified once testing is completed and the state regulatory agency has issued a final determination. These additional potential costs cannot be reasonably estimated and thus no liability has been accrued as of August 31, 2007.

(18) 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 OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

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, 2007, is presented as follows:

	Golf	Parking Facilities	Solid Waste Management
CONDENSED STATEMENT OF NET ASSETS			
Assets:			
Current Assets	\$ 44,869	4,703,977	9,271,772
Due from Other Funds	24,320	325,493	606,381
Restricted Assets	442,849	2,669,529	1,552,771
Deferred Charges	33,408	385,756	72,012
Capital Assets	6,793,756	36,441,813	17,566,507
Total Assets	<u>7,339,202</u>	<u>44,526,568</u>	<u>29,069,443</u>
Liabilities:			
Current Liabilities	881,382	2,095,045	484,626
Due to Other Funds	346,083	-	1,103
Noncurrent Liabilities	1,486,201	12,170,000	12,612,594
Total Liabilities	<u>2,713,666</u>	<u>14,265,045</u>	<u>13,098,323</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	5,150,081	25,173,962	15,285,119
Restricted	151,565	859,725	174,748
Unrestricted	(676,110)	4,227,836	511,253
Total Net Assets	<u>\$ 4,625,536</u>	<u>30,261,523</u>	<u>15,971,120</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS			
Operating Revenues	\$ 2,919,968	6,264,527	5,259,855
Depreciation Expense	(599,870)	(1,047,176)	(1,486,664)
Other Operating Expenses	(2,463,827)	(2,781,952)	(5,079,147)
Operating Income (Loss)	(143,729)	2,435,399	(1,305,956)
Nonoperating Revenues (Expenses):			
Investment Earnings	7,017	380,486	565,403
Loss on Disposal of Capital Assets	(6,999)	-	(10,105)
Occupation Tax	-	-	2,195,132
Interest Expense and Fiscal Charges	(95,381)	(786,918)	(165,832)
Capital Contributions	17,927	567,143	127,351
Transfers	(4,500)	(835,000)	(770,655)
Change in Net Assets	(225,665)	1,761,110	635,338
Beginning Net Assets	4,851,201	28,500,413	15,335,782
Ending Net Assets	<u>\$ 4,625,536</u>	<u>30,261,523</u>	<u>15,971,120</u>
CONDENSED STATEMENT OF CASH FLOWS			
Net Cash Provided (Used) by:			
Operating Activities	\$ 515,996	3,910,865	435,635
Noncapital Financing Activities	85,549	(816,605)	1,736,775
Capital and Related Financing Activities	(551,994)	(2,047,247)	(3,991,431)
Investing Activities	11,616	(611,105)	2,009,344
Net Increase in Cash	61,167	435,908	190,323
Beginning Balance	72,344	913,540	1,870,069
Ending Balance	<u>\$ 133,511</u>	<u>1,349,448</u>	<u>2,060,392</u>

(19) 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:

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

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, 2007 is approximately \$73,866,000 for the Water System and \$89,116,000 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.

(20) 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, 2007, the City made rental payments of approximately \$2.4 million to the Commission.

As of August 31, 2007, the Commission has bonds outstanding of \$48,250,000 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.

(21) 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

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2007

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.

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.

(22) **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 \$198,000 in 2006. The total amount of payments to LES for energy was approximately \$73,000 in 2006.

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 \$94,000 in 2006. The total amount of payments to LES for energy was approximately \$8.1 million in 2006.

Required Supplementary Information

Schedule of Funding Progress
(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll * (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
August 31, 2007	\$ 171,264	\$ 169,587	\$ (1,677)	101.0 %	\$ 30,546	(5.5) %
August 31, 2006	157,527	161,583	4,056	97.5	30,724	13.2
August 31, 2005	145,730	151,978	6,248	95.9	29,029	21.5
August 31, 2004	136,974	144,179	7,205	95.0	28,125	25.6
August 31, 2003	132,578	137,508	4,930	96.4	27,415	18.0
August 31, 2002	128,319	130,875	2,556	98.0	26,607	9.6

* Non-DROP payroll in 2002 and later

Schedule of Employer Contributions
(dollar amounts in thousands)

Year Ended August 31	Annual Required Contribution	Annual Pension Contribution	Percentage Contributed
2007	\$ 4,056	\$ 3,494	86 %
2006	4,077	2,893	71
2005	3,684	2,562	70
2004	3,297	1,992	60
2003	2,234	1,781	80
2002	1,878	1,542	82

APPENDIX C

DEFINITIONS AND SUMMARIES OF CERTAIN PRINCIPAL DOCUMENTS

[This page intentionally left blank.]

APPENDIX C

DEFINITIONS AND SUMMARIES OF CERTAIN PRINCIPAL DOCUMENTS

The summaries of the Declaration of Trust, the Lease and the Site Lease contained in this **Appendix C** do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents, copies of which may be viewed at the principal corporate office of the Trustee, or will be provided by the Trustee to any prospective purchaser requesting the same, upon payment by such prospective purchaser of the cost of complying with such request.

Definitions

The definitions of certain words and terms used in this Official Statement are set forth below:

“Additional Certificates” means any Certificates executed and delivered pursuant to the Declaration of Trust.

“Authorized Representative” means the Mayor or the Finance Director of the City or any other person designated as an Authorized Representative by the Mayor, such designation being approved by the governing body of the City by a resolution that is filed with the Trustee.

“Basic Rent” means the Basic Rent Payments comprised of a Principal Portion and an Interest Portion as set forth in the Lease.

“Basic Rent Payment” means a payment of Basic Rent.

“Basic Rent Payment Date” means each March 15 and September 15 during the Lease Term, commencing on September 15, 2008.

“Cede & Co.” means Cede & Co., as nominee name of The Depository Trust Company, New York, New York, and any successor nominee of the Securities Depository with respect to the Certificates.

“Certificate Payment” means the payments to be made to the Owners of the Certificates, whether representing Interest Portion only or Principal Portion and Interest Portion of Basic Rent under the Lease.

“Certificates” means the Series 2008 Certificates and any Additional Certificates.

“City” means The City of Lincoln, Nebraska, a city of the primary class duly created, organized and existing under and by virtue of the laws of the State of Nebraska, and its successors.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

“Completion Certificate” means the certificate of the City given in accordance with the Lease.

“Completion Date” means the date of completion of the Improvements as that date shall be certified as provided in the Lease.

“Construction Agreement” means one of any agreements between the City and various parties, if any, providing for the acquisition, construction and installation of various portions of the Improvements.

“Costs of Improvements” means all reasonable or necessary expenses related or incidental to the acquisition and construction of the Improvements, including the expenses of studies, surveys, title policies, architectural and engineering services, legal and other special services and all other necessary and incidental expenses, including interest on the Certificates to the Completion Date. Costs of Improvements shall include Costs of Issuance.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City and related to the authorization, execution, sale and delivery of the Certificates, including advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee, legal fees of parties to the transaction and all other initial fees and disbursements contemplated by the Lease and the Declaration of Trust.

“Declaration of Trust” means the Declaration of Trust dated April 29, 2008, made by the Trustee, as the same may from time to time be amended or supplemented in accordance with its terms.

“Directive” means an instrument in writing executed in one or more counterparts by the Owners of Certificates, as determined from the records of the Registrar kept pursuant to the Declaration of Trust, or their lawful attorneys-in-fact, representing not less than a majority of the aggregate unpaid Principal Portion represented by the then Outstanding Certificates.

“Event of Default” means an Event of Default as described in the Declaration of Trust.

“Event of Lease Default” means an Event of Default as described in the Lease.

“Fiscal Year” means the fiscal year of the City, currently the twelve-month period beginning September 1 and ending on August 31.

“Funds” means, collectively, the Funds created and held under the Declaration of Trust and all accounts therein.

“Government Obligations” means (a) direct noncallable obligations of the United States of America and obligations the timely payment of principal and interest on which is fully and unconditionally guaranteed by the United States of America, and (b) trust receipts or certificates evidencing participation or other direct ownership interests in principal or interest payments to be made upon obligations described in clause (a) above that are held in a custody or trust account free and clear of all claims of persons other than the holders of such trust receipts or certificates, and (c) obligations which are noncallable or for which the call date has been irrevocably determined having an investment rating in the highest rating category of either Moody’s or S&P as a result of the advance refunding of such obligations by the deposit of direct noncallable obligations of the United States of America in a trust or escrow account segregated and exclusively set aside for the payment of such obligations and which mature as to principal and interest in such amounts and at such times as will insure the availability of sufficient money to timely pay such principal and interest.

“Interest Portion” means the portion of each Basic Rent Payment that represents the payment of interest as set forth in the Lease.

“Investment Securities” means and includes any of the following securities, if and to the extent the same are permitted by law:

- (a) Government Obligations;
- (b) other obligations issued by or on behalf of agencies or instrumentalities of the United States of America except for the Federal Farm Credit Bank;
- (c) negotiable certificates of deposit, demand deposits and other deposit arrangements, repurchase agreements, and investment agreements issued by banks or trust companies, including without limitation, the Trustee and its affiliates, continuously secured (to the extent not fully insured by the Federal Deposit Insurance Trustee), for the benefit of the Trustee by lodging with a bank or trust company (which may or may not be the bank or trust company issuing such negotiable certificates of deposit, repurchase agreement or investment agreement), as collateral security, securities specified in paragraphs (a) and (b) above having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit, demand deposits and other deposit arrangements; and
- (d) money market mutual funds rated in the highest rating category by a nationally recognized rating service consisting of Government Obligations or repurchase agreements for Government Obligations.

“Lease” means the Lease Purchase Agreement, dated April 29, 2008, between the Trustee, as lessor, and the City, as lessee, as amended and supplemented from time to time in accordance with its terms.

“Lease Revenue Fund” means the Lease Revenue Fund so designated and established pursuant to the Declaration of Trust.

“Lease Revenues” means the Basic Rent Payments, Supplemental Rent Payments and all other amounts due and owing pursuant to or with respect to the Lease, including prepayments, insurance proceeds, condemnation proceeds, and any and all interest, profits or other income derived from the investment thereof in any fund or account established pursuant to the Declaration of Trust.

“Lease Term” means the term of the Lease beginning April 29, 2008 and ending on March 15, 2018, unless earlier terminated in accordance with the provisions hereof.

“Moody’s” means Moody’s Investors Service, Inc., and its successors and assigns, and, if such firm shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating service designated by the City, with notice to the Trustee.

“Net Proceeds” means the amount remaining from the gross proceeds of any insurance claim, condemnation award or sale under threat of condemnation after deducting all reasonable expenses, including attorneys’ fees, incurred in the collection thereof.

“Notice by Mail” or **“Notice”** of any action or condition **“by Mail”** means a written notice meeting the requirements of the Declaration of Trust mailed by first-class mail to the Owners of specified Certificates, at the addresses shown on the registration books maintained by the Registrar.

“Outstanding” means, as of the date of determination, all Certificates theretofore executed and delivered pursuant to the Declaration of Trust except (i) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation, (ii) Certificates for the transfer or exchange of or in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Declaration of Trust, (iii) Certificates whose payment or prepayment has been provided for in accordance with the Declaration of Trust, and (iv) Certificates paid or deemed to be paid pursuant to the Declaration of Trust.

“Owner” of a Certificate means the registered owner of such Certificate as shown on the register kept by the Registrar.

“Park Project” means the Real Property and the Park Improvements.

“Participants” means those financial institutions for whom the Securities Depository effects book-entry transfers and pledges of securities deposited with the Securities Depository, as such listing of Participants exists at the time of such reference.

“Prepayment Date” means any date set for prepayment of the Principal Portion of Basic Rent represented by Certificates.

“Prepayment Price” means, with respect to any Certificate (or portion thereof) the amount specified in the Declaration of Trust.

“Principal Portion” means the principal portion of the Basic Rent Payments as set forth in the Lease.

“Proceeds” means the aggregate money initially paid to the Trustee for the Certificates.

“Project” means the Real Property, the Park Improvements and the Street Light Improvements.

“Project Fund” means the Project Fund as defined in the Declaration of Trust.

“Purchase Price” means the amount designated as such in the Lease that the City shall pay to the Trustee to purchase the Trustee’s interest in the Project.

“Rebate Fund” means the fund by that name established pursuant to the Declaration of Trust.

“Record Date” means the last day of the month (whether or not a Business Day) prior to the applicable Basic Rent Payment Date.

“Registrar” means the Trustee when acting in that capacity, or its successor as Registrar.

“Rent” means, collectively, Basic Rent and Supplemental Rent.

“Rent Payment” means a payment of Rent.

“Representation Letter” means the Representation Letter from the City to the Securities Depository.

“Securities Depository” means, initially, The Depository Trust Company, New York, New York, and its successors and assigns.

“Series 2008 Certificates” means the \$7,500,000 aggregate principal amount Certificates of Participation, Series 2008, evidencing a proportionate interest in Basic Rent Payments to be made by The City of Lincoln, Nebraska, pursuant to a Lease Purchase Agreement, executed and delivered pursuant to the Declaration of Trust.

“Special Tax Counsel” means Gilmore & Bell, P.C., or any other attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds or other obligations issued by states and political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America.

“State” means the State of Nebraska.

“Supplemental Declaration of Trust” means any amendment or supplement to the Declaration of Trust.

“Supplemental Lease” means any amendment or supplement to the Lease entered pursuant to the Lease.

“Supplemental Rent” means all amounts due under the Lease other than Basic Rent.

“Supplemental Rent Payment” means a payment of Supplemental Rent.

“Tax Compliance Agreement” means the Tax Compliance Agreement entered by the City and the Trustee in connection with the execution and delivery with each series of Certificates.

“Trust Estate” means the assets, property and interests held by the Trustee pursuant to the Declaration of Trust and the Lease.

“Trustee” means Union Bank and Trust Company, Lincoln, Nebraska, and its successor or successors and their respective assigns.

SUMMARY OF THE DECLARATION OF TRUST

General Provisions

The Declaration of Trust is made by the Trustee. The Declaration of Trust authorizes the Trustee to execute and deliver the Series 2008 Certificates, provides the terms of the Series 2008 Certificates and provides for various Funds related to the Project and the Lease.

Trust Estate

Under the Declaration of Trust, the Trustee holds all of the assets, property and interests received by it under the terms of the Declaration of Trust and the Lease and all agreements and instruments contemplated thereby (except the Rebate Fund and any compensation, indemnification or other amounts which may be due directly to the Trustee thereunder, collectively, the **“Trust Estate”**), as trustee, upon

the terms and trusts set forth under the Declaration of Trust for the equal and proportionate benefit, security and protection of all present and future Owners of the Certificates.

Additional Certificates

Upon the execution and delivery of a Supplemental Lease that provides for an increase in the amount of Basic Rent payable under the Lease and so long as no Event of Default exists, Additional Certificates evidencing the right of the Owners thereof to receive the Principal Portion and the Interest Portion of such additional Basic Rent may be executed and delivered under and equally and ratably secured by the Declaration of Trust on a parity with the Series 2008 Certificates and any other Additional Certificates, at any time and from time to time, upon compliance with the conditions provided in the Declaration of Trust, for the purpose of providing funds to pay all or any part of the cost of (a) repairing, replacing or restoring the Project, (b) improving, upgrading or modifying the Project, (c) additional improvements to the Project or the acquisition of additional real property to be included in the Project or the acquisition, purchase, construction or equipping of additions to or expansions of or remodeling or modification of the Project, and (d) refunding any or all of the Certificates.

Establishment of Funds

The following funds and accounts are established under the Declaration of Trust:

- (a) Project Fund;
- (b) Lease Revenue Fund; and
- (c) Rebate Fund.

Application of Lease Revenues

Lease Revenues shall be deposited, as received pursuant to the Lease, as follows:

- (a) The Basic Rent shall be deposited to the Lease Revenue Fund.
- (b) Optional prepayments of the Principal Portion of Basic Rent (in amounts equal to the applicable Prepayment Price) shall be deposited to the Lease Revenue Fund.
- (c) Payments of Supplemental Rent pursuant to the Lease shall be applied as provided in the Lease.

Undesignated payments of Rent which are insufficient to discharge the full amount then due shall be applied first to the Interest Portion of Basic Rent, next to the Principal Portion of Basic Rent and finally to Supplemental Rent.

Disbursements from the Project Fund

Payment shall be made from money in the Project Fund upon receipt by the Trustee of a requisition certificate therefor signed by an Authorized Representative of the City and, except for requisitions for Street Light Improvements or the Costs of Issuance, an architect, engineer or contractor (which architect, engineer or contractor shall not be an employee of the City). The Completion Date of the Improvements and the payment of all Costs of Improvements (other than Costs of Improvements for which sufficient amounts are retained in the Project Fund) shall be evidenced by the filing with the Trustee of the Completion Certificate pursuant to the Lease. As soon as practicable any balance remaining in the Project Fund shall be transferred and deposited without further authorization as provided

in the Lease. In the event of the acceleration of all of the Certificates pursuant to the Lease, any money then remaining in the Project Fund shall be transferred and deposited to the credit of the Lease Revenue Fund and shall be used to pay the Interest Portion and Principal Portion of Basic Rent.

Application of Money in the Lease Revenue Fund

Except as otherwise provided in the Declaration of Trust, all amounts in the Lease Revenue Fund shall be used and withdrawn by the Trustee solely to pay Basic Rent represented by the Certificates when due and payable (including principal and accrued interest with respect to any Certificates paid prior to maturity pursuant to the Declaration of Trust).

Rebate Fund

Money shall be deposited in and disbursed from the Rebate Fund in accordance with written instructions from the City to the Trustee prepared in accordance with the provisions of the Tax Compliance Agreement.

Investment of Money in Various Funds

Money held in the Project Fund, the Lease Revenue Fund and the Rebate Fund shall, subject to the requirements of the Tax Compliance Agreement and as provided in the Declaration of Trust, be invested and reinvested by the Trustee, pursuant to written direction of the City, signed by an Authorized Representative of the City, in Investment Securities that mature or are subject to redemption by the holder prior to the date such funds will be needed. In the absence of such instructions the Trustee may invest money in Investment Securities described in paragraph (d) of the definition of Investment Securities in this **Appendix C**.

The Trustee shall sell and reduce to cash a sufficient amount of such Investment Securities held by the Trustee in any fund under the Declaration of Trust whenever the cash balance in such Fund is insufficient for the purpose of such Fund. Any such Investment Securities shall be held by or under the control of the Trustee and shall be deemed at all times a part of the Fund or Account in which such money is originally held, and the interest accruing thereon and any profit realized from such Investment Securities shall be credited to such Fund or Account, and any loss resulting from such Investment Securities shall be charged to such Fund or Account.

Amendments to the Declaration of Trust or the Lease

The Declaration of Trust, the Lease or the Site Lease and the rights and obligations of the City and of the Owners of the Certificates and of the Trustee may be modified or amended from time to time and at any time by an amendment or supplement thereto which the parties thereto may enter into when the written consent of the Trustee and the City, if not a party thereto, and the Owners of a majority in aggregate Principal Portion of Basic Rent Payments represented by the Certificates then Outstanding shall have been filed with the Trustee. No such modification or amendment shall (a) extend the stated maturity of any Certificate, or reduce the amount of principal represented thereby, or extend the time of payment or reduce the amount of any Prepayment Price provided in the Declaration of Trust for the payment of any Certificate, or reduce the rate of interest with respect thereto, or extend the time of payment of interest with respect thereto without the consent of the Owner of each Certificate so affected, (b) reduce the specified percentage of Certificates the consent of the Owners of which is required to effect any such modification or amendment or, except in connection with the delivery of any Additional Certificates, permit the creation of any lien on the money in the Project Fund, the Lease Revenue Fund and the Reserve Fund or deprive the Owners of the trust created by the Declaration of Trust with respect to the

money in the Project Fund or the Lease Revenue Fund or (c) create a preference or priority of any Certificate or Certificates over any other Certificate or Certificates without the consent of the Owners of all of the Certificates then Outstanding.

Notwithstanding the foregoing paragraph, the Declaration of Trust, the Lease or the Site Lease and the rights and obligations of the City, of the Trustee and of the Owners of the Certificates may also be modified or amended from time to time and at any time by an agreement which the parties thereto may enter into without the consent of any Certificate Owners, only to the extent permitted by law and only for any one or more of the following purposes: (a) to add to the covenants and agreements of the Trustee in the Declaration of Trust, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Certificates (or any portion thereof), or to surrender any right or power reserved under the Declaration of Trust to or conferred upon the City; provided, however, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Owners of the Certificates; (b) to add to the covenants and agreements of the City in the Lease, other covenants and agreements thereafter to be observed or to surrender any right or power therein reserved to or conferred upon the Trustee or the City; provided, however, that no such covenant, agreement or surrender shall materially adversely affect the interests of the Owners of the Certificates; (c) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Declaration of Trust, the Lease or the Site Lease, or in regard to matters or questions arising under the Declaration of Trust, the Lease or the Site Lease as the Trustee and the City may deem necessary or desirable and not inconsistent with such agreements, or as may be requested by the City or the Trustee and which shall not, in any such case materially adversely affect the interests of the Owners of the Certificates, (d) to modify, amend or supplement the Declaration of Trust in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and that will not in the sole judgment of the Trustee materially adversely affect the interests of the Owners of the Certificates; (e) to provide for any additional procedures, covenants or agreements necessary to maintain the exclusion of the Interest Portion of Basic Rent from gross income for purposes of federal income taxation; (f) to provide for the execution and delivery of Additional Certificates; or (g) to make any other change that in the sole judgment of the Trustee does not have a materially adverse effect on the rights of the Certificate Owners.

Defaults

The occurrence of any of the following events, subject to the provisions of the Declaration of Trust, is hereby defined as an "Event of Default":

- (a) Default in the due and punctual payment of any Interest Portion of Basic Rent represented by a Certificate; or
- (b) Default in the due and punctual payment of the Principal Portion of Basic Rent represented by a Certificate, whether at the stated payment date thereof or the prepayment date set therefor in accordance with the terms of the Declaration of Trust; or
- (c) Any Event of Lease Default.

Acceleration

Upon the occurrence of an Event of Default, the Trustee may, and upon receipt of a Directive shall, by notice in writing delivered to the City, declare the Principal Portion and Interest Portion of Basic

Rent represented by all Certificates Outstanding to the end of the then current Fiscal Year immediately due and payable.

Other Remedies Upon an Event of Default

Upon the occurrence of an Event of Lease Default, the Trustee may exercise any remedies available under the Lease and, to the extent consistent therewith, may sell, lease or manage any portion of the Project and apply the net proceeds thereof in accordance with the Declaration of Trust and, whether or not it has done so, may pursue any other remedy available to it under the Lease or at law or in equity.

No remedy by the terms of the Declaration of Trust conferred upon or reserved to the Trustee or to the Certificate Owners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Certificate Owners thereunder or now or hereafter existing at law or in equity or by statute.

Rights of Certificate Owners

If an Event of Default has occurred and is continuing and if instructed to do so by a Directive and if indemnified as provided in the Declaration of Trust, the Trustee shall be obligated to exercise such one or more of the rights and the remedies conferred thereunder as the Trustee, upon the advice of counsel, shall deem to be in the interests of the Certificate Owners.

Any other provision in the Declaration of Trust to the contrary notwithstanding, the Owners of not less than a majority in aggregate principal amount of Certificates then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the Declaration of Trust, or for the appointment of a receiver or any other proceedings thereunder; provided that such direction shall not be otherwise than in accordance with the provisions of law and of the Declaration of Trust, and provided, further, that the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability.

Defeasance

When (a) the obligations of the City under the Lease shall have been satisfied in connection with the exercise by the City of its option to purchase the Project in accordance with the Lease by the irrevocable deposit in escrow of cash or Government Obligations (maturing as to principal and interest in such amounts and at such times as are necessary to make any required payments without reinvestment of any earnings thereon) or both cash and such Government Obligations, and (b) the City has delivered to the Trustee, (1) an opinion of counsel to the effect that the conditions for such discharge contained in the Declaration of Trust have been satisfied or irrevocably provided for and (2) an accountant's certificate verifying the sufficiency of cash or Government Obligations or both so deposited for the payment of the Principal Portion and Interest Portion of the Certificates and any applicable Prepayment Price to be paid with respect to the Certificates and (c) the City has deposited sufficient money to pay the fees, charges and expenses of the Trustee (or has made provision satisfactory to the Trustee for their payment), thereupon the obligations created by the Declaration of Trust shall cease, determine and become void except for the right of the Certificate Owners and the obligation of the Trustee to apply such money and Government Obligations to the payment of the Certificates as set forth in the Declaration of Trust.

The Trustee

The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Declaration of Trust. The Trustee will, during the existence of any Event of Default, exercise such of the rights and powers vested in it by the Declaration of Trust, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

The Trustee may be removed at any time by a Directive or shall resign at any time the Trustee shall cease to be eligible in accordance with the Declaration of Trust, or shall become incapable of acting, or shall be adjudged as bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the property or affairs for the purpose of rehabilitation, conservation or liquidation, and thereupon a successor Trustee shall be appointed by a Directive. Written notice of any removal or resignation pursuant to this paragraph shall be given by the Trustee to the City.

The Trustee may at any time resign by giving written notice of such resignation to the City and by giving the Certificate Owners Notice by Mail of such resignation at the addresses listed on the registration books kept by the Trustee. Upon receiving such notice of resignation, a successor Trustee shall be appointed by a Directive.

SUMMARY OF THE LEASE

General

The Lease has been entered into between the Trustee and the City and contains the terms and conditions under which the Project will be leased to and used by the City.

Lease Term

The term of the Lease with respect to the Park Project begins April 29, 2008 and ends on March 15, 2012, and, with respect to the Street Light Improvements, begins on April 29, 2008 and ends on March 15, 2018, unless earlier terminated in accordance with the provisions thereof.

Obligations Unconditional

The obligations of the City under the Lease to pay Rent during the Lease Term on or before the date the same become due, and to perform all of its other obligations, covenants and agreements under the Lease shall be absolute and unconditional, without notice or demand, and without abatement, deduction, set off, counterclaim, recoupment or defense or any right of termination or cancellation arising from any circumstance whatsoever, whether now existing or hereafter arising, and irrespective of whether the Project shall have been started or completed, or whether the Trustee's title to the Project or to any part thereof is defective or nonexistent, and notwithstanding any damage to, loss, theft or destruction of the Project or any part thereof, any failure of consideration or frustration of commercial purpose, the taking by eminent domain of title to or of the right of temporary use of all or any part of the Project, legal curtailment of the City's use thereof, the eviction or constructive eviction of the City, any change in the tax or other laws of the United States of America, the State or any political subdivision thereof, any change in the Trustee's legal organization or status, or any default of the Trustee thereunder, and regardless of the invalidity of any action of the Trustee, and regardless of the invalidity of any portion of

the Lease, and the City hereby waives the provisions of any statute or other law now or hereafter in effect contrary to any of its obligations, covenants or agreements under the Lease or which releases or purports to release the City therefrom.

Net Lease

The Lease is intended to be triple net to the Trustee, subject to the Lease, and the obligations of the City to make payment of the Rent Payments and to perform and observe the other covenants and agreements contained in the Lease will be absolute and unconditional in all events without abatement, diminution, deduction, setoff or defense, for any reason, including any failure of the Project to be constructed or installed, any defects, malfunctions, breakdowns or infirmities in the Project or any accident, condemnation or unforeseen circumstances.

Payment for the Improvements

Costs and expenses of every nature incurred in the construction of the Improvements that qualify as Costs of Improvements shall be paid by the Trustee from the Project Fund upon receipt by the Trustee of a completed request of the City signed by the Authorized Representative of the City and containing the statements, representations and certifications set forth in the form of such request attached to the Declaration of Trust.

Completion Date; Excess Funds

The Completion Date shall be evidenced to the Trustee upon receipt by the Trustee of a certificate signed by the Authorized Representative of the City (the "**Completion Certificate**") stating (a) the date on which the Improvements were substantially completed, (b) that all other facilities necessary in connection with the Improvements have been purchased, constructed and installed, (c) that the Improvements and such other facilities have been purchased, constructed and installed in accordance with the plans and specifications therefor and in conformance with all applicable zoning, planning, building, environmental and other similar governmental regulations, (d) that, except for Costs of Improvements described in accordance with clause (e), all Costs of Improvements have been paid, and (e) the amounts, if any, to be retained in the Project Fund for the payment of Costs of Improvements, if any, not yet due or Costs of Improvements whose liability the City is contesting, and amounts that otherwise should be retained and the reasons they should be retained. The Completion Certificate may state that it is given without prejudice to any rights of the City that then exist or may subsequently come into being against third parties. Any amounts remaining in the Project Fund that are not needed to pay any remaining Costs of Improvements shall be transferred to the Lease Revenue Fund.

Enjoyment of Project

The Trustee shall provide the City during the Lease Term with quiet use and enjoyment of the Project, and the City shall during the Lease Term peaceably and quietly have, hold and enjoy the Project, without suit, trouble or hindrance from the Trustee, except as expressly set forth in the Lease. The City shall have the right to use the Project for any essential governmental or proprietary purpose of the City, subject to the limitations contained in the Lease.

Basic Rent

The City shall promptly pay all Basic Rent in lawful money of the United States of America on each Basic Rent Payment Date in such amounts as are described in the Lease. A portion of each Basic Rent Payment is paid as, and represents payment of, interest. To provide for the timely payment of Basic

Rent, the City shall pay to the Trustee for deposit in the Lease Revenue Fund not less than five business days before each Basic Rent Payment Date, the amount due on such Basic Rent Payment Date.

The City will, in accordance with the requirements of law and its normal budgeting procedures, fully budget and appropriate sufficient funds for the current Fiscal Year to make the Rent Payments scheduled to come due during the Original Term, and to meet its other obligations for the Original Term, and such funds will not be expended for other purposes.

Supplemental Rent

The City shall pay as Supplemental Rent (a) all Impositions (as defined in the Lease); (b) all amounts required under the Lease and all other payments of whatever nature which the City has agreed to pay or assume under the Lease; (c) all expenses, including attorneys' fees to the extent permitted by law, incurred in connection with the enforcement of any rights under the Lease by the Trustee; (d) all fees and charges of the Trustee as further provided in the Lease; and (e) any payments required to be made pursuant to the Tax Compliance Agreement.

Increased Basic Rent

Notwithstanding any other provision of the Lease, the Trustee and the City may enter into a Supplemental Lease or Supplemental Leases that increase the amount of Basic Rent payable by the City on any Basic Rent Payment Date to provide funds to pay the costs of (a) repairing, replacing or restoring the Project, (b) improving, upgrading or modifying the Project, (c) additional improvements to the Project or the acquisition of additional real property to be included in the Project or the acquisition, purchase construction or equipping of additions to or expansions or remodeling or modification of the Project, and (d) refunding any or all of the Certificates.

Disclaimer of Warranties

The Trustee makes no warranty or representation, either express or implied, to the value, design, condition or fitness for particular purpose or fitness for use of the Project or any part thereof, or warranty with respect thereto. In no event shall the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease or the existence, furnishing, functioning or the City's use of the Project or any part thereof.

Deficiency of Project Fund

If the Project Fund shall be insufficient to pay fully all Costs of Improvements and to complete fully the Project lien free, the City shall pay, in cash, the full amount of any such deficiency by making payments directly to the contractors and to the suppliers of materials and services as the same shall become due. The Trustee is not obligated to pay and shall not be responsible for any such deficiency, and the City shall save the Trustee whole and harmless from any obligation to pay such deficiency.

Impositions

The City shall bear, pay and discharge, before the delinquency thereof, as Supplemental Rent, all taxes and assessments, general and special, if any, which may be lawfully taxed, charged, levied, assessed or imposed upon or against or be payable for or in respect of the Project, including any taxes and assessments not of the kind enumerated above to the extent that the same are lawfully made, levied or assessed in lieu of or in addition to taxes or assessments now customarily levied against real or personal property, and further including all water and sewer charges, assessments and other general governmental

charges and impositions whatsoever, foreseen or unforeseen, which if not paid when due would impair the security of the Trustee or encumber the Project (all of the foregoing being herein referred to as “**Impositions**”).

Contest of Impositions

The City will have the right, in its own name or in the Trustee’s name, to contest the validity or amount of any Imposition that the City is required to bear, pay and discharge pursuant to the terms of this Article by appropriate legal proceedings instituted at least ten days before the contested Imposition becomes delinquent and may permit the Imposition so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Trustee notifies the City that, in the opinion of counsel, by nonpayment of any such items the interest of the Trustee in the Project will be endangered or the Project or any part thereof will be subject to loss or forfeiture, in which event the City will promptly pay such taxes, assessments or charges or provide the Trustee with full security against any loss that may result from nonpayment in form satisfactory to the Trustee.

Insurance

The City shall, during the Lease Term, cause the Project to be kept continuously insured against such risks customarily insured against for facilities such as the Project and shall pay (except as otherwise provided in the Lease), as the same become due, all premiums in respect thereof, such insurance to include the following policies of insurance:

(a) Insurance insuring the Project against loss or damage by fire, lightning and all other risks covered by the extended coverage insurance endorsement then in use in the State in an amount not less than the Principal Portion of the Certificates then Outstanding and issued by such insurance company or companies authorized to do business in the State as may be selected by the City. The policy or policies of such insurance will name the City and the Trustee as insureds, as their respective interests may appear. All proceeds from such policies of insurance will be applied as provided in the Lease. During acquisition, construction and installation of the Improvements, the City will cause to be provided, insofar as the Improvements are concerned, the insurance required by paragraph (b) below in lieu of the insurance required by this subsection (a) to the extent appropriate.

(b) To the extent appropriate, during the acquisition, construction and installation of the Improvements and in lieu of the insurance required under paragraph (a), builder’s risk-completed value insurance insuring the Improvements against fire, lightning and all other risks covered by the extended coverage endorsement then in use in the State to the full insurable value of the Improvements (subject to reasonable loss deductible clauses) issued by such insurance company or companies authorized to do business in the State as may be selected by the City. Such policy or policies of insurance will name the City and the Trustee as insureds, as their respective interests may appear, and all payments received under such policy or policies by the City will be paid over to the Trustee.

(c) Comprehensive general accident and public liability insurance (including coverage for all losses whatsoever arising from the ownership, maintenance, operation or use of any automobile, truck or other motor vehicle), under which the City and the Trustee are named as insureds, in an amount not less than \$500,000 combined single limit for bodily injuries and property damage.

(d) Workers’ compensation and unemployment coverages to the extent, if any, required by the laws of the State.

(e) Performance and labor and material payment bonds with respect to the Construction Agreements in the full amount of the Construction Agreements from surety companies qualified to do business in the State.

Enforcement of Contract and Surety Bonds

In the event of material default of any contractor or subcontractor under a Construction Agreement or any other contract made in connection with the acquisition, construction and installation of the Improvements, or in the event of a material breach of warranty with respect to any materials, workmanship or performance, the City will promptly proceed, either separately or in conjunction with others, to pursue diligently the remedies of the City against the contractor or subcontractor in default and against each surety on a bond securing the performance of such contract. Any amounts recovered by way of damages, refunds, adjustments or otherwise in connection with the foregoing, after deduction of expenses incurred in such recovery and after reimbursement to the City of any amounts theretofore paid by the City not previously reimbursed to the City for correction or remedying of the default that gave rise to the proceedings against the contractor or subcontractor or surety, will be paid to the Trustee for deposit in the Project Fund if received before the Completion Date and, if such funds are received after the Completion Date, for deposit in the Lease Revenue Fund to be used solely for the purpose of paying Basic Rent under the Lease.

Maintenance and Modification of Project by the City

The City will at its own expense (a) keep the Project in a safe condition, (b) with respect to the Project, comply with all applicable health and safety standards and all other industrial requirements or restrictions enacted or promulgated by the State, or any political subdivision or agency thereof, or by the government of the United States of America or any agency thereof, and (c) keep the Project in good repair and in good operating condition and make from time to time all necessary repairs thereto and renewals and replacements thereof; provided, however, that the City will have no obligation to operate, maintain, preserve, repair, replace or renew any element or unit of the Project the maintenance, repair, replacement or renewal of which becomes uneconomical to the City because of damage, destruction or obsolescence, or change in economic or business conditions, or change in government standards and regulations. The City shall not permit or suffer others to commit a nuisance in or about the Project or itself commit a nuisance in connection with its use or occupancy of the Project. The City will pay all costs and expenses of operation of the Project.

The City may, also at its own expense, make from time to time any additions, modifications or improvements to the Project that it may deem desirable for its business purposes and that do not materially impair the structural strength or effective use, or materially decrease the value, of the Project. All additions, modifications or improvements made by the City pursuant to the authority of the Lease shall (a) be made in a workmanlike manner and in strict compliance with all laws and ordinances applicable thereto, (b) when commenced, be pursued to completion with due diligence and (c) when completed, be deemed a part of the Project.

During the Lease Term, the Project will be used by the City only for the purpose of performing essential governmental or proprietary functions of the City consistent with the permissible scope of the City's authority.

Damage, Destruction and Condemnation

The City will bear the risk of loss with respect to the Project during the Lease Term. If (a) the Project or any portion thereof is destroyed, in whole or in part, or is damaged by fire or other casualty or

(b) title to, or the temporary use of, the Project or any part thereof will be nonexistent or deficient or taken under the exercise or threat of the power of eminent domain by any governmental body or by any person, firm or corporation acting pursuant to governmental authority, the City will cause the Net Proceeds of any insurance claim, condemnation award or sale under threat of condemnation to be applied to the prompt replacement, repair, restoration, modification or improvement of the Project, unless the City has exercised its option to purchase the Trustee's interest in the Project by making payment of the Purchase Price as provided herein. Any balance of the Net Proceeds remaining after such work has been completed will be paid to the City and will be held and appropriated by the City for the exclusive purpose of paying Rent under the Lease.

If the City determines that the repair, restoration, modification or improvement of the Project is not economically feasible or in the best interest of the City, then, in lieu of making such repair, restoration, modification or improvement and if permitted by law, the City will promptly purchase the Trustee's interest in the Project pursuant to the Lease by paying the Purchase Price. The Net Proceeds will be applied by the City to payment of the Purchase Price. Any balance of the Net Proceeds remaining after paying the Purchase Price will belong to the City.

The City acknowledges the provisions pertaining to eminent domain in the Site Lease. The Trustee and City agree that the terms of the Site Lease are and will be incorporated in and made a part of the Lease to the same extent as if set forth in full therein. This provision will survive the termination of the Lease for any reason.

Purchase Option

The City will have the option to purchase the Trustee's interest in the Project, upon giving written notice to the Trustee at least 30 days before the date of purchase, at the following times and on the following terms:

(a) On or after March 15, 2013, upon payment in full of Rent Payments then due under the Lease plus a Purchase Price equal to 100% of the remaining Principal Portions of Basic Rent for the Lease Term, plus Interest Portions of Basic Rent accrued to the prepayment date.

(b) Upon deposit of money or Government Obligations or both with the Trustee in accordance with the Declaration of Trust in the amount necessary to provide for the Basic Rent Payments until and on, and the Purchase Price calculated as described in (a) above on the Certificates, to the prepayment date, which will be on or after March 15, 2013.

(c) Notwithstanding the provisions of (a) and (b) above, the City will be deemed to have purchased the Park Project when the payment of all of the Rent Payments through and including March 15, 2012 has been made or provided for as set forth in the Declaration of Trust, and title to the Park Project shall be conveyed to the City as provided in the Lease.

Partial Prepayment

The City will have the option to prepay the Basic Rent Payments in part, upon giving written notice to the Trustee at least 30 days before the date of such prepayment, at any time on or after March 15, 2013, at the Prepayment Price equal to the Principal Portion of Basic Rent being so prepaid plus the Interest Portion of Basic Rent accrued thereon to such Basic Rent Payment Date.

The Principal Portion of Basic Rent prepaid pursuant to the provisions of the Lease will be in integral multiples of \$5,000 and will be credited against such Basic Rent Payments as shall be determined

by the City in its sole and absolute discretion. Upon any partial prepayment, the amount of each Interest Portion of Basic Rent coming due thereafter will be reduced by the amount of such Interest Portion attributable to such prepaid Principal Portion determined by applying the annual interest rate corresponding to such prepaid Principal Portion as shown in the Lease.

Assignment and Subleasing by the City

Except as expressly provided in the Lease, none of the City's right, title and interest in, to and under the Site Lease, the Lease and in the Project may be assigned or encumbered by the City for any reason; except that the City may sublease any one or more parts of the Project if the City obtains an opinion of Special Tax Counsel that such subleasing will not adversely affect the exclusion of the Interest Portion of the Basic Rent Payments from gross income for purposes of federal income taxation. Any such sublease of all or part of the Project shall be subject to the Site Lease, the Lease and the rights of the Trustee in, to and under the Site Lease, the Lease and the Project.

Events of Default

Any of the following shall constitute an "Event of Default" under the Lease:

(a) Failure by the City to make any deposits required by **Section 4.01** to pay Basic Rent in the Lease Revenue Fund at the time specified herein;

(b) Failure by the City to make any Supplemental Rent Payment when due and the continuance of such failure for ten days after written notice specifying such failure and requesting that it be remedied is given to the City by the Trustee;

(c) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Lease, other than as referred to in **Sections 12.01(a)** or **(b)** above, for a period of 30 days after written notice specifying such failure and requesting that it be remedied is given to the City by the Trustee, unless the Trustee will agree in writing to an extension of such time prior to its expiration; provided that, if the failure stated in the notice cannot be corrected within the applicable period, the Trustee will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected;

(d) Any statement, representation or warranty made by the City in or pursuant to the Site Lease or the Lease or the execution, delivery or performance of either of them proves to have been false, incorrect, misleading or breached in any material respect on the date when made;

(e) Any provision of the Lease or the Site Lease at any time for any reason ceases to be valid and binding on the City, or is declared null and void, or the validity or enforceability thereof is contested by the City or any governmental agency or authority if the loss of such provision would materially adversely affect the rights or security of the Trustee; or

(f) The City becomes insolvent or admits in writing its inability to pay its debts as they mature or applies for, consents to, or acquiesces in the appointment of a trustee, receiver or custodian for the City or a substantial part of its property; or in the absence of such application, consent or acquiescence, a trustee, receiver or custodian for the City or a substantial part of its property; or in the absence of such application, consent or acquiescence, a trustee, receiver or custodian is appointed by the City or a substantial part of its property and is not discharged within 60 days; or any bankruptcy, reorganization, debt arrangement, moratorium or any proceeding under bankruptcy or insolvency law, or

any dissolution or liquidation proceeding, is instituted by or against the State and, if instituted against the City, is consented to or acquiesced in by the City or is not dismissed within 60 days.

Failure of the City fails to comply with the Continuing Disclosure Agreement will not be an Event of Default under the Lease.

Remedies on Default

Whenever any Event of Default exists, the Trustee shall have the right, without any further demand or notice, to take one or any combination of the following remedial steps:

(a) By written notice to the City, the Trustee may declare all Rent payable by the City under the Lease to the end of the Lease Term to be due;

(b) With or without terminating the Lease, the Trustee may take possession of the Project (in which event the City will take all actions necessary to authorize, execute and deliver to the Trustee for the remainder of the Trustee's leasehold term under the Site Lease all documents necessary to vest in the Trustee for the remainder of the Trustee's leasehold term under the Site Lease all of the City's interest in the Project), and sell the Trustee's interest in the Project or lease the Project or, for the account of the City, sublease the Project, continuing to hold the City liable for the difference between (i) the Rent payable by the City under the Lease for the Lease Term, and (ii) the net proceeds of any such sale, leasing or subleasing (after deducting all expenses of the Trustee in exercising its remedies under the Lease, including without limitation all expenses of taking possession, removing, storing, reconditioning, and selling or leasing or subleasing the Project and all brokerage, auctioneers and attorneys' fees and expenses);

(c) The Trustee may terminate any rights the City may have in any money held by the Trustee under the Declaration of Trust; and

(d) The Trustee may take whatever action at law or in equity necessary or desirable to enforce its rights in the Project and under the Lease.

SUMMARY OF THE SITE LEASE

General

The Site Lease has been entered into among the Trustee, the City and the Joint Antelope Valley Authority ("JAVA") and contains the terms and conditions under which the Real Property will be leased to and used by the Trustee.

Term

The term of the Site Lease will commence as of April 29, 2008, and will end on March 15, 2012, unless the term is extended or sooner terminated as hereinafter provided, but in no event will the term of the Site Lease end until all of the Principal Portion and the Interest Portion of the Certificates maturing on or prior to March 15, 2012, are no longer Outstanding (as that term is defined the Declaration of Trust).

Rental

As and for rental under the Site Lease and in consideration for the leasing of the Real Property to the Trustee, the Trustee will take the following actions:

- (a) simultaneously with the delivery of the Site Lease, enter into the Lease;
- (b) simultaneously with the delivery of the Site Lease, pay to the City the sum of \$1.00 and provide such other consideration as the Trustee and City may agree; and
- (c) deposit funds in the amount and in the funds and accounts established and as set forth in the Declaration of Trust.

Assignments and Subleases

It is intended that the Trustee will hold the Site Lease and its rights thereunder for the benefit of Owners of the Certificates (as defined in the Declaration of Trust). The Trustee thereafter may assign the Site Lease and its rights thereunder or lease or sublease the Park Project without the written consent of either JAVA or the City (a) in connection with any assignment of its rights under the Lease, (b) if the Lease is terminated for any reason, or (c) if an Event of Default as defined in the Lease has occurred.

Termination

The Site Lease will terminate upon the completion of the term set forth above; provided, however, that in the event the City makes payment of the purchase price or makes all of the rental payments provided for on or prior to March 15, 2012 in the Lease and exercises its option to purchase the Trustee's interest in the Park Project pursuant to the Lease, then the Site Lease will be considered assigned to JAVA and the City and terminated through merger of the leasehold interest thereunder with the fee interest of JAVA and the City to the extent that either JAVA or the City is the owner of the fee interest.

If an Event of Default under the Lease occurs or if the City terminates the Lease pursuant its provisions, the Trustee will have the right to possession of the Park Project for the remainder of the term of the Site Lease and will have the right to sublease the Park Project or sell its interest in the Park Project and the Site Lease upon whatever terms and conditions it deems prudent.

Default

Neither JAVA nor the City will have the right to exclude the Trustee from the Park Project or take possession of the Park Project (other than pursuant to the Lease) or to terminate the Site Lease prior to the expiration of its term upon any default by the Trustee under the Site Lease, except that if, upon the exercise of the option to purchase the Trustee's interest in the Park Project granted to the City in the Lease and after the payment of the purchase price specified therein and other sums payable under the Lease, the Trustee fails to convey its interest in the Park Project to JAVA and the City pursuant to such option, then JAVA or the City will have the right to terminate the Site Lease, such termination to be effective 30 days after delivery of written notice of such termination to the Trustee. In the event of any default by the Trustee thereunder, however, either JAVA or the City may maintain an action, if permitted in equity, for specific performance.

Quiet Enjoyment

At all times during the term of the Site Lease, the Trustee will peaceably and quietly have, hold and enjoy all of the Park Project, and JAVA and the City will provide to the Trustee the ability to quietly have, hold and enjoy all of the Park Project, all of this being subject to the rights of the City under the Lease.

Taxes and Assessments

The City covenants and agrees to pay any and all assessments of any kind or character and all taxes levied or assessed upon the Project.

Eminent Domain

(a) In the event the whole or any part of the Project is taken by eminent domain proceedings, the interest of the Trustee will be recognized. The proceeds of said condemnation will be applied as provided in the Lease. Under Nebraska statutes, the City has the power to condemn property for its purposes, and the City acknowledges that if the City condemned the Project, such action could adversely affect the continuation of the Site Lease. The City further acknowledges that condemnation of the Project would adversely affect the Trustee and that without the Trustee's interest in the Project, the Trustee might not lease the Project to the City pursuant to the Lease.

The City and the Trustee have reached agreement on the terms of the acquisition of the Project, at City's option, and to the use of the Project, all as set forth in the Lease. Any acquisition of the Trustee's interest in the Project or rights to its use by the City (whether pursuant to the exercise of eminent domain powers or otherwise) will be pursuant to and in accordance with the Lease, including payment of Rent Payments and the applicable Purchase Price (as defined and set forth in the Lease). If the City allows the Lease to expire without exercising its option to purchase (whether by failure to exercise its option to extend the Lease for a Renewal Term, failure to exercise its option to purchase at the conclusion of the maximum Lease Term or failure to cure an Event of Default (as those terms are defined in the Lease)), that action will constitute an irrevocable determination by the City that the Project is not required by it for any public purpose for the term of the Site Lease.

The City covenants and agrees, to the extent it may lawfully do so, that if for any reason it exercises the power of eminent domain with respect to the Project, the appraisal value of the Project will not be less than the Rent Payments then due plus the then applicable Purchase Price as defined and set forth in the Lease.

Leaseback to City; Term; Rental

Contemporaneously with the Site Lease, the Trustee and the City will execute the Lease whereby (a) the Trustee leases back to the City and the City leases from the Trustee the Real Property, and (b) the Trustee leases to the City and the City leases from the Trustee the Project, all in accordance therewith. The Lease includes the option of the City, upon payment of the specified purchase price, to purchase the Trustee's interest in the Project.

[This page intentionally left blank.]

APPENDIX D

**FORM OF
DISCLOSURE DISSEMINATION AGENT AGREEMENT**

[This page intentionally left blank.]

DISCLOSURE DISSEMINATION AGENT AGREEMENT

This **DISCLOSURE DISSEMINATION AGENT AGREEMENT** (the “**Disclosure Agreement**”), dated April 29, 2008, is executed and delivered by **THE CITY OF LINCOLN, NEBRASKA**, (the “**Lessee**”) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the “**Disclosure Dissemination Agent**” or “**DAC**”) for the benefit of the Holders (hereinafter defined) of the Certificates (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Certificates in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “**Rule**”).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 2. Provision of Annual Reports.

(a) The Lessee shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than 30 days prior to the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to each National Repository and the State Depository (if any) not later than May 1 of each year commencing May 1, 2009. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in **Section 3**.

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

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

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

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

(e) The Disclosure Dissemination Agent shall:

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

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

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

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

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

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

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

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

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

- F. “Adverse tax opinions or events affecting the tax-exempt status of the security,” pursuant to **Sections 4(a)(6) and 4(c)**;
- G. “Modifications to rights of securities holders,” pursuant to **Sections 4(a)(7) and 4(c)**;
- H. “Certificate calls,” pursuant to **Sections 4(a)(8) and 4(c)**;
- I. “Defeasances,” pursuant to **Sections 4(a)(9) and 4(c)**;
- J. “Release, substitution, or sale of property securing repayment of the securities,” pursuant to **Sections 4(a)(10) and 4(c)**;
- K. “Ratings changes,” pursuant to **Sections 4(a)(11) and 4(c)**;
- L. “Failure to provide annual financial information as required,” pursuant to **Section 2(b)(ii) or Section 2(c)**, together with a completed copy of **Exhibit B** to this Disclosure Agreement;
- M. “Other material event notice (specify),” pursuant to **Section 7**, together with the summary description provided by the Disclosure Representative.

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

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

Section 3. Content of Annual Reports.

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

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

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

Section 4. Reporting of Notice Events.

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

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

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

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

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

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

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

Section 7. Voluntary Reports.

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

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

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

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

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

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

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

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

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

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

Section 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Lessee and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Lessee and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Certificates and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Lessee or the

Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

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

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

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

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

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

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

By: _____
Name: _____
Title: _____

THE CITY OF LINCOLN, NEBRASKA, Lessee

By: _____
Name: Don Herz
Title: Finance Director

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Lessee: **The City of Lincoln, Nebraska**
Name of Issue: **Certificates of Participation – Lease Rentals (Series 2008)**
Date of Issuance: **April 29, 2008**

NOTICE IS HEREBY GIVEN that the Lessee has not provided an Annual Report with respect to the above named Certificates as required by the Disclosure Agreement, dated as of April 29, 2008 between the Lessee and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Lessee has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____.

Dated: _____

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

cc: Lessee _____

APPENDIX E

BOOK-ENTRY SYSTEM

[This page intentionally left blank.]

BOOK-ENTRY SYSTEM

The Series 2008 Certificates are available in book-entry form and beneficial ownership interests therein may be purchased in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Series 2008 Certificates will not receive certificates representing their interests in the Series 2008 Certificates.

The following information concerning The Depository Trust Company (“DTC”), New York, New York and DTC’s book-entry system has been obtained from sources the City believes to be reliable. However, the City takes no responsibility as to the accuracy or completeness thereof and neither the Indirect Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

DTC will act as securities depository for the Series 2008 Certificates. The Series 2008 Certificates will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the Series 2008 Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (“**NSCC**,” “**FICC**,” and “**EMCC**,” also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series 2008 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008 Certificates on DTC’s records. The ownership interest of each actual purchaser of each Series 2008 Certificate (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction.

Transfers of ownership interests in the Series 2008 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2008 Certificates, except in the event that use of the book-entry system for the Series 2008 Certificates is discontinued.

To facilitate subsequent transfers, all Series 2008 Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2008 Certificates with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2008 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2008 Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Series 2008 Certificate documents. For example, Beneficial Owners of the Series 2008 Certificates may wish to ascertain that the nominee holding the Series 2008 Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2008 Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2008 Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2008 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal or redemption price of and interest on the Series 2008 Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, its nominee, the Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or redemption price of and interest on the Certificates to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2008 Certificates at any time by giving reasonable notice to the City or the Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2008 Certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2008 Certificates will be printed, registered in the name of DTC's partnership nominee, Cede & Co. (or such other name as may be requested by an authorized representative of DTC), and delivered to DTC (or a successor securities depository), to be held by it as securities depository for Direct Participants. If, however, the system of book-entry transfers has been discontinued and a Direct Participant has elected to withdraw its Series 2008 Certificates from DTC (or such successor securities depository), Series 2008 Certificates may be delivered to Beneficial Owners upon compliance with DTC's withdrawal procedures then in effect.

[This page intentionally left blank.]

APPENDIX F

**FORM OF OPINION OF
SPECIAL TAX COUNSEL**

[This page intentionally left blank.]

April 29, 2008

The City of Lincoln, Nebraska
Lincoln, Nebraska

Union Bank and Trust Company, Trustee
Lincoln, Nebraska

Stifel, Nicolaus & Company, Inc.
Baltimore, Maryland

Re: \$7,500,000 Certificates of Participation, Series 2008, evidencing proportionate interests in Basic Rent Payments to be made by The City of Lincoln, Nebraska

Ladies and Gentlemen:

We have acted as special tax counsel in connection with a transaction involving the above-captioned Certificates of Participation (the "Certificates"), evidencing proportionate interests of the owners thereof in Basic Rent Payments to be made by The City of Lincoln, Nebraska (the "City") under a Lease Purchase Agreement, dated April 29, 2008 (the "Lease"), between Union Bank and Trust Company, a state banking corporation (the "Trustee"), and the City. Capitalized terms used herein and not otherwise defined herein will have the meanings assigned to such terms in the Lease.

We have examined (a) the Site Lease, (b) the Lease, (c) the Declaration of Trust, (d) the Tax Compliance Agreement, (e) the Disclosure Dissemination Agent Agreement, (f) certifications of officers and officials of the City and others, and (g) the form of the Certificates. In addition, we have reviewed and considered the Internal Revenue Code of 1986, as amended (the "Code"), and the applicable regulations thereunder promulgated by the United States Treasury Department.

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

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

1. The Declaration of Trust has been approved by the City, and the Site Lease, the Lease, the Tax Compliance Agreement and the Disclosure Dissemination Agent Agreement have been duly authorized, executed and delivered by the City and constitute legal, valid and binding agreements of the City, enforceable in accordance with their terms.

2. The Certificates have been duly authorized, executed and delivered in accordance with the Declaration of Trust, are entitled to the benefits and security of the Declaration of Trust and evidence interests in the right to receive Basic Rent Payments under the Lease, which right to receive Basic Rent Payments is enforceable against the City in accordance with the terms of the Certificates, the Declaration of Trust and the Lease.

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

We express no opinion regarding (a) other federal or Nebraska tax consequences arising with respect to the Basic Rent or the Certificates, (b) the treatment for federal or Nebraska income tax purposes of any money received by registered owners of the Certificates other than payments by the City made pursuant to the Lease upon an Event of Default or (c) the title to or the description of the property subject to the Site Lease or the Lease.

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

Very truly yours,