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July 18, 2003

Mr. Don Herz
Finance Director
City of Lincoln
555 South 10th Street
Lincoln, Nebraska 68508

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide to The City of Lincoln.

ENGAGEMENT OBJECTIVES

We will audit the general purpose financial statements of the City of Lincoln; the Sanitary Landfill Revenue Fund; and the Emergency Medical Services Fund as of and for the year ended August 31, 2003 in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*.

The objectives of our audit are:

- ✓ Expression of an opinion on the conformity of your financial statements, in all material respects, with accounting principles generally accepted in the United States of America.
- ✓ Issuance of a report on your compliance based on the audit of your financial statements.
- ✓ Issuance of a report on your internal control over financial reporting based on the audit of your financial statements.
- ✓ Expression of an opinion on your compliance, in all material respects, with the types of compliance requirements described in the *U. S. Office of Management and Budget Circular A-133 Compliance Supplement* that are applicable to each of your major federal award programs.
- ✓ Issuance of a report on your internal control over compliance based on the audit of your compliance with the types of compliance requirements that are applicable to each of your major federal award programs.
- ✓ Issuance of a report on your schedule of expenditures of federal awards.

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OUR RESPONSIBILITIES

Auditing standards generally accepted in the United States of America, *Government Auditing Standards* and OMB Circular A-133 require that we plan and perform:

- ✓ The audit of the financial statements to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

- ✓ The audit of compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement applicable to each major federal award program to obtain reasonable rather than absolute assurance about whether noncompliance having a direct and material effect on a major federal award program occurred.

Accordingly, a material misstatement or noncompliance having a direct and material effect may remain undetected.

Our audit of the financial statements is designed to detect misstatements and noncompliance that, in our judgment, could have a material effect on the financial statements taken as a whole. Consequently, our audit will not necessarily detect errors or fraud resulting in an immaterial misstatement of the financial statements.

Likewise, our audit of compliance with the types of compliance requirements applicable to each major federal award program is designed to detect noncompliance having a direct and material effect on a major program. Consequently, our audit will not necessarily detect noncompliance having an indirect and material or an immaterial effect on any program.

An audit also includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control over financial reporting or on internal control over compliance or to identify reportable conditions. However, we will communicate to you any matter that comes to our attention that we consider a reportable condition. Because of the limits in any internal control structure, errors, fraud, illegal acts or instances of noncompliance may occur and not be detected. Also, in the future, procedures could become inadequate because of changes in conditions or deterioration in design or operation. Two or more people may also circumvent controls, or management may override the system.

If, for any reason, we are unable to complete our audit of the financial statements or our audit of compliance with the types of compliance requirements applicable to each major federal award program or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of this engagement. If we discover conditions that may prohibit us from issuing a standard report, we will notify you as well. In such circumstances, further arrangements may be necessary to continue our engagement.

YOUR RESPONSIBILITIES

To facilitate our audit, management is responsible for making all financial records documentation and other financial and compliance related information available to us. At the conclusion of our engagement, management will provide to us a letter acknowledging certain responsibilities outlined in this engagement letter and confirming:

- The availability of this information
- Certain representations made during the audits for all periods presented
- The effects of any uncorrected misstatements, if any, resulting from errors or fraud aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole

Management is responsible for fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, for adjusting the financial statements to correct material misstatements and for identifying and ensuring compliance with the laws, regulations, contracts and grants applicable to your activities including your federal award programs. Management is also responsible for establishing and maintaining effective internal control over financial reporting and compliance, which is the best means of preventing and detecting errors, fraud, illegal acts, and instances of noncompliance.

The results of our tests of compliance and internal control over financial reporting performed in connection with our audit of the financial statements may not fully meet the reasonable needs of report users. Management is responsible for obtaining audits, examinations, agreed-upon procedures or other engagements that satisfy relevant legal, regulatory or contractual requirements or fully meet other reasonable user needs.

OTHER SERVICES

Our agreement is designed to meet the scope of work as outlined in the request for proposals specification NO. 03-166. In addition to the services outlined above we will also:

- Audit the City of Lincoln Keno Operation as of June 30, in accordance with Revenue Ruling 35-96-2 and 35-96-3 as published by the Nebraska Department of Revenue.
- Apply agreed-upon procedures as specified in Title 132-Integrated Solid Waste Management Regulations.
- Review bond offering documents, and the inclusion of our financial statements, as referenced in the "OTHER ENGAGEMENT MATTERS AND LIMITATIONS" section, paragraph six of this agreement, for a fee of $3,000 per offering document.

As with the financial statements, management has responsibility for representations in these areas.

ENGAGEMENT FEES

The fee for our services will be based on our 2003 proposal. Professional fees will be as follows:

	2003	2004	2005	2006
City of Lincoln	$ 51,000	$ 53,500	$ 56,000	$ 58,500
EMS Fund	7,500	7,500	7,750	8,000
Sanitary Landfill Revenue	6,500	6,500	6,750	7,000
Keno Services	3,000	3,000	3,000	3,000
Title 132 Procedures	500	500	500	500
Total	$ 68,500	$ 71,000	$ 74,000	$ 77,000

We will issue progress billings during the course of our engagement and our statements are due when received. Our fees are based upon the understanding that your personnel will be available to assist us. Assistance from your personnel is expected to include:

- preparing audit schedules to support all significant balance sheet and certain other accounts,
- responding to auditor inquiries,
- preparing confirmation and other letters,
- pulling selected invoices and other documents from files as staff time allows, and
- helping to resolve any differences or exceptions noted.

We will provide you with a detailed list of assistance needed before the audit begins.

Our timely completion of the audit depends on your timely and accurate schedule and analyses preparation and on the availability of your personnel to provide other assistance. If there are inaccuracies or delays in preparing this material, or if we experience other assistance difficulties that add a significant amount of time to our work, our fees will increase. If these circumstances occur, we will promptly notify you to discuss alternative solutions and the impact on our fees.

Our engagement fee does not include any time for post-engagement consultation with your personnel or third parties, consent letters and related procedures for the use of our reports in offering documents, inquiries from regulators or testimony or deposition regarding any subpoena. Charges for such services will be billed separately.

Our invoices are due within 30 days. If our invoices for this or any other engagement you may have with BKD are not paid when due, we may suspend or terminate our services for this or any other engagement. In the event our work is suspended or terminated as a result of nonpayment, you agree we will not be responsible for any consequences to you.

OTHER ENGAGEMENT MATTERS AND LIMITATIONS

Our workpapers and documentation retained in any form of media for this engagement are the property of BKD. We can be compelled to provide information under legal process. In addition, we may be requested by regulatory or enforcement bodies to make certain workpapers available to them pursuant to authority granted by law or regulation. You agree that we have no legal responsibility to you in the event we provide such documents or information.

You agree to indemnify and hold harmless BKD and its personnel from any claims, liabilities, costs, and expenses relating to our services under this agreement attributable to false or incomplete representations by management, except to the extent determined to have resulted from the intentional or deliberate misconduct of BKD personnel.

You agree that any dispute regarding this engagement will, prior to resorting to litigation, be submitted to mediation upon written request by either party. Both parties agree to try in good faith to settle the dispute in mediation. The American Arbitration Association will administer any such mediation in accordance with its Commercial Mediation Rules. The results of the mediation proceeding shall be binding only if each of us agrees to be bound. We will share any costs of mediation proceedings equally.

If any provision of this agreement is declared invalid or unenforceable, no other provision of this agreement is affected and all other provisions remain in full force and effect.

This engagement letter represents the entire agreement regarding the services described herein and supersedes all prior negotiations, proposals, representations or agreements, written or oral, regarding these services. It shall be binding on heirs, successors and assigns of you and BKD.

If you intend to include these financial statements and our report in an offering document at some future date, you agree to seek our permission to do so at that time. You agree to provide reasonable notice to allow sufficient time for us to perform certain additional procedures. Any time you intend to publish or otherwise reproduce these financial statements and our report and make reference to our firm name in any manner in connection therewith, you agree to provide us with printers' proofs or masters for our review and approval before printing or other reproduction. You will also provide us with a copy of the final reproduced material for our approval before it is distributed.

You agree to notify us if you desire to place these financial statements or our report thereon on an electronic site, such as the World Wide Web. You recognize that we have no responsibility as auditors to review information contained in electronic sites.

BKD is a registered limited liability partnership under Missouri law. Under applicable professional standards, partners of **BKD, LLP** have the same responsibilities as do partners in a general accounting and consulting partnership with respect to conformance by themselves and other professionals in BKD with their professional and ethical obligations. However, unlike the partners in a general partnership, the partners in a registered limited liability partnership do not have individual civil liability, directly or indirectly, including by way of indemnification, contribution, assessment or otherwise, for any debts, obligations or liabilities of or chargeable to

the registered limited liability partnership or each other, whether arising in tort, contract or otherwise.

If the above arrangements are acceptable to you, please sign the enclosed copy of this letter and return it to us.

BKD, LLP

RJW/NRH/amw

The services and arrangements described in this letter are in accordance with our understanding and are acceptable to us.

CITY OF LINCOLN

BY_____
(Name & Title)

DATE_____