

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

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

**RATINGS: (Bonds maturing through and including August 15, 2020)
Standard & Poor's: "AAA" (MBIA Insured)
Moody's: "Aaa" (MBIA Insured)
(Bonds maturing on and after August 15, 2021)
Standard & Poor's: "AA-"
Moody's: "Aa2"
See "RATINGS herein"**

In the opinion of Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended, interest on the Series 2004 Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal and Nebraska income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Series 2004 Bonds have not been designated by the City as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code. See "TAX MATTERS" herein.

**OFFICIAL STATEMENT
\$40,000,000
CITY OF LINCOLN, NEBRASKA
WATER REVENUE BONDS
SERIES 2004**

Dated: date of delivery

Due August 15 as shown on the inside cover

The Series 2004 Bonds are issuable in fully registered form and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2004 Bonds. Purchases of the Series 2004 Bonds will be made in book-entry-only form, in the principal amount of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC participants. Beneficial owners of the Series 2004 Bonds will not receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2004 Bonds. So long as DTC or its nominee is the registered owner of the Series 2004 Bonds, payments of the principal of, redemption premium, if any, and interest on the Series 2004 Bonds will be made directly to DTC. Interest is payable on February 15 and August 15 of each year, beginning August 15, 2005. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. Wells Fargo Bank, National Association, is bond registrar and paying agent for the Series 2004 Bonds (the "Registrar"). For terms relating to principal and interest payments made in respect of the Series 2004 Bonds in the event the use of book-entry form is discontinued, see "**THE SERIES 2004 BONDS - Book-Entry-Only System**" herein.

The Series 2004 Bonds maturing August 15, 2015, and thereafter are subject to optional **redemption** prior to maturity at any time on or after **August 15, 2014**. See "**THE SERIES 2004 BONDS - Optional Redemption**" herein.

Payment of the Principal of and interest when due on the Series 2004 Bonds maturing through and including August 15, 2020 will be insured by a Financial Guaranty Insurance Policy to be issued by



MBIA Insurance Corporation simultaneously with the issuance of the Series 2004 Bonds. See the caption "BOND INSURANCE" herein.

The Series 2004 Bonds are being issued for the purpose of providing the funds necessary to (a) pay the costs of making certain improvements to the municipally owned water system of the City of Lincoln, Nebraska (the "City"), as more fully described under the caption "**THE 2004 PROJECT**" herein, (2) fund a debt service reserve fund, and (3) pay the costs of issuing the Series 2004 Bonds. The Series 2004 Bonds, together with (a) \$18,510,000 aggregate principal amount of the City's Water Revenue Bonds, Series 2002 dated December 10, 2002 (the "**Series 2002 Bonds**"), (b) \$32,180,000 aggregate principal amount of the City's Water Revenue Bonds, Refunding Series 2003, dated May 20, 2003 (the "**Series 2003 Bonds**") and (c) all other bonds (collectively, the "**Bonds**") hereafter issued pursuant to Ordinance No. 18088 of the City (as amended and supplemented from time to time, the "**Bond Ordinance**"), are payable solely from and are secured by a pledge of (a) the net earnings (gross revenues less operating and maintenance expenses) of the City's water supply system, and (b) moneys, if any, from time to time on deposit in certain funds and accounts created by the Bond Ordinance. See "**INTRODUCTION**," "**SECURITY**" and "**SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDINANCE**" herein.

THE SERIES 2004 BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY AND NEITHER THE FULL FAITH AND CREDIT OF THE CITY OR THE STATE OF NEBRASKA (THE "STATE"), NOR ANY FUNDS DERIVED BY THE CITY FROM SOURCES OTHER THAN THOSE SPECIFICALLY MENTIONED IN THE PRECEDING PARAGRAPH, ARE PLEDGED TO THE PAYMENT THEREOF. THE SERIES 2004 BONDS ARE SPECIAL, REVENUE OBLIGATIONS OF THE CITY AND THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST THEREON DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, AND NEITHER THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE THEREON. THE SERIES 2004 BONDS DO NOT CONSTITUTE A DEBT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION UNDER THE LAWS OF THE STATE. THE SERIES 2004 BONDS AND THE INTEREST THEREON DO NOT, DIRECTLY OR INDIRECTLY, OBLIGATE THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATIONS FOR THEIR PAYMENT, AND SUCH SERIES 2004 BONDS DO NOT NOW AND SHALL NEVER CONSTITUTE A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF.

MATURITY SCHEDULE - See Inside Cover

The Series 2004 Bonds are offered when, as, and if issued, subject to the approval of legality by Gilmore & Bell, P.C., Lincoln, Nebraska, as bond counsel. Certain legal matters will be passed on by Gilmore & Bell, P.C., Lincoln, Nebraska, as Disclosure Counsel. It is expected that the Series 2004 Bonds will be available for delivery through DTC, New York, New York, on or about December 1, 2004.

J.P. MORGAN SECURITIES, INC.
The date of this Official Statement is November 16, 2004.

MATURITY SCHEDULE

\$40,000,000

**CITY OF LINCOLN, NEBRASKA
WATER REVENUE BONDS, SERIES 2004**

<u>Maturity (August 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>
2005*	\$ 895,000	3.000%	2.000%	100.695%
2006*	955,000	3.000	2.140	101.430
2007*	975,000	3.000	2.270	101.903
2008*	995,000	3.000	2.510	101.721
2009*	1,020,000	3.000	2.810	100.829
2010*	1,050,000	3.250	3.070	100.932
2011*	1,080,000	3.500	3.230	101.612
2012*	1,820,000	5.000	3.380	110.904
2013*	1,885,000	5.000	3.550	110.772
2014*	1,950,000	5.000	3.660	110.858
2015*	2,020,000	5.000	3.760**	110.000
2016*	2,095,000	5.000	3.850**	109.234
2017*	2,175,000	5.000	3.930**	108.559
2018*	2,260,000	5.000	4.010**	107.888
2019*	2,350,000	5.000	4.090**	107.223
2020*	2,445,000	5.000	4.160**	106.645
2021	2,560,000	4.250	4.334	99.000
2022	2,675,000	4.375	4.457	99.000
2023	2,800,000	4.500	4.580	99.000
2024	2,930,000	4.500	4.577	99.000
2025	3,065,000	4.500	4.575	99.000

* MBIA Insured

** Yield to date of earliest redemption

**CITY OF LINCOLN, NEBRASKA
CITY OFFICIALS**

Colleen J. Seng, Mayor

City Council Members

Terry Werner (Chair)

Ken Svoboda (Vice Chair)
Patte Newman
Annette McRoy

Glenn Friendt
Jon Camp
Jonathan Cook

City Department Directors

Don Herz Finance Director
Marvin Krout Planning Director
Lynn Johnson Parks and Recreation Director
Terry Bundy Lincoln Electric System Administrator
Marc Wullschleger Urban Development Director
Carol Connor Library Director
Allan Abbott Public Works/Utilities Director
Bruce D. Dart Health Director
Don Taute Personnel Director
Dana W. Roper City Attorney
Thomas K. Casady Police Chief
Mike Spadt Fire Chief
Mike Merwick Building and Safety Director

Peggy Watchorn, City Controller

Financial Advisor

Ameritas Investment Corp.
Lincoln, Nebraska

Bond Counsel

Gilmore & Bell, P.C.
Lincoln, Nebraska

Registrar and Paying Agent

Wells Fargo Bank, National Association
Lincoln, Nebraska

Independent Auditors

BKD, LLP
Lincoln, Nebraska

No broker, dealer, salesperson or other person has been authorized by the City of Lincoln, Nebraska (the “City”) or Ameritas Investment Corp. (the “Financial Advisor”), to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2004 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the City and other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Financial Advisor. The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstance, create any implication that there has been no change in the affairs of the City since the date hereof.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2004 Bonds. Statements contained in this Official Statement that involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The Underwriter intends to offer the Series 2004 Bonds initially at the offering prices set forth on the cover page of this Official Statement, which may subsequently change without any requirement of prior notice.

TABLE OF CONTENTS

	Page
Introduction	1
Purpose	1
Authority.....	2
Estimated Sources and Uses of Funds.....	2
Security.....	2
Bond Insurance.....	3
Debt Service Schedule.....	6
Information Regarding the City of Lincoln, Nebraska Water System	7
The Water System	13
The Series 2004 Bonds.....	16
Ratings.....	18
Tax Matters.....	19
Continuing Disclosure	20
Litigation	21
Financial Statements.....	21
Certification as to Official Statement	21
Legal Matters.....	21
Miscellaneous.....	22
City of Lincoln, Nebraska	APPENDIX A
City of Lincoln, Nebraska Water System Financial Statements and Schedules.....	APPENDIX B
Summary of Certain Provisions of the Bond Ordinance	APPENDIX C
Form of Bond Counsel Opinion	APPENDIX D
Continuing Disclosure Certificate	APPENDIX E
Book-Entry-Only System	APPENDIX F
Specimen Financial Guaranty Insurance Policy.....	APPENDIX G

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2004 BONDS 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 2004 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

OFFICIAL STATEMENT

\$40,000,000

CITY OF LINCOLN, NEBRASKA WATER REVENUE BONDS SERIES 2004

INTRODUCTION

This Official Statement is provided by the City of Lincoln, Nebraska (the “**City**”) to furnish information about the City, its municipally owned and operated water system (the “**System**”), and the offering of its \$40,000,000 Water Revenue Bonds, Series 2004 (the “**Series 2004 Bonds**”). The Series 2004 Bonds are being issued pursuant to Ordinance No. 18088 of the City duly passed by the Council of the City on November 18, 2002 and approved by the Mayor of the City on November 19, 2002, as amended and supplemented from time to time including, but not limited to Ordinance No. 18464 passed by the Council of the City on November 1, 2004 and approved by the Mayor of the City on November 4, 2004 (collectively, the “**Bond Ordinance**”). The Series 2004 Bonds, together with (a) \$18,510,000 aggregate principal amount of the City’s Water Revenue Bonds, Series 2002 dated December 10, 2002 (the “**Series 2002 Bonds**”), (b) \$32,180,000 aggregate principal amount of the City’s Water Revenue Bonds, Refunding Series 2003, dated May 20, 2003 (the “**Series 2003 Bonds**”) and (c) and all other water revenue bonds or water revenue refunding bonds hereinafter issued by the City pursuant to the Bond Ordinance and outstanding thereunder are payable solely from and secured by a pledge of the Net Revenues (as defined below) of the System. The City will use the proceeds of the Series 2004 Bonds, together with other legally available funds of the City, to provide the funds necessary to (a) pay the costs of the 2004 Project (as hereinafter defined) and certain other acquisitions, construction, reconstruction, extension, equipping and/or furnishing for, of or to the System, (b) fund a debt service reserve fund, and (c) pay the costs of issuing the Series 2004 Bonds.

The Bond Ordinance defines “**Net Revenues**” as Revenues less Operation and Maintenance Expenses plus Depreciation, determined in accordance with generally accepted accounting principles for proprietary governmental operations such as the System. “**Revenues**” are defined in the Bond Ordinance as (i) total operating revenues, plus (ii) interest income, plus (iii) tap fees, plus (iv) impact fees, if any, allocable to the System, plus (v) such other revenues and income as shall be determined to be appropriate in accordance with generally accepted accounting principles for proprietary governmental operations such as the System, and “**Operation and Maintenance Expenses**” are defined as necessary expenditures for operating and maintaining the System and shall include expenditures generally classified as operating expenses in accordance with generally accepted accounting principles for proprietary governmental operations such as the System.

PURPOSE

The City will use the proceeds of the Series 2004 Bonds to (a) pay all or a part of the costs of the 2004 Project (as hereinafter defined) and certain other acquisitions, construction, reconstruction, extension, equipping and/or furnishing for, of or to the System, (b) make a deposit into the 2004 Account established in the Reserve Fund with respect to the Series 2004 Bonds, and (c) pay the costs of issuing the Series 2004 Bonds.

AUTHORITY

The Series 2004 Bonds are authorized pursuant to Sections 15-244 and 18-1803 to 18-1805, inclusive, Reissue Revised Statutes of Nebraska, as amended, Sections 8 and 44 of Article IX of the City Charter and the Bond Ordinance. The Bond Ordinance permits the issuance of additional water revenue refunding bonds of the City (the “**Refunding Bonds**”) and additional water revenue bonds of the City (the “**Additional Bonds**”) on a parity with the Series 2002 Bonds, the Series 2003 Bonds and the Series 2004 Bonds. See “**APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDINANCE - Refunding Bonds**” and “**APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDINANCE - Additional Bonds**” to this Official Statement.

ESTIMATED SOURCES AND USES OF FUNDS

SOURCES OF FUNDS:

Par Amount of Series 2004 Bonds	\$40,000,000.00
Less/Plus: Net Original Issue Discount/Premium	<u>1,656,232.45</u>
TOTAL:	<u>\$41,656,232.45</u>

USES OF FUNDS:

Costs of 2004 Project	\$37,871,426.59
2004 Reserve Account	3,391,606.26
Costs of Issuance (including Underwriter’s discount)	<u>393,199.60</u>
TOTAL:	<u>\$41,656,232.45</u>

SECURITY

The Series 2002 Bonds, the Series 2003 Bonds and the Series 2004 Bonds, together with any Refunding Bonds and/or Additional Bonds hereafter issued by the City in accordance with the provisions of the Bond Ordinance (collectively, the “**Bonds**”), are payable solely from and are secured by a pledge of the Net Revenues. The faith and credit of the City is not pledged to the payment of the Bonds.

The Series Ordinance creates a 2004 Reserve Account for the Series 2004 Bonds and the deposit therein of an amount equal to the Reserve Requirement (as defined below) for the Series 2004 Bonds. The “**Reserve Requirement**” means, with respect to a Series of Bonds, the amount on the date of original issuance and delivery of such Series of Bonds equal to the least of (a) 10% of the stated principal amount of such Series of Bonds, (b) the maximum Debt Service (as defined in the Bond Ordinance) for such Series of Bonds during any Fiscal Year (as defined in the Bond Ordinance), or (c) 125% of the average annual Debt Service for such Series of Bonds over the term of such Series of Bonds. If the aggregate initial offering price of such Series of Bonds to the public is less than 98% or more than 102% of par, such offering price shall be used in clause (a) in lieu of the stated principal amount. The Bond Ordinance requires the creation of similar reserve accounts for Additional Bonds and Refunding Bonds hereafter issued pursuant to the Bond Ordinance.

The foregoing and other material covenants of the City, including provisions as to rates and charges for water provided through the System, the issuance of Bonds, annual independent audits of records, disposition of properties of the System, and insurance provisions, as contained in the Bond Ordinance for the security of the

bondholders, are set forth in “**APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDINANCE**” to this Official Statement.

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation (“**MBIA**”) for use in this Official Statement. Reference is made to **APPENDIX G** for a specimen of MBIA’s policy.

MBIA’s policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Registrar or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2004 Bonds **maturing through and including August 15, 2020** (the “**Insured Bonds**”) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA’s policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a “**Preference**”).

MBIA’s policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Insured Bonds. MBIA’s policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA’s policy also does not insure against nonpayment of principal of or interest on the Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Registrar or any other paying agent for the Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Registrar or any owner of an Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Insured Bonds or presentment of such other proof of ownership of the Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Insured Bonds in any legal proceeding related to payment of insured amounts on the Insured Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Registrar payment of the insured amounts due on such Insured Bonds, less any amount held by the Registrar for the payment of such insured amounts and legally available therefor.

MBIA

MBIA Insurance Corporation (“**MBIA**”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “**Company**”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading “BOND INSURANCE.” Additionally, MBIA makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information

The following documents filed by the Company with the Securities and Exchange Commission (the “**SEC**”) are incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2003; and
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company’s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004) are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2004 MBIA had admitted assets of \$10.4 billion (unaudited), total liabilities of \$6.7 billion (unaudited), and total capital and surplus of \$3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Insured Bonds. MBIA does not guaranty the market price of the Insured Bonds nor does it guaranty that the ratings on the Insured Bonds will not be revised or withdrawn.

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DEBT SERVICE SCHEDULE

Year Ending <u>August 31</u>	Outstanding <u>Bonds</u>	<u>Principal</u>	Series 2004 Bonds <u>Interest</u>	<u>Total</u>	Grand <u>Total</u>
2005	\$6,255,882.50	\$ 895,000.00	\$1,262,049.27	\$2,157,049.27	\$8,412,931.77
2006	6,247,420.00	955,000.00	1,761,481.26	2,716,881.26	8,964,301.26
2007	6,243,770.00	975,000.00	1,733,231.26	2,708,231.26	8,952,001.26
2008	6,232,220.00	995,000.00	1,703,981.36	2,698,981.26	8,931,201.26
2009	6,229,282.50	1,020,000.00	1,674,131.26	2,694,131.26	8,923,413.76
2010	6,230,145.00	1,050,000.00	1,643,531.26	2,693,531.26	8,923,676.26
2011	6,223,120.00	1,080,000.00	1,609,406.26	2,689,406.26	8,912,528.28
2012	4,303,702.50	1,820,000.00	1,571,606.26	3,391,606.26	7,695,308.76
2013	1,537,327.50	1,885,000.00	1,480,606.26	3,365,616.26	4,902,933.76
2014	1,539,887.50	1,950,000.00	1,386,356.26	3,336,356.26	4,876,243.76
2015	1,539,887.50	2,020,000.00	1,288,856.26	3,308,856.26	4,848,743.76
2016	1,540,250.00	2,095,000.00	1,187,856.26	3,282,856.26	4,823,106.26
2017	1,540,500.00	2,175,000.00	1,083,106.26	3,258,106.26	4,798,606.26
2018	1,538,000.00	2,260,000.00	974,356.26	3,234,356.26	4,772,358.26
2019	1,537,750.00	2,350,000.00	861,356.26	3,211,356.26	4,749,106.26
2020	1,539,500.00	2,445,000.00	743,856.26	3,188,856.26	4,728,358.26
2021	1,538,000.00	2,560,000.00	621,606.26	3,181,606.26	4,719,606.26
2022	1,538,250.00	2,675,000.00	512,806.26	3,187,806.26	4,726,056.26
2023	0.00	2,800,000.00	395,775.00	3,195,775.00	3,195,775.00
2024	0.00	2,930,000.00	269,775.00	3,199,775.00	3,199,775.00
2025	<u>0.00</u>	<u>3,065,000.00</u>	<u>137,925.00</u>	<u>3,202,925.00</u>	<u>3,202,925.00</u>
TOTAL:	<u>\$63,354,895.00</u>	<u>\$40,000,000.00</u>	<u>\$23,904,055.69</u>	<u>\$63,904,055.69</u>	<u>\$127,258,950.69</u>

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**INFORMATION REGARDING THE
CITY OF LINCOLN, NEBRASKA WATER SYSTEM**

Five-Year Statement of Historical Operating and Debt Service Results

<u>Fiscal Year Ending August 31</u>	<u>Annual Consumption (in H.C.F.)*</u>	<u>Revenue Per H.C.F.*</u>	<u>Revenue From Water Sales</u>	<u>Net Operating Costs**</u>	<u>Net Operating Revenue</u>	<u>Debt Service Requirement</u>	<u>Debt Service Coverage</u>
2000	18,058,544	\$1.182	\$21,339,893	\$ 9,812,147	\$11,527,746	\$5,001,515	2.305
2001	17,487,149	1.155	20,196,918	10,960,315	9,236,603	4,995,075	1.849
2002	17,600,364	1.195	21,205,816	11,434,432	9,771,384	4,990,590	1.958
2003	17,776,368	1.243	22,094,721	11,579,984	10,514,737	5,519,862	1.905
2004***	17,954,132	1.315	23,617,721	12,477,489	11,140,232	5,526,633	2.016

*H.C.F.= -Hundred Cubic Feet

**Depreciation not included

***Not audited

For historical operating results see “**APPENDIX B – City of Lincoln, Nebraska Water System Financial Statements and Schedules**” to this Official Statement.

Historical Financial Summary

The statement of net assets and the summary revenue and expense data for 2002, 2003 and 2004 contained in the following tables has been extracted from the audited financial statements of the System for each of the fiscal years ended August 31, 2002 and 2003 and the unaudited financial statements of the System for the fiscal year ended August 31, 2004. The audited financial statements, including notes to financial statements for the fiscal year ended August 31, 2003, are attached as “**APPENDIX B**” to this Official Statement.

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Statement of Net Assets as of August 31, 2004 and 2003

Assets	2003	Unaudited 2004
Current Assets:		
Cash and cash equivalents	\$ 114,622	\$ 0
Equity in pooled cash and investments	<u>4,604,769</u>	<u>3,320,310</u>
Total cash and investments	4,719,391	3,320,310
Receivables:		
Accounts receivable	3,086,033	3,063,651
Unbilled revenues	<u>2,804,276</u>	<u>3,108,807</u>
Total receivables	2,890,309	6,172,458
Inventories	<u>853,960</u>	<u>785,446</u>
Total current assets	11,463,660	10,278,214
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and investments	20,201,357	13,552,267
Investment	3,169,645	<u>3,264,607</u>
Total noncurrent assets	23,371,002	16,816,874
Utility plant	291,436,671	306,158,284
Less accumulated depreciation	<u>69,503,732</u>	<u>74,794,641</u>
Net utility plant	221,932,939	231,363,643
Unamortized bond issuance costs	581,795	532,589
Total noncurrent assets	<u>245,885,736</u>	<u>248,713,106</u>
Total Assets	<u>257,349,396</u>	<u>258,991,320</u>
Liability and Net Assets		
Current Liabilities:		
Accounts payable	\$ 576,194	\$ 875,792
Accrued liabilities	593,903	601,649
Deposits liabilities	81,150	91,050
Accrued compensated absences	268,770	288,304
Construction contracts	3,989,008	1,622,829
Current maturities of long-term debt	3,115,000	4,000,000
Accrued interest and other	<u>102,226</u>	<u>95,736</u>
Total current liabilities	8,726,251	7,575,360
Long-term liabilities:		
Long-term debt, excluding current maturities	48,801,838	44,681,079
Accrued compensated absences	<u>161,681</u>	<u>186,386</u>
Total long-term liabilities	<u>48,963,519</u>	<u>44,867,465</u>
Total liabilities	57,689,770	52,442,825
Net assets:		
Invested in capital assets, net of related debt	180,477,902	183,119,417
Restricted for construction	13,286,544	16,721,138
Restricted for debt service	102,226	95,736
Unrestricted	<u>5,792,954</u>	<u>6,612,204</u>
Total net assets	<u>199,659,626</u>	<u>206,548,495</u>
Total liabilities and net assets	<u>\$257,349,396</u>	<u>\$258,991,320</u>

**Summary Statement of Revenues and Expenses
For Fiscal Years Ended August 31**

	2002	2003	Unaudited 2004
Operating revenues:			
Water sales	\$ 21,205,816	\$ 20,453,403	\$ 21,544,851
Service and materials, net	<u>858,588</u>	<u>429,756</u>	<u>556,650</u>
Total operating income	22,064,404	20,883,159	22,101,501
Operating expenses:			
Supply, pumping and purification	9,129,372	9,376,438	9,598,482
Transmission and distribution	5,572,005	5,678,628	6,572,745
Accounting and collecting	969,057	855,041	911,131
Administrative and general	<u>934,703</u>	<u>1,117,389</u>	<u>1,184,817</u>
Total operating expenses	<u>16,605,137</u>	<u>17,027,496</u>	<u>18,267,175</u>
Operating income	5,459,267	3,855,663	3,834,326
Nonoperating revenue:			
Investment income	623,385	535,807	772,604
Federal grant revenue	0	114,999	0
Gain (Loss) on sale of assets	0	0	66,757
Interest expense on revenue bonds	(1,567,706)	(2,074,619)	(1,851,396)
Amortization of bond costs	<u>(33,256)</u>	<u>(42,350)</u>	<u>(51,410)</u>
Net nonoperating income	<u>(977,577)</u>	<u>(1,466,163)</u>	<u>(1,063,445)</u>
Increase in net assets before contributions	4,481,690	2,389,500	2,770,881
Capital contributions from:			
Developers	3,557,967	2,386,137	2,500,932
Impact fees	0	0	876,440
Tap fees	<u>206,863</u>	<u>675,755</u>	<u>743,616</u>
Total capital contributions	<u>3,764,730</u>	<u>3,061,892</u>	<u>4,117,988</u>
Increase in net assets	\$ <u>8,246,420</u>	\$ <u>5,451,392</u>	\$ <u>6,888,869</u>
Total net assets – beginning	185,961,814	194,208,234	199,659,626
Total net assets – ending	\$194,208,234	\$199,659,626	\$206,548,495

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Projected Operating Statement and Coverage

<u>Fiscal Year Ending August 31</u>	<u>Annual Consumption (in H.C.F.)*</u>	<u>Revenue Per H.C.F.*</u>	<u>Revenue**</u>	<u>Operating Costs</u>	<u>Net Revenues</u>	<u>Estimated Debt Service Requirement</u>	<u>Estimated Debt Service Coverage</u>
2005	18,133,673	\$1.354	\$24,549,162 ^a	\$14,191,922	\$10,357,240	\$8,151,795	1.271
2006	18,315,009	1.387	25,404,036 ^b	14,404,801	10,999,235	8,745,360	1.258
2007	18,498,159	1.401	25,919,871 ^c	14,620,873	11,298,998	8,742,610	1.292
2008	18,683,141	1.388	25,933,913 ^d	14,840,186	11,093,727	8,729,500	1.271
2009	18,869,973	1.414	26,675,386 ^e	15,062,789	11,612,597	8,726,898	1.331

*H.C.F. - Hundred Cubic Feet

**Revenues: (i) total operating revenues, plus (ii) interest income, plus (iii) tap fees, plus (iv) impact fees allocable to the System, the use of which by the City is unrestricted, plus (v) such other revenues and income as shall be determined to be appropriate in accordance with generally accepted accounting principles for proprietary governmental operations such as the System. (no impact fees in these numbers.)

- a. 5.00% Average rate increase approved during Fiscal Year 2004-05
- b. 5.00% Average rate increase projected during Fiscal Year 2005-06
- c. 5.00% Average rate increase projected during Fiscal Year 2006-07
- d. 5.00% Average rate increase projected during Fiscal Year 2007-08
- e. 5.00% Average rate increase projected during Fiscal Year 2008-09

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The projections presented above were prepared by the business office of the City's Public Works and Utilities Department. The projections are based on historical pumpage data and population growth of 1% and a historical inflationary increase in operation and maintenance costs of 1.5% annually.

Summary of Project Costs

The proceeds of the Series 2004 Bonds will be used to pay a portion of the costs of the following improvements to the City's Water System:

- General system improvements, including security system upgrades (\$2,050,000)
- New and replacement water supply wells (\$3,330,000)
- Selected replacement mains (\$12,386,000)
- New water distribution mains (\$19,406,000)
- Pumping stations (\$7,828,000)

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Water Rates and Charges

The City's rates for the sale of water are fixed by its City Council (the "Council"). The Council has increased rates periodically to maintain the System on a sound financial basis. The most recent rate increase adopted by the Council was on September 27, 2004 and was effective immediately upon adoption. The new service charges and user fees are as follows:

Residential

First 800 cfm*	\$0.93 per 100 cf
Next 1,500 cfm*	1.28 per 100 cf
Amount over 2,300 cfm*	1.89 per 100 cf

Non-Residential

(using less than 12,000,000 cf of the preceding year)

First 8,000 cfm*	\$0.93 per 100 cf
Amount over 8,000 cfm*	1.28 per 100 cf

*cfm = cubic feet per month

Non-Residential

(using more than 12,000,000 cf of the preceding year)

On a calendar year basis, a "base usage" of each high user customer will be determined. The base usage is an average of the water usage of each high user customer for the previous three (3) calendar years. The following fees would apply:

- \$ 0.87 per 100 cf for water usage less than base to 5% above base
- 0.91 per 100 cf for water usage 5% to 15% above base
- 0.95 per 100 cf for water usage 15% to 25% above base
- 1.00 per 100 cf for all water usage over 25% above base

The minimum monthly service charge is set forth below:

<u>Water Meter Size</u>	<u>Monthly Service Charge Per Water Meter</u>
5/8 inch	\$ 2.95
3/4 inch	2.95
1 inch	2.95
1½ inch	5.90
2 inch	11.80
3 inch	26.55
4 inch	47.20
6 inch	106.15
8 inch	188.75
10 inch	294.90

Section 17.22.060 of the Lincoln Municipal Code states that “the amounts charged for all water use, together with all other charges and penalties, shall be and are hereby declared to be a lien upon the property when the same is furnished from the time the same becomes due until paid.” Because of this provision, bad debts are negligible.

Number of Water Customers

<u>At End of Fiscal Year (August 31)</u>	<u>No. of Customers</u>
1998-99	65,823
1999-00	66,956
2000-01	68,187
2001-02	69,865
2002-03	72,260
2003-04	73,059

Largest Water Users

<u>User</u>	<u>Consumption for Fiscal Year Ended August 31, 2004 Hundred Cubic Feet</u>	<u>Revenue</u>	<u>Percentage of Total Revenue</u>
University of Nebraska	604,037	\$721,154	3.05%
Archer-Daniels-Midland Co.*	408,348	335,769	1.42
Goodyear Tire & Rubber Co.	317,948	269,499	1.14
City of Lincoln**	285,194	362,315	1.53
State of Nebraska	242,887	308,640	1.31
Pfizer Animal Health	234,191	203,864	0.86
ConAgra Refrigerated Foods	197,326	161,521	0.68
Bryan LGH Medical Center	136,010	174,459	0.74
Lincoln Public Schools	115,895	164,011	0.69
Lincoln Housing Authority	102,811	141,408	0.68

*all consumption at lowest rate.

**multiple accounts with separate service charges.

THE WATER SYSTEM

Water Supply

The City's principal water supply source is derived from the underground flow in the Platte River Valley about twenty-five (25) miles northeast of the City. In addition, the System includes wells at various locations within the City. The Platte River water supply was initially developed in 1931 with a capacity of 13.5 million gallons per day. The present rated capacity of the Platte River well field is 110 million gallons per day and the wells within the City have a rated capacity of approximately 8 million gallons per day.

Water from the Platte River supply is pumped to one of two nearby treatment plants where the raw water is treated. One plant uses aeration, chlorination, detention and filtration. The other plant uses ozonation, chlorination and filtration. In both processes, ammonia is added to react with chlorine to form chloramines. Fluoride is also added in both plants. Utilized during peak demand periods, water from wells within the City is not treated by chlorination as the water quality from the Lincoln wells is very similar to the Platte River's filtered and chlorinated water.

Water from the treatment plants is pumped to the City through 36-inch, 48-inch and 54-inch transmission lines to storage reservoirs located within the City. The present delivery rate from the treatment plants to Lincoln is about 100 million gallons per day. The City's water system has the capacity of storing about 74 million gallons of water in 12 separate underground reservoirs. About 30.5 million gallons can be stored in 6 elevated facilities throughout the City, bringing the total storage capacity to about 104.5 million gallons.

The total transmission capacity, with the 54-inch transmission main, which extends approximately half-way to Lincoln, is limited to 100 million gallons per day to the City. Extension of the water transmission main from to Lincoln is estimated to cost \$21 million (using ENR cost index), will not be constructed until 2007, and will, if constructed as currently planned, increase the treated water transmission capacity to the City to 160 million gallons per day.

For the year ended August 31, 2004, the total water pumpage was 12,826 million gallons for an average daily pumpage of 35.1 million gallons. The 2004 maximum daily requirements were approximately 66 million gallons per day. The area served is approximately 90 square miles with a total of 76,000 customers.

The City owns approximately 800 acres of undeveloped water supply land near the Platte River. When fully developed, this well field is projected to supply an additional sustained yield of 200 million gallons of water per day.

Water Distribution

The City's water distribution system is divided into six (6) distinct pressure districts to serve differing elevations in the City. System pressures vary from about 50 psi in the downtown area to about 100 psi in the residential area of southeast Lincoln.

Main sizes vary from 4-inch through 54-inch in diameter and are primarily constructed of cast iron, ductile iron, concrete, transite and PVC. The System includes approximately 9,240 fire hydrants and 21,550 valves.

New water mains are designed according to criteria that generally follow the standards of the American Water Works Association (the "AWWA") and the "Recommended Standards for Water Works" prepared by the Committee of the Great Lakes Upper Mississippi River Board of State Sanitary Engineers (otherwise known as the "Ten State Standards"). In addition, construction details follow the "City of Lincoln Standard

Specification for Municipal Construction”. Fireflow requirements follow those of the “Fire Suppression Rating Schedule” published by the Insurance Services Office. Current minimum sizes installed are six-inch diameter pipes in residential areas, eight-inch diameter pipes in commercial areas and 12-inch diameter pipes in industrial areas. All new pipe installed through 16-inch diameter is ductile iron encased in polyethylene to protect the iron product from external corrosion PVC class DR14 plastic pipe.

The City has established a feeder main network of larger mains on half-mile centers to ensure that an adequate supply of water is available where it is needed to meet all types of uses. Diameter mains with a minimum 16-inch diameter are installed on section lines and 12-inch diameter mains are installed on half-mile centers.

On the average, System construction personnel repair approximately 94 water main breaks each year. Following the recommendation of manufacturers, AWWA, and the Insurance Services Office, each fire hydrant is checked and operated once per year. Valves are checked and operated every 24 months.

Service personnel currently install, repair and maintain approximately 78,829 water meters, most of which are the property of the System, and the System has the responsibility of maintaining, repairing and replacing all such meters. Meters larger than two inches are the property of the customer who is responsible for maintenance costs. The System is currently proposing to phase in, over the next several years, City ownership of all water meters.

The System’s average unaccounted-for water for the last three decades has been as follows:

<u>Decade</u>	<u>Percentage of Water Unaccounted For</u>
1970’s	5.91%
1980’s	6.30%
1990’s	6.14%
2000’s	6.00%

In order to reduce unaccounted-for water, in 1997 the System undertook a meter replacement program in which all meters one-inch in size and smaller were replaced with new meters and radio reading devices. The devices were installed to reduce the need to enter a residence to obtain meter readings. Additionally, a large meter-testing program began in 1980 whereby all large water meters were tested on a regular basis. Following the testing procedure and guidelines of the AWWA, six-inch, eight-inch and ten-inch meters are tested annually. Four-inch meters are tested every two years, three-inch meters every three years, and one and one-half-inch and two-inch meters every five years. When a meter is found to be out of acceptable accuracy limits, repairs are made to bring the accuracy to within the minimum of 90%. In most instances, repairs can be made to bring accuracy to within 1.5% of actual water usage, the accuracy of a new meter.

Service personnel also maintain backflow prevention devices. Backflow prevention devices, mandated by the 1974 Safe Drinking Water Act, are installed on the customer’s service line to prevent pollutants or contaminants from the customer’s premises from entering the public water system. Currently, approximately 5,620 devices ranging in size from three-quarters of an inch to ten inches are maintained. These devices are the property of the owner of the premises and are tested annually by water service personnel at no cost to the property owner. If repairs are necessary, the owner is billed for the cost of the repair parts.

The System utilizes a computer software program to maintain an inventory of valves, fire hydrants, water meters, backflow prevention devices and water service taps. Included in the inventory is a complete maintenance history of all checks, tests, repairs and replacements of these items. The System also utilizes the Intergraph System of computer-aided design to maintain records of water mains.

To ensure that the System delivers water of high quality, the Safe Drinking Water Act requires that sampling and monitoring for bacteriological contamination be performed. Laboratory personnel collect and deliver water samples on a daily basis from throughout the distribution system to an independent laboratory for analysis. Over 2,500 samples are collected annually. No major contamination problems have been detected in the Water System.

Periodically, the Insurance Services Office reviews the City's fire suppression system to develop a public protection classification for fire insurance rating purposes. The major elements of such system are measured, including the Communications Center, the Fire Department and the water supply. The measurements are then developed into a Public Classification number on a relative scale of 1 to 10, with 10 representing less than the minimum recognized protection. The City's last evaluation by ISO was in November, 2001 and the City received a rating of Public Protection Class 3, on a scale of 10 (the lowest rating) to 1 (the highest rating) based upon a review of the water supply pressure and flow tests, water distribution main network, hydrant distribution, and water supply available to fight a fire. Forty points are available for water supply, with 36.68 points having been awarded. If water supply were the sole element in determination of a Public Protection Class rating, the City would have received a rating of 1.

Waterworks System Employee Information

The System has 112 employees as of the date of this Official Statement. All employees, with the exception of seven managers who are not represented by any bargaining unit, are represented by either the National Association of Governmental Employees or by the City Employees Association. In addition to Social Security, the City has a contributory retirement plan for its employees, including employees of the System. The plan is a straight money purchase plan. Employee forfeitures are used to reduce the employer's contribution. All past service costs and vested benefits are fully funded. The total retirement expense for employees of the System, including Social Security, was \$806,616 for the 2003-04 Fiscal Year.

Those employees of the City charged with the management functions of the System, their areas of responsibility and related experience are as follows:

Allan L. Abbott*	Director of Public Works & Director of Public Utilities Age: 65 Years of Related Experience: 5 Years with City of Lincoln: 5
Margaret Remmenga	Public Works/Utilities Business Manager Age: 60 Years of Related Experience: 28 Years with City of Lincoln: 36
R. Steven Masters	Public Utilities Administrator Age: 57 Years of Related Experience: 23 Years with City of Lincoln: 25

Jerry Obrist	Chief Waterworks Engineer Age: 61 Years of Related Experience: 35 Years with City of Lincoln: 35
John Miriovsky	Superintendent of Water Production & Treatment Age: 54 Years of Related Experience: 22 Years with City of Lincoln: 22
Nick McElvain	Superintendent of Water Operations Support Age: 55 Years of Related Experience: 27 Years with City of Lincoln: 30
Steve Owen	Superintendent of Water Distribution Age: 44 Years of Related Experience: 2 Years with City of Lincoln: 20

*Retiring December 31, 2004.

THE SERIES 2004 BONDS

General

The Series 2004 Bonds will be issued in fully registered, book-entry-only form. See “**THE SERIES 2004 BONDS - Book-Entry-Only System**” herein. The Series 2004 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, not exceeding the amount maturing in any one year, and will mature on the dates and in the amounts and bear interest at the rates as set forth on the inside cover of this Official Statement.

Wells Fargo Bank, National Association, is bond registrar and paying agent (the “**Registrar**”) for the Series 2004 Bonds. The principal and interest due at maturity or upon prior redemption are payable upon presentation and surrender of the Series 2004 Bonds at the office of the Registrar. Interest due prior to maturity or earlier redemption is payable on February 15 and August 15 of each year, beginning August 15, 2005, by check or draft of the Registrar mailed directly to the persons who are the registered owners as of the close of business on the first day of the month in which such interest payment becomes due (the “**Record Date**”).

Optional Redemption

The Series 2004 Bonds maturing on or prior to August 15, 2014 are not subject to redemption prior to their stated maturities. The Series 2004 Bonds maturing on or after August 15, 2015 are redeemable prior to their stated date of maturity at the option of the City in whole or in part anytime on or after August 15, 2014 at a redemption price equal to 100% of the principal amount of the Series 2004 Bonds or portions thereof to be redeemed, together with accrued interest to the redemption date.

Notice of Redemption

A notice of redemption shall be mailed by first class mail by the Registrar not less than thirty (30) days prior to the redemption date, to each owner whose Series 2004 Bonds are called for redemption. Each notice of redemption shall state the distinguishing designation of the Series of Series 2004 Bonds to which such notice relates, the date of issue of such Series of Series 2004 Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and address of the Registrar), the CUSIP number (if any) of the maturity, and, if less than all of such maturity, the distinctive certificate numbers of the Series 2004 Bonds of such maturity to be redeemed and, in the case of Series 2004 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Series 2004 Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Series 2004 Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date, interest thereon shall cease to accrue, and shall require that such Series 2004 Bonds be then surrendered at the address of the Registrar specified in the redemption notice. Any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the City nor the Registrar shall be liable for any inaccuracy in such numbers. Failure of any owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

Registration, Transfer and Exchange

As long as any of the Series 2004 Bonds shall remain outstanding, the City shall maintain and keep at the office of the Registrar an office or agency for the payment of the principal of and interest on the Series 2004 Bonds, and for the registration thereof, and shall also keep at said office of the Registrar books for such registration and transfer.

Upon surrender for transfer of any fully registered Series 2004 Bond at the office of the Registrar with a written instrument of transfer satisfactory to the Registrar duly executed by the registered owner or its duly authorized attorney, and upon payment of any tax, fee or other governmental charge required to be paid with respect to such transfer, the City shall execute and the Registrar shall authenticate and deliver, in the name of the designated transferee or transferees, one or more fully registered Series 2004 Bonds of the same series, of any authorized denominations and of a like aggregate principal amount, interest rate and maturity.

Fully registered Series 2004 Bonds may, upon surrender thereof at the office of the Registrar, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of fully registered Series 2004 Bonds of the same series, maturity and interest rate of any authorized denominations.

In all cases in which the privilege of exchanging Series 2004 Bonds or transferring fully registered Series 2004 Bonds is exercised, the City shall execute and the Registrar shall authenticate and deliver Series 2004 Bonds in accordance with the provisions of the Bond Ordinance. For every such exchange or transfer of Series 2004 Bonds, the City or the Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer.

As to any Series 2004 Bond, the person in whose name the same shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal and the interest on any such Series 2004 Bond shall be made only to or upon the order of the registered owner thereof or its legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Series 2004 Bond, including the interest thereon, to the extent of the sum or sums so paid.

Book-Entry-Only System

Generally

The Series 2004 Bonds will initially be available in book entry form only in the principal amount of \$5,000 or any integral multiple thereof. The Depository Trust Company (“**DTC**”), New York, New York, will act as securities depository for the Series 2004 Bonds, and the ownership of one fully registered Series 2004 Bond for each maturity, as set forth on the inside cover hereof, 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 Series 2004 Bonds will be available to purchasers only through a book entry system maintained by DTC. See “**APPENDIX F - BOOK-ENTRY-ONLY SYSTEM**” to this Official Statement.

Risk Factors

Beneficial Owners (as defined in “**APPENDIX F - BOOK-ENTRY-ONLY SYSTEM**” to this Official Statement) of the Series 2004 Bonds may experience some delay in their receipt of distributions of the principal of, premium, if any, and interest on the Series 2004 Bonds since such distributions will be forwarded by the Registrar to DTC, from DTC to the DTC Participants (as defined in “**APPENDIX F - BOOK-ENTRY-ONLY SYSTEM**” to this Official Statement), and finally from the DTC Participants to the accounts of the Beneficial Owners of the Series 2004 Bonds.

Since transactions in the Series 2004 Bonds can only be effected through DTC and the DTC Participants, the ability of Beneficial Owners of Series 2004 Bonds to pledge Series 2004 Bonds to persons or entities that do not participate in the book entry system is restricted due to the lack of physical certificates. Beneficial Owners of Series 2004 Bonds will not be recognized by the Registrar as registered owners for purposes of the Bond Ordinance, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and the DTC Participants.

RATINGS

Rating on the Insured Bonds

Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies, Inc. (“**S&P**”), has assigned a rating of “AAA” and Moody’s Investors Service, Inc. (“**Moody’s**”) has assigned a rating of “Aaa” to the Insured Bonds maturing on August 15 of the years 2005 through 2020, inclusive, with the understanding that, upon delivery of the Insured Bonds, a municipal bond insurance policy will be issued by MBIA Insurance Company.

Rating on the Uninsured Bonds

The Series 2004 Bonds maturing on August 15 of the years 2021 through 2025, inclusive (the “**Uninsured Bonds**”) are rated “AA-“ by S&P and “Aa2” by Moody’s. . Such ratings reflect only the respective views of such rating agencies and are not a recommendation to buy, sell or hold the Uninsured Bonds.

Any desired explanation of the significance of such ratings should be obtained from S&P, 55 Water Street, New York, New York 10041, telephone (212) 438-2124, and from Moody’s, 99 Church Street, New York, New York 10007, telephone (212) 553-0300. The City furnished the rating agencies with certain information and materials relating to the Series 2004 Bonds and the City, which have not been included in this Official Statement. Generally, a rating agency bases its rating on the information and materials so furnished and on

investigations, studies and assumptions made by such rating agency. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the Series 2004 Bonds.

TAX MATTERS

General

Federal and Nebraska Tax Exemption. In the opinion of Gilmore & Bell, P.C., Bond Counsel, under existing law, the interest on the Series 2004 Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal and Nebraska income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the Series 2004 Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal and Nebraska income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2004 Bonds in gross income for federal and Nebraska income tax purposes retroactive to the date of issuance of the Series 2004 Bonds. The Series 2004 Bonds have **not** been designated as “qualified tax-exempt obligations” for purposes of Section 265(b) of the Code.

Original Issue Discount Bonds. In the opinion of Bond Counsel, subject to the conditions set forth above, the original issue discount in the selling price of the Series 2004 Bond maturing in the years 2021 to 2025, inclusive, purchased in the original offering at a price less than the par amount thereof (hereinafter referred to as the “OID Bonds”), to the extent properly allocable to each owner of such Series 2004 Bond, is excludable from gross income for federal income tax purposes with respect to such owner. Original issue discount is the excess of the stated redemption price at maturity of an OID Bond over the initial offering price to the public (excluding underwriters and intermediaries) at which price a substantial amount of the OID Bonds were sold. Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. For an owner who acquires an OID Bond in this offering, the amount of original issue discount that accrues during any accrual period generally equals (a) the issue price of such OID Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (b) the yield to maturity on such OID Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (c) any interest payable on such OID Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner’s tax basis in such OID Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of an OID Bond would be treated as gain from the sale or exchange of such OID Bond. Owners of OID Bonds should consult with their individual tax advisors to determine whether the application of the proposed original issue discount federal regulations will require them to include, for Nebraska and local income tax purposes, an amount of interest on the OID Bonds as income even though no corresponding cash interest payment is actually received during the tax year.

Original Issue Premium Bonds. Series 2004 Bonds maturing in the years 2005 to 2020, inclusive, have an initial offering price that exceeds the stated redemption price of the Series 2004 Bonds at maturity. The excess of the purchase price of a Series 2004 Bond over its stated redemption price at maturity constitutes premium on such Series 2004 Bond. A purchaser of a Series 2004 Bond must amortize any premium over the term of such Series 2004 Bond using constant yield principles, based upon the purchaser’s yield to maturity.

As premium is amortized, the amount of tax-exempt interest deemed received by the purchaser and the purchaser's basis in such Series 2004 Bond each are reduced by a corresponding amount. The adjustment to a purchaser's tax basis will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Series 2004 Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed.

Purchasers of any Series 2004 Bonds at a premium, whether at the time of initial issuance or afterward, should consult with their own tax advisors as to the determination and treatment of premium for federal income tax purposes and state and local tax consequences of owning such Series 2004 Bonds.

Other Tax Consequences

Prospective purchasers of the Series 2004 Bonds should be aware that there may be tax consequences of purchasing the Series 2004 Bonds other than those discussed above, including the following:

(a) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2004 Bonds or, in the case of a financial institution, that portion of such institution's interest expense allocable to interest on the Series 2004 Bonds;

(b) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series 2004 Bonds;

(c) interest on the Series 2004 Bonds earned by certain foreign corporations doing business in the United States of America could be subject to a branch profits tax imposed by Section 884 of the Code;

(d) passive investment income, including interest on the Series 2004 Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year, if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income; and

(e) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Series 2004 Bonds.

Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of Series 2004 Bonds should consult their own tax advisors as to the applicability of these tax consequences.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Series 2004 Bonds to provide certain financial information and operating data relating to the City by not later than May 1 of each year (the "**Annual Report**"), commencing with the report for the 2003-2004 fiscal year of the City and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Registrar with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board. The proposed form of the Continuing Disclosure Certificate between the City and the Registrar is attached to this Official Statement as **APPENDIX E**. These covenants have been made in order to assist the underwriter for the Series 2004 Bonds (the "**Underwriter**"), in complying with SEC Rule 15c2-12(b)(5) (the "**Rule**").

A failure by the City to comply with the Continuing Disclosure Certificate will not constitute a default under the Bond Ordinance, although beneficial owners will have any available remedy at law or in equity. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2004 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2004 Bonds and their market price. The City is in compliance with each prior undertaking made by it pursuant to the Rule.

LITIGATION

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2004 Bonds or questioning or affecting the validity of the Series 2004 Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the City, nor the title of the members of the Council of the City or other officers of the City to their respective offices is being contested or questioned.

There is no litigation pending which in any manner questions the right of the City to pass the Bond Ordinance pursuant to which the Series 2004 Bonds are being issued.

FINANCIAL STATEMENTS

The financial statements of the System for the year ended August 31, 2003, included in **APPENDIX B** to this Official Statement, have been audited by BKD, LLP, independent auditors, as stated in their report appearing therein.

CERTIFICATION AS TO OFFICIAL STATEMENT

At the time of payment for and delivery of the Series 2004 Bonds, the City will furnish to the purchaser a certificate to the effect that (a) the descriptions and statements of or pertaining to the City contained in this Official Statement and any addenda thereto, on the date of this Official Statement, on the date of the sale of the Series 2004 Bonds and on their date of the delivery, were and are true and correct in all material respects; (b) insofar as the City, including its financial affairs, are concerned, this Official Statement did not and does not contain any untrue statements of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data of or pertaining to entities, other than the City, and their activities contained in this Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and that the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City or the System since August 31, 2003.

LEGAL MATTERS

All legal matters incidental to the authorization, issuance, sale and validity of the Series 2004 Bonds are subject to the approval of Gilmore & Bell, P.C., Lincoln, Nebraska, as bond counsel. None of such attorneys has participated in any independent verification of the information concerning the financial condition or capabilities of the City contained in this Official Statement.

APPENDIX A

CITY OF LINCOLN, NEBRASKA

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 79.61 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 2003 population is 235,565.

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 5,779 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, U.S. Routes 6, 34, and 77 and State Highway 2.

Scheduled air service is provided by United Express, American Eagle, 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, and bus transportation is furnished by one carrier.

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 23,000 students, Nebraska Wesleyan University, with approximately 1,700 students, Union College with approximately 800 students, and Southeast Community College, 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 31,889 is served by 6 senior high schools, 11 middle schools, and 37 elementary schools. There are also 31 private and parochial schools in the City with an enrollment of approximately 6,587 students.

Building Permits and Property Values

FISCAL YEAR	LAST TEN YEARS						TOTALS
	COMMERCIAL 1 CONSTRUCTION		RESIDENTIAL 1 CONSTRUCTION		PROPERTY VALUE 2		
	# PERMITS	VALUE	# PERMITS	VALUE	COMMERCIAL	RESIDENTIAL	
2003	1,036	\$ 269,298,229	3,913	\$ 315,666,242	\$ 3,598,787,015	\$ 8,402,403,364	\$ 12,001,190,379
2002	1,013	245,476,386	3,405	262,293,941	3,094,988,486	7,255,640,292	10,350,628,778
2001	1,017	215,856,679	3,212	231,390,626	2,855,200,333	7,048,688,380	9,903,888,713
2000	1,069	181,983,107	3,385	225,622,611	2,540,905,431	6,273,610,610	8,814,516,041
1999	1,148	186,569,754	3,235	206,065,342	2,356,367,014	6,067,493,586	8,423,860,600
1998	1,093	119,532,867	3,109	185,894,741	2,132,780,337	5,726,511,673	7,859,292,010
1997	1,107	90,599,429	3,284	191,975,903	1,986,422,642	4,863,604,491	6,850,027,133
1996	1,212	148,033,633	2,976	167,561,114	1,840,136,792	4,676,645,258	6,516,782,050
1995	1,140	110,994,400	2,739	146,598,151	1,734,716,053	4,508,422,380	6,243,138,433
1994	1,117	136,104,897	3,114	156,183,375	1,703,370,467	4,336,950,337	6,040,320,804

¹ City of Lincoln, Building and Safety Department.

² Lancaster County Assessor.

Police and Fire Protection

Lincoln has fourteen fire stations manned by 244 firefighters and two police stations with 303 police officers.

City Employee Information

For the 2003-2004 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 National Association of Government Employees (NAGE) representing labor, trades, and clerical personnel, and the City Employees Association (CEA) representing supervisory, highly technical, and professional personnel. The CEA and NAGE contracts expire at the end of August, 2005; the IAF and LPU contracts expire at the end of August, 2004; and the ATU contract expires at the end of August, 2006.

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.

Industrial and Business Activity

The industrial development statutes permit Nebraska counties and municipalities to issue revenue bonds to acquire sites and construct buildings for lease to industry seeking expansion and relocation. In addition to land and building costs, costs such as grading, utility lines, trackage, etc., may be included in the total cost financed by the bond issue.

Currently, there are more than 200 firms representing over 120 types of manufacturing, evidence of Lincoln's diversified industrial interests. These include printing and publishing, metal fabrication firms, grain storage and feed

manufacturers, planing mills, fire protection systems, pharmaceuticals, electrical and electronic goods and many others. Lincoln is the home office of 20 insurance companies, whose combined assets are over \$2 billion. The financial interests of Lincoln are served by 15 banks with over \$9 billion in total assets and 7 Savings & Loans with over \$7 billion in total assets.

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, Square D, and Outboard Marine Corporation.

SELECTED ECONOMIC INDICATORS

LINCOLN SMSA (LANCASTER COUNTY) NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

	JULY 31, 2003		NOVEMBER 30, 2003	
	Number Employed	Percent of Total	Number Employed	Percent of Total
Industry Manufacturing:				
Durable Goods	8,714	5.5	8,641	5.4
Nondurable Goods	6,829	4.3	6,763	4.2
Total Industry Manufacturing	15,543	9.9	15,404	9.6
Nonmanufacturing:				
Natural Resource & Construction	8,199	5.2	7,889	4.9
Transportation, Communications & Utilities	6,576	4.2	6,459	4.0
Wholesale Trade	4,582	2.9	4,518	2.8
Retail Trade	15,503	9.8	16,469	10.2
Information	3,606	2.5	3,702	2.5
Finance, Insurance & Real Estate Services (except domestic)	11,322	7.2	11,151	6.9
Government	57,617	36.5	57,896	36.0
Total Nonmanufacturing	34,805	22.1	37,282	23.2
Total Nonmanufacturing	142,210	90.4	145,366	90.7
TOTAL	157,753	100.0	160,770	100.0

LINCOLN SMSA (LANCASTER COUNTY LABOR FORCE DATA 1994-2003) (For the Calendar Year Indicated)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Civilian Labor Force	132,465	136,014	137,967	142,807	142,918	142,384	150,239	150,846	153,021	156,940
Unemployment	3,487	3,060	3,327	2,494	3,208	3,397	3,542	4,209	5,007	5,841
Percent of Labor Force	2.6	2.2	2.4	1.7	2.2	2.4	2.4	2.8	3.3	3.7
Employment	128,978	132,954	134,640	140,313	139,710	138,987	146,697	146,636	148,013	151,100

STATE OF NEBRASKA

Percent of Labor Force										
Unemployment	2.5	2.6	2.7	2.3	2.7	2.9	2.7	3.1	3.6	3.8

Source: State of Nebraska, Department of Labor

**DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

<u>Year</u>	<u>Population 1</u>	<u>Per Capita Income 2</u>	<u>School Enrollment 3</u>
2003	235,565	\$	31,889
2002	231,800		31,867
2001	225,588	30,872	31,581
2000	218,497	28,752	31,354
1999	217,537	28,493	31,052
1998	215,000	27,487	31,000
1997	209,192	24,602	30,924
1996	206,100	23,591	30,779
1995	203,076	22,446	30,693
1994	199,350	21,169	30,041

Sources:

1 Lincoln/Lancaster Planning Department.

2 University of Nebraska Bureau of Business Research - U.S. Dept. of Commerce, Bureau of Economic Analysis. Per Capita Income for 2002 and 2003 is unavailable.

3 Lincoln Public Schools.

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

**LINCOLN UTILITY CUSTOMERS
LAST TEN YEARS**

<u>Year</u>	<u>Water Customers</u>	<u>Gas Customers</u>	<u>Electricity Customers</u>
2003	72,260	89,642	119,456
2002	69,704	89,085	116,974
2001	68,187	87,749	114,388
2000	66,956	86,501	112,817
1999	65,823	85,156	110,524
1998	64,423	80,770	107,701
1997	63,905	79,490	105,970
1996	62,828	78,488	103,603
1995	61,500	77,470	101,277
1994	61,047	76,400	99,693

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 Welfare	Mass ² Transit	Debt Service	Totals
2003	\$ 28,938,852	50,933,285	12,317,663	19,918,793	16,469,645	15,706,918	7,996,019	8,507,223	160,788,398
2002	27,237,134	49,913,169	10,833,055	16,974,798	14,017,601	15,513,515	12,691,837	7,411,878	154,592,987
2001	23,821,580	48,122,074	11,175,059	14,806,760	12,559,336	14,232,879	-	7,742,690	132,460,378
2000	23,529,495	44,042,882	9,039,840	13,958,414	11,204,029	12,589,907	-	7,924,295	122,288,862
1999	21,891,174	41,555,922	9,406,531	13,254,994	10,215,261	11,226,029	-	6,937,983	114,487,894
1998	30,170,768	41,140,827	8,992,439	13,111,328	12,009,990	10,979,131	-	7,317,239	123,721,722
1997	17,791,275	35,073,010	10,348,129	12,655,548	8,581,741	9,491,687	-	7,807,532	101,748,922
1996	21,642,981	35,208,168	8,204,830	12,475,318	8,638,263	8,874,148	-	7,468,367	102,512,075
1995	19,324,778	32,268,654	7,707,436	11,546,106	9,027,752	7,838,386	-	7,161,326	94,874,438
1994	17,757,517	29,709,169	7,039,926	10,611,776	8,104,312	7,019,362	-	9,116,154	89,358,216

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

² StarTran added as a Special Revenue Fund in 2002.

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
2003 ²	\$ 100,343,159	52,362,560	12,679,623	6,097,336	1,464,594	7,411,164	180,358,436
2002	98,375,135	58,762,476	12,449,879	5,605,557	2,018,695	10,548,354	187,760,096
2001	89,503,325	48,369,359	9,638,476	3,685,621	4,072,585	9,668,449	164,937,815
2000	86,831,572	35,469,904	9,838,028	3,360,901	3,955,026	9,228,060	148,683,491
1999	82,998,188	34,847,767	8,690,565	306,506	3,328,425	8,894,527	139,065,978
1998	79,200,331	40,261,744	8,040,655	2,603,350	3,525,748	10,363,736	143,995,564
1997	78,164,628	26,909,591	7,903,461	3,841,495	3,203,760	8,414,170	128,437,105
1996	75,624,598	27,398,828	7,587,645	3,012,387	2,891,696	9,518,249	126,033,403
1995	71,429,314	24,447,377	6,325,774	3,211,819	2,636,591	9,503,980	117,554,855
1994	72,266,306	24,954,144	4,289,234	2,862,622	1,352,122	8,583,766	114,308,194

¹ Includes General, Special Revenue and Debt Service Funds.

² StarTran added as a Special Revenue Fund in 2002.

**SPECIAL ASSESSMENT COLLECTIONS
LAST TEN YEARS ¹**

Fiscal Year Ended <u>August 31</u>	Special Assessment Collections <u>Including Interest</u>
2003	\$ 1,814,191
2002	\$ 1,867,653
2001	1,796,924
2000	1,948,791
1999	2,359,812
1998	2,104,022
1997	2,390,085
1996	2,484,416
1995	2,337,275
1994	2,770,059

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 2003 tax levy for the 2003-2004 fiscal year is \$51,618,180 below the legal limit, a tax rate per \$100 valuation of .29028. The assessed value upon which the 2003 levy is based is \$12,712,753,202. Only 90% of the property tax levy may be appropriated, by charter.

For the 2003-2004 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 2003-2004 the City can also use authority equal to the amount of real growth in the tax base of 4.51%. An additional 1% can be authorized by a 75% vote of the City Council but was not utilized for the 2003-2004 budget. The 2003-2004 budget is approximately \$16.0 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, 2003	
		Amount	Percent	Amount	Percent
2002	\$ 35,007,926	\$ 33,676,453	96.20 %	\$ 33,676,453	96.20 %
2001	33,731,282	32,501,760	96.35	33,808,526	100.23
2000	31,159,364	29,936,079	96.07	31,143,997	99.95
1999	29,603,794	28,665,780	96.83	29,759,977	100.53
1998	27,597,664	26,411,546	95.70	27,509,890	99.68
1997	26,812,692	25,758,577	96.07	26,974,986	100.61
1996	27,022,949	25,894,971	95.83	26,962,366	99.78
1995	26,717,464	25,626,901	95.92	26,807,115	100.34
1994	26,289,058	25,209,483	95.89	26,295,625	100.02
1993	25,962,618	25,108,543	96.71	26,253,361	101.12

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>2002 Assessed Valuations</u>	<u>Percentage Of Total Assessed Valuation</u>
Alltel Communications	Telecommunications	\$ 88,891,335	.70%
Kawasaki	Manufacturing	68,519,940	.54
B & J Partnership Ltd.	Building Management	56,885,655	.45
Pfizer	Animal Health	52,285,124	.41
Ameritas Life Insurance Corp	Insurance	48,507,866	.38
Molex Inc.	Manufacturing	44,862,957	.35
WEA Gateway LLC	Retail Management	44,293,300	.35
Burlington Northern	Railroad	43,769,733	.34
Chateau Van Dorn LLC	Real Estate Development	43,769,608	.34
Necco	Construction / Development	40,406,157	.32
		<u>\$ 532,191,675</u>	<u>4.18%</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**

Year Ended <u>August 31</u>	<u>Amount</u>
2003	\$ 48,657,268
2002	45,393,491
2001	44,486,127
2000	43,608,313
1999	41,642,771
1998	37,479,413
1997	36,549,194
1996	33,543,308
1995	31,420,946
1994	29,739,476

**GENERAL FUND TAX COLLECTIONS
LAST TEN YEARS**

Fiscal Year	Property and Motor Vehicle Taxes	Sales and Use Taxes	Insurance Taxes	Sundry Taxes	Taxes In Lieu	Occupation Taxes	Total
2003	\$ 22,780,085	48,657,268		10,876	1,199,507	8,831,712	81,479,448
2002	23,353,414	45,393,491		8,403	1,163,468	9,097,442	79,016,218
2001	20,284,364	44,486,127		8,497	1,107,183	5,889,097	71,775,268
2000	19,487,198	43,608,313		8,522	1,043,287	5,651,371	69,798,691
1999	20,741,154	41,642,771		17,516	1,080,495	5,721,321	69,203,257
1998	18,953,860	37,479,413	889,226	8,647	944,612	4,743,649	63,019,407
1997	19,642,898	36,549,194	921,550	14,903	960,260	4,783,841	62,872,646
1996	19,407,255	33,543,308	984,537	15,438	978,909	4,437,038	59,366,485
1995	19,565,473	31,420,946	958,656	20,132	943,930	5,311,487	58,220,624
1994	19,576,322	29,739,476	1,039,534	22,649	914,133	5,589,410	56,881,524

**TAXABLE ASSESSED VALUATION
LAST TEN YEARS ¹**

Tax Year	Real Estate	All Other	Motor Vehicle	Total
2003	\$ 12,001,190,379	742,915,013		12,744,105,392
2002	10,350,628,778	779,959,389		11,130,588,167
2001	9,903,888,713	820,797,124		10,724,685,837
2000	8,814,516,041	806,431,814		9,620,947,855
1999	8,423,860,600	716,780,457		9,140,641,057
1998	7,859,292,010	660,609,204		8,519,901,214
1997	6,850,027,133	637,669,384		7,487,696,517
1996	6,516,782,050	525,762,951	706,470,078	7,749,015,079
1995	6,243,138,433	442,913,618	639,647,617	7,325,699,668
1994	6,040,320,804	431,628,371	598,259,561	7,070,208,736

¹Assessment is at 100% of actual. Effective in the 1997 tax year, Motor Vehicles are excluded from the taxable assessed valuation.

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

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
City Of Lincoln	0.2903	0.3145	0.3145	0.3239	0.3239	0.3239	0.3581	0.3837	0.3996	0.4062
School District No. 1	1.3041	1.2830	1.2732	1.3684	1.3813	1.3050	1.6308	1.6260	1.5946	1.6084
Lancaster County	0.2683	0.2683	0.2583	0.2643	0.2584	0.2782	0.2966	0.3106	0.3169	0.3051
Educational Service Unit #18	0.0150	0.0150	0.0150	0.0150	0.0150	0.0149	0.0089	0.0081	0.0082	0.0082
Community Technical College	0.0655	0.0655	0.0636	0.0295	0.0334	0.0696	0.0782	0.0840	0.0864	0.0843
Lower Platte South Natural Res. Dist.	0.0323	0.0359	0.0365	0.0367	0.0372	0.0389	0.0365	0.0346	0.0346	0.0293
Railroad Transportation Safety Dist.	0.0248	0.0220	0.0221	0.0260	0.0260	0.0260	0.0260	0.0091	0.0096	0.0096
Agricultural Society Of Lancaster County	0.0030	0.0012	0.0024	0.0073	0.0032	0.0013	0.0364	0.0364	0.0014	0.0014
Lancaster County Fairgrounds	0.0043	0.0050	0.0052							
Public Building Commission	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0169	0.0170	0.0127
	<u>2.0246</u>	<u>2.0274</u>	<u>2.0078</u>	<u>2.0881</u>	<u>2.0954</u>	<u>2.0748</u>	<u>2.4885</u>	<u>2.5094</u>	<u>2.4683</u>	<u>2.4652</u>

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

DEBT MANAGEMENT
OUTSTANDING INDEBTEDNESS AS OF AUGUST 31, 2003
Long-term debt is comprised of the following individual issues (in thousands of dollars):

Original Amount	Issued	Issue	Interest Rate	When Due	Date Callable	Interest Date	Outstanding
General Obligation Bonds:							
General Bonds:							
8,250	08/15/97	Storm Sewer and Drainage	4.500 - 5.125	Ser. '99 to '17	2005	Semiannually	\$ 7,065
14,435	03/01/99	Various Purpose Series A	3.000 - 4.600	Ser. '00 to '14	2009	"	11,390
7,365	03/01/99	Various Purpose Series A	4.750	Term '15 to '19	2009	"	7,365
8,220	03/01/99	Various Purpose Series B	3.000 - 4.250	Ser. '99 to '11	2007	"	5,240
7,500	05/29/02	Storm Sewer and Drainage	3.000 - 5.000	Ser. '04 to '22	2010	"	7,500
15,595	06/24/03	Various Purpose	3.000 - 3.750	Ser. '04 to '17	2013	"	15,595
3,710	06/24/03	Various Purpose	4.000 - 4.125	Term '18 to '23	2013	"	3,710
Total General Bonds							\$ 57,865
Municipal Infrastructure Redevelopment Bonds:							
3,200	06/13/00	Municipal Infrastructure Redevelopment	4.750 - 5.100	Ser. '01 to '09	2005	Semiannually	\$ 2,395
Tax Allocation Bonds:							
1,310	11/15/92	Tax Allocation Bonds	3.250 - 6.200	Ser. '93 to '06	1997	Semiannually	\$ 325
105	11/15/92	Tax Allocation Bonds	6.350	Term '93 to '06	1997	"	45
90	11/15/92	Tax Allocation Bonds	6.300	Term '93 to '05	1997	"	35
303	10/18/94	Tax Allocation Bonds	8.000	Term '95 to '05	Anytime	"	95
232	04/21/00	Tax Allocation Bonds	6.390	Ser. '00 to '10	2000	"	177
1,200	05/01/01	Tax Allocation & Refunding Bonds	3.450 - 3.750	Ser. '01 to '04	2003	"	575
42	06/01/03	Tax Allocation Bonds	4.060	Ser. '04 to '11	Anytime	"	42
Total Tax Allocation Bonds							\$ 1,294
Total General, MIRF, And Tax Allocation Bonds							\$ 61,554
Special Assessment Bonds:							
3,860	11/15/89	Special Assessment Revolving	5.900 - 6.850	Ser. '90 to '04	1996	Semiannually	\$ 205
TOTAL GENERAL OBLIGATION BONDS							\$ 61,759
Tax-Supported Revenue Bonds:							
11,080	2/27/02	Antelope Valley Project	1.500 - 5.000	Ser. '02 to '16	2012	Semiannually	\$ 10,810
Revenue Bonds:							
11,850	11/22/02	Water Revenue	2.750 - 5.000	Ser. '05 to '17	2012	Semiannually	\$ 11,850
6,660	11/22/02	Water Revenue	5.000	Term '18 to '22	2012	"	6,660
32,180		Water Revenue	5.000	Ser. '04 to '12	-	"	32,180
Total Water Bonds							\$ 50,690
55,000	07/15/03	Wastewater Revenue	2.000 - 5.000	Ser. '04 to '28	2013	Semiannually	\$ 55,000
6,815	09/08/99	Parking Revenue Series A	4.000 - 5.000	Ser. '00 to '09	2009	Semiannually	\$ 5,500
6,695	09/08/99	Parking Revenue Series A	5.375	Term '10 to '14	2009	"	6,695
2,125	09/08/99	Parking Revenue Series B	6.250	Ser. '00 to '04	Anytime	"	485
6,000	12/05/01	Parking Revenue	3.750 - 5.125	Ser. '02 to '21	2011	"	5,505
Total Parking Bonds							\$ 18,185
3,165	10/23/01	Golf Course Revenue Refunding	2.300 - 4.050	Ser. '02 to '11	2008	Semiannually	\$ 2,580
184,650	07/01/93	Electric Refunding '93 Series A	4.700 - 5.400	Ser. '94 to '11	2003	Semiannually	22,770
62,005	07/01/93	Electric Refunding '93 Series A	5.250	Term '12 to '15	2003	"	12,530
45,560	02/15/98	Electric Revenue Bonds '98 Series A	4.500 - 5.000	Ser. '98 to '18	2008	"	38,225
141,150	08/15/01	Electric Revenue Bonds '01	4.000 - 5.250	Ser. '06 to '20	2011	"	141,150
148,190	10/01/02	Electric Revenue Bonds '02	4.000 - 5.000	Ser. '04 to '25	2012	"	148,190
Total Electric Bonds							\$ 372,865
TOTAL REVENUE BONDS							\$ 499,320

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		Special Assessment Bonds		Tax-Supported Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 4,114	2,447	105	10	555	436	165	66
2005	4,526	2,335	100	3	565	423	147	61
2006	4,330	2,173	-	-	580	409	143	56
2007	4,000	2,014	-	-	595	391	105	52
2008	3,992	1,864	-	-	615	372	112	49
2009 - 2013	17,252	7,095	-	-	3,430	1,484	612	175
2014 - 2018	15,903	3,743	-	-	4,470	535	266	69
2019 - 2023	7,435	820	-	-	-	-	130	3
	<u>\$ 61,554</u>	<u>22,493</u>	<u>205</u>	<u>13</u>	<u>10,810</u>	<u>4,050</u>	<u>1,680</u>	<u>531</u>

Fiscal Year Ended August 31	Business-Type Activities			
	Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2004	\$ 18,750	23,447	300	53
2005	19,375	23,517	310	40
2006	20,145	22,705	320	28
2007	21,050	21,852	207	14
2008	22,010	20,878	212	5
2009 - 2013	120,475	87,503	-	-
2014 - 2018	137,740	56,867	-	-
2019 - 2023	111,205	20,191	-	-
2024 - 2028	28,570	3,706	-	-
	<u>\$ 499,320</u>	<u>280,666</u>	<u>1,349</u>	<u>140</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 \$6,162,316, \$3,028,825, \$4,045,517, and \$5,968,717 are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, Tax Allocation Bonds, and Special Assessment Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

The City has entered into lease agreements for financing the acquisition of land, buildings, emergency ambulances and defibrillators, 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	\$ 42,000	\$ 210,000
Buildings	2,185,750	-
Machinery and Equipment	206,597	1,748,261
Less Accumulated Depreciation, (where applicable)	(546,057)	(472,980)
Total	<u>\$ 1,888,290</u>	<u>\$ 1,485,281</u>

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

Established by City Ordinance, LES may borrow up to \$125 million under a commercial paper note program. At December 31, 2002, LES had \$90.2 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, 2002, was 1.4 percent. The annual requirement to pay interest on this outstanding debt is approximately \$1,263,000. The outstanding commercial paper notes are secured by a revolving credit agreement which provides for borrowings up to \$125 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement LES refinances 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, 2003, is summarized below (unaudited):

Units	Net Debt Outstanding	Percentage Applicable To The City	Direct And Overlapping Debt To The City
Direct:			
City	\$ 44,676,000	100.0 %	\$ 44,676,000
Overlapping:			
School District #1	113,480,000	97.2	110,303,000
Airport Authority	5,783,000	100.0	5,783,000
Lancaster County	9,204,000	84.6	7,787,000
Public Building Commission	36,936,000	84.6	31,248,000
Southeast Community College	None	35.9	None
	<u>165,403,000</u>		<u>155,121,000</u>
Total	\$ <u>210,079,000</u>		\$ <u>199,797,000</u>

The City has no direct liability for the School District, Airport Authority, Lancaster County, or Southeast Community College debt summarized above. This results in a per capita direct City debt of \$189.65; a per capita direct and overlapping debt of \$853.78; a ratio of direct City debt to 2003 actual valuation of .35 percent; and a ratio of direct and overlapping debt to 2003 actual valuation of 1.58 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 ²

Fiscal Year	Principal	Interest ³	Total Debt Service	Total General Governmental Expenditures ^{1,4}	Ratio Of Debt Service To Total General Expenditures
2003	\$ 5,435,370	\$ 2,986,634	\$ 8,422,004	\$ 160,788,398	5.24 %
2002	4,921,172	2,421,303	7,342,475	154,592,987	4.75
2001	4,966,405	2,753,247	7,719,652	132,460,378	5.83
2000	5,125,296	2,772,021	7,897,317	122,288,862	6.46
1999	4,209,267	2,301,745	6,511,012	114,487,894	5.69
1998	4,927,317	2,329,696	7,257,013	123,721,722	5.87
1997	5,469,089	2,274,947	7,744,036	101,748,922	7.61
1996	4,959,621	2,445,185	7,404,806	102,512,075	7.22
1995	4,827,845	2,086,601	6,914,446	94,874,438	7.29
1994	6,603,251	2,349,574	8,952,825	89,358,216	10.02

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

² In-substance defeasance excluded from this table.

³ Does not include fiscal and miscellaneous charges.

⁴ StarTran added as Special Revenue Fund in 2002.

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

Fiscal Year	General Obligation Bonded Debt	Sinking Funds	Net General Obligation Bonded Debt	Population ¹	Net G.O. Bonded Debt Per Capita	Assessed Valuation Real And Personal ²	Ratio Of Net Debt To Assessed Valuation Real & Personal	Assessed Valuation Of Taxable Real Property	Ratio Of Net Debt To Estimated Valuation Of Taxable Real Property
2003	\$ 61,759,000	\$ 17,083,000	\$ 44,676,000	235,565	\$ 189.65	\$ 12,744,105,392	0.35 %	\$ 12,001,190,379	0.37 %
2002	56,997,000	15,847,000	41,150,000	231,800	177.52	11,130,388,167	0.37	10,350,628,778	0.40
2001	54,418,000	11,243,000	43,175,000	225,588	191.39	10,724,685,837	0.40	9,903,888,713	0.44
2000	58,814,000	9,739,000	49,075,000	218,497	224.60	9,620,947,855	0.51	8,814,516,041	0.56
1999	60,508,000	12,182,000	48,326,000	217,537	222.15	9,140,641,057	0.53	8,423,860,600	0.57
1998	40,492,000	17,707,000	22,785,000	215,000	105.98	8,519,901,214	0.27	7,859,292,010	0.29
1997	47,665,000	16,121,000	31,544,000	209,192	150.79	7,487,696,517	0.42	6,850,027,133	0.46
1996	44,885,000	14,529,594	30,355,406	206,100	147.28	7,749,015,079	0.39	6,516,782,050	0.47
1995	49,573,000	13,486,759	36,086,241	203,076	177.70	7,325,699,668	0.49	6,243,138,433	0.58
1994	42,845,000	12,423,441	30,421,559	199,350	152.60	7,070,208,736	0.43	6,040,320,804	0.50

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>							
2003	\$ 15,785,843	9,086,469	6,699,374	1,032,500	266,722	1,299,222	5.16
2002	15,731,749	8,632,287	7,099,462	992,500	316,847	1,309,347	5.42
2001	16,663,975	8,087,688	8,576,287	952,500	364,972	1,317,472	6.51
2000	16,741,692	7,707,242	9,034,450	912,500	411,097	1,323,597	6.83
1999	16,286,632	7,591,990	8,694,642	1,255,000	474,743	1,729,743	5.03
1998	15,873,036	7,512,753	8,360,283	1,217,500	554,216	1,771,716	4.72
1997	15,521,150	7,339,135	8,182,015	1,120,000	627,402	1,747,402	4.68
1996	15,158,461	7,082,660	8,075,801	1,070,000	677,886	1,747,886	4.62
1995	14,278,232	6,795,101	8,195,151	1,020,000	726,840	1,746,840	4.68
1994	14,366,125	6,538,152	7,827,973	970,000	776,009	1,746,009	4.48
<u>Water System</u>							
2003	\$ 21,333,965	11,631,496	9,902,469	3,010,000	2,898,489	5,908,489	1.68
2002	22,687,789	11,474,433	11,213,356	2,880,000	2,110,590	4,990,590	2.25
2001	22,287,139	10,960,315	11,326,824	2,755,000	2,240,075	4,995,075	2.27
2000	23,823,957	9,812,147	14,011,810	2,640,000	2,361,515	5,001,515	2.80
1999	20,787,797	9,067,262	11,720,535	2,530,000	2,514,373	5,044,373	2.32
1998	21,009,615	8,894,295	12,115,320	2,435,000	2,621,365	5,056,365	2.40
1997	20,426,318	8,161,529	12,264,789	2,343,000	2,730,407	5,073,407	2.42
1996	20,152,071	8,072,097	12,079,974	2,265,000	2,829,751	5,094,751	2.37
1995	20,467,243	7,622,280	12,844,963	2,195,000	2,963,950	5,158,950	2.49
1994	20,256,136	6,858,777	13,397,359	2,145,000	3,036,215	5,181,215	2.59
<u>Parking Facilities</u> ^{1, 2}							
2003	\$ 5,988,240	2,304,632	3,683,608	1,085,000	962,829	2,047,829	1.80
2002	5,483,546	1,964,389	3,519,157	1,115,000	924,470	2,039,470	1.73
2001	5,172,264	2,127,350	3,044,914	795,000	787,419	1,582,419	1.92
2000	4,853,708	1,393,637	3,460,071	455,000	761,521	1,216,521	2.84
1999	4,209,988	2,329,165	1,880,823	585,000	640,712	1,225,712	1.53
1998	4,068,991	1,340,709	2,728,282	455,000	651,694	1,106,694	2.47
1997	3,623,705	1,110,085	2,513,620	435,000	670,847	1,105,847	2.27
1996	3,411,735	1,271,655	2,140,080	415,000	908,380	1,323,380	1.62
1995	3,205,953	1,025,468	2,180,485	400,000	483,214	883,214	2.47
1994	2,242,835	724,003	1,518,832	110,000	316,975	426,975	3.56

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. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>
Cash & Investment Balance - September 1 of Year Indicated	6,578,059	13,711,860	17,986,481	20,599,597	26,542,206	22,742,585	25,069,133	26,814,745	24,802,768	26,589,993
Receipts:										
Property Tax	19,576,322	19,566,778	19,400,997	19,642,898	18,953,860	20,741,154	19,487,198	20,284,364	23,353,414	22,780,085
City Sales & Use Tax	29,739,476	31,420,946	33,543,308	36,549,194	37,479,413	41,642,771	43,608,313	44,486,127	45,393,492	48,657,268
Other Income	<u>18,048,188</u>	<u>19,455,828</u>	<u>20,709,728</u>	<u>18,708,672</u>	<u>19,373,404</u>	<u>19,991,222</u>	<u>21,339,093</u>	<u>21,786,016</u>	<u>26,342,414</u>	<u>24,993,838</u>
Total Receipts	67,363,986	70,443,552	73,654,033	74,900,764	75,806,677	82,375,147	84,434,604	86,556,507	95,089,320	96,371,191
Less Disbursements	<u>60,230,185</u>	<u>66,168,931</u>	<u>71,040,917</u>	<u>68,958,155</u>	<u>79,606,298</u>	<u>80,048,599</u>	<u>82,688,992</u>	<u>88,568,484</u>	<u>93,302,095</u>	<u>96,176,319</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>13,711,860</u>	<u>17,986,481</u>	<u>20,599,597</u>	<u>26,542,206</u>	<u>22,742,585</u>	<u>25,069,133</u>	<u>26,814,745</u>	<u>24,802,768</u>	<u>26,589,993</u>	<u>26,784,845</u>

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. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>
Cash Balance - September 1 of Year Indicated	2,518,561	3,006,570	3,705,634	3,748,493	4,000,777	3,682,098	3,536,402	3,313,405	3,099,198	3,440,537
Receipts:										
Property Tax	4,713,228	4,435,594	4,325,012	4,350,593	4,461,628	4,475,066	5,843,384	5,814,489	6,340,938	5,883,592
Interest Income	50,564	67,073	151,746	166,270	236,658	145,534	174,146	107,693	53,873	32,298
Bond Proceeds						189,482				9,436,083
Other Income	<u>1,433</u>	<u>147,490</u>	<u>216,570</u>	<u>656,811</u>	<u>116,996</u>	<u>54,475</u>	<u>247,591</u>	<u>235,736</u>	<u>232,009</u>	<u>240,110</u>
Total Receipts	<u>4,765,225</u>	<u>4,650,157</u>	<u>4,693,328</u>	<u>5,173,674</u>	<u>4,815,282</u>	<u>4,864,557</u>	<u>6,265,121</u>	<u>6,157,918</u>	<u>6,626,820</u>	<u>15,592,083</u>
Disbursements:										
Bonds Paid	2,692,151	2,809,007	2,801,208	3,158,769	3,304,097	2,725,042	3,973,769	4,052,948	4,137,254	4,177,765
Bonds Defeased										9,609,774
Interest Paid	1,551,148	1,482,193	1,835,496	1,756,656	1,817,400	1,955,821	2,500,471	2,308,922	2,144,322	2,309,084
Transfer to Trustee						164,400				
Other Disbursements	<u>33,917</u>	<u>13,281</u>	<u>13,765</u>	<u>5,965</u>	<u>12,464</u>	<u>164,990</u>	<u>13,878</u>	<u>10,255</u>	<u>3,905</u>	
Total Disbursements	<u>4,277,216</u>	<u>4,304,481</u>	<u>4,650,469</u>	<u>4,921,390</u>	<u>5,133,961</u>	<u>5,010,253</u>	<u>6,488,118</u>	<u>6,372,125</u>	<u>6,285,481</u>	<u>16,096,623</u>
Equity Transfer		<u>353,388</u>								
Cash Balance - August 31 of Year Indicated	<u>3,006,570</u>	<u>3,705,634</u>	<u>3,748,493</u>	<u>4,000,777</u>	<u>3,682,098</u>	<u>3,536,402</u>	<u>3,313,405</u>	<u>3,099,198</u>	<u>3,440,537</u>	<u>2,935,997</u>

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

	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>
Cash & Investment Balance - September 1 of Year Indicat	6,439,898	6,746,441	6,053,742	4,855,059	5,150,392	5,357,118	5,003,362	4,964,458	3,778,207	6,586,633
Receipts:										
Special Assessment Collecti	2,211,020	1,883,342	2,080,536	1,972,082	1,818,743	1,992,503	1,638,233	1,529,352	1,360,347	1,271,575
Interest on Special Assessm	559,039	453,933	403,880	418,003	285,279	367,309	310,558	257,157	294,839	346,725
City's Share of Costs	923,341	1,608,296	203,943	161,620		2,038,202	895,961	2,516,175	2,145,574	97,107
Developers' Share of Costs	582,000		14,163	40,508	685,754	75,572		473,445	4,617	
Bond Proceeds										
Interest on Investments	189,783	259,639	312,003	253,112	341,581	241,768	286,460	219,536	137,143	130,555
Miscellaneous	864	67,011	383	4,134		244,724	993,245	144,005	474,438	195,535
Total Receipts	<u>4,466,047</u>	<u>4,272,221</u>	<u>3,015,108</u>	<u>2,849,439</u>	<u>3,131,357</u>	<u>4,960,078</u>	<u>4,124,457</u>	<u>5,139,670</u>	<u>4,416,958</u>	<u>2,041,497</u>
Disbursements:										
Construction Costs	2,135,297	3,018,759	2,408,261	703,170	1,637,987	2,333,433	2,338,999	3,646,025	1,090,434	1,560,456
Bonds Paid	1,226,100	1,105,000	1,170,000	1,115,000	1,105,000	785,000	770,000	270,000	110,000	105,000
SID Warrants										
Interest Paid on Bonds & Nt	396,254	342,607	285,745	225,544	167,055	110,155	67,293	39,438	24,762	17,534
Other Refunds & Expenses	401,553	498,554	348,886	511,312	14,589	2,085,246	987,069	2,370,458	383,336	34,173
Total Disbursements	<u>4,159,204</u>	<u>4,964,920</u>	<u>4,212,892</u>	<u>2,555,026</u>	<u>2,924,631</u>	<u>5,313,834</u>	<u>4,163,361</u>	<u>6,325,921</u>	<u>1,608,532</u>	<u>1,717,163</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>6,746,441</u>	<u>6,053,742</u>	<u>4,855,959</u>	<u>5,150,392</u>	<u>5,357,118</u>	<u>5,003,362</u>	<u>4,964,458</u>	<u>3,778,207</u>	<u>6,586,633</u>	<u>6,910,967</u>

APPENDIX B

**CITY OF LINCOLN, NEBRASKA WATER SYSTEM
FINANCIAL STATEMENTS & SCHEDULES
Fiscal Year Ended August 31, 2003**



MAYOR COLEEN J. SENG

www.ci.lincoln.ne.us

Office of the Mayor
555 South 10th Street
Suite 208
Lincoln, Nebraska 68508
402-441-7511
fax: 402-441-7120
mayor@ci.lincoln.ne.us

January 6, 2004

Dear Citizens and Public Officials:

I am pleased to submit the City of Lincoln's Comprehensive Annual Financial Report for the fiscal year ended August 31, 2003.

Fiscal discipline is the rule for the City of Lincoln. We enforce fiscal responsibility to stay within the operating budget, despite difficult economic times. Our stable city government is an asset to Lincoln's overall economy.

Lincoln residents are proud of our City. The City's future is strong and it continues to grow and prosper. City finances are solid. City Departments have done a good job of meeting the increasing demand for services without additional resources.

Our ability to manage the City's fiscal affairs and ensure a full disclosure of the City's fiscal condition is exhibited by the unqualified audit opinion that follows. I am proud to report that the 2002 report submitted to the Government Finance Officers Association was recognized with the prestigious Certificate of Achievement for Excellence in Financial Reporting for the twentieth consecutive year. This is a compliment to the City Finance Department staff for dealing with these complex accounting issues. We express a thanks to the Finance Department and to all the city departments for their cooperation in preparing this document.

Sincerely,

Coleen J. Seng
Mayor of Lincoln

LINCOLN
The Community of Opportunity



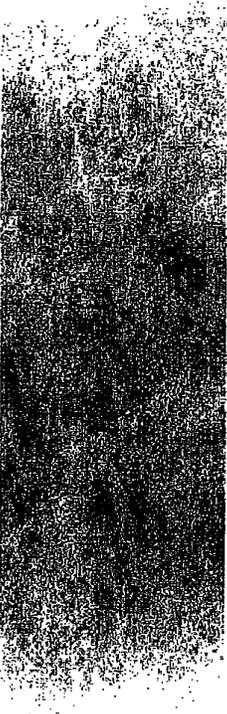
CITY OF LINCOLN
NEBRASKA

MAYOR COLEEN J. SENG

www.ci.lincoln.ne.us

Finance Department
Don Herz, Director
555 South 10th Street
Suite 103

Lincoln, Nebraska 68508
402-441-7411
fax: 402-441-8325



January 5, 2004

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

The Comprehensive Annual Financial Report (CAFR) of the City of Lincoln, Nebraska for the fiscal year ended August 31, 2003, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our 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 including all currently effective statements of the Governmental Accounting Standards Board have been included.

The Comprehensive Annual Financial Report is presented in four sections: Introductory, Financial, Statistical, and Single Audit Sections.

- ◆ The Introductory Section, which is unaudited, contains a listing of the Officials of the City of Lincoln, an Organization Chart, a Table of Contents, a Letter of Transmittal from the Mayor, this Letter of Transmittal, and a reproduction of the City's Certificate of Achievement for Excellence in Financial Reporting for the year preceding the report.
- ◆ The Financial Section includes an Independent Accountants' Report on Financial Statements and Supplementary Information, Management's Discussion and Analysis (MD&A), Basic Financial Statements (including Notes to the Financial Statements), Combining, Subcombining, and Individual Fund Statements and Schedules, and narrative explanations which can be used in understanding combining, subcombining, and individual fund statements and schedules.
- ◆ The Statistical Section, which is unaudited, presents comparative data for several periods of time or contains data from sources other than the accounting records. Statistical tables differ from financial statements because they usually cover more than two fiscal years and may present non-accounting data. Statistical tables reflect social and economic data, financial trends, and the fiscal capacity of the government.
- ◆ The Single Audit Section contains information related to the City's annual single audit, which is required under the provisions of the Single Audit Act of 1984, the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Included are a Schedule of Expenditures of Federal Awards, Notes to Schedule of Expenditures of Federal Awards, the Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*, the Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs, a Schedule of Findings and Questioned Costs, and a Summary Schedule of Prior Audit Findings.

Generally accepted accounting practices (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

The City of Lincoln provides a full range of services, including public safety (police and fire), highways and streets, health, planning and zoning, parks, recreation, urban

development, mass transportation, ambulance transport, electric utility, water utility, wastewater utility, sanitary landfill, golf courses, 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, the City's Sanitary Landfill, and the Community Health Permanent Endowment Trust.

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 1.5 percent 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, 2003 was 3.6%, well below the national average of 6.1%. Lincoln employment is strongest in the categories of government, services, and wholesale and retail trade.

Lincoln's construction activity continues to demonstrate sustained growth. Permits for all forms of new construction have risen 18% over the past 5 years with an increase in the value of construction permits of over \$279 million.

Current net sales and use tax revenue increased 4% over the previous fiscal year.

Long-Term Planning And Major Initiatives

Urban Development

The City anticipates approximately \$60 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 and the Antelope Valley project area, and in low and moderate income areas throughout the City.

Financing will be provided by a variety of sources, including CDBG, HOME, EDI Special Project and Nebraska Affordable Housing Trust Fund grants, Tax Increment Financing, Advanced Land Acquisition funds, Special Assessments, General Fund and Street Construction funds. 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:

<ol style="list-style-type: none"> 1) Redevelopment of Federal Place 2) Development of Douglas Grand, a 14 screen movie theater 3) Downtown I-180 entryway improvements 4) 12th Street arts corridor 5) Government Square streetscape project 6) Lincoln Mall streetscape project 7) Redevelopment of Creamery Building 	<ol style="list-style-type: none"> 8) Redevelopment of Douglas III and Cinema Twin theaters 9) Redevelopment of Salvation Army Building 10) Implementation of Haymarket 8th Street Corridor 11) Assist the Planning Department and Downtown Lincoln Association with the Downtown Master Plan
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- ◆ The North 27th Street Corridor redevelopment projects include:
 - 1) Redevelopment of 27th Street north of the alley between "O" and "P" Streets to 26th Street
 - 2) Redevelopment of the east side of 27th Street at approximately "X" Street
 - 3) Redevelopment of the east side of 27th Street between "S" and "T" Streets
 - 4) Construction of the pedestrian trail bridge at "X" Street
 - 5) Infrastructure improvements around the Salvation Army Building on 27th and Potter Streets; including construction of a parking lot and pedestrian walking improvement to Pentzer Park

- ◆ Implementation of selected Antelope Valley community revitalization catalyst projects as identified in the Antelope Valley Redevelopment Plan

- ◆ Havelock Redevelopment on-going projects include streetscape, pedestrian walkways and parking lots

- ◆ University Place Redevelopment includes streetscape construction and the Transportation/Community Revitalization Plan completion and implementation

- ◆ Housing rehabilitation and development programs:
 - 1) Continuation of First-time Homebuyer, Investor-Owner, and Owner-Occupied housing rehabilitation loan programs
 - 2) Development of residential housing in Antelope Valley with the neighborhood partner for Antelope Valley, Neighborhoods Inc.
 - 3) Development of residential housing units in conjunction with downtown projects
 - 4) Continue development of future phases of the affordable housing project, Old Mill Village, with Nebraska Housing Resource
 - 5) Sustain the existing affordable rental housing stock by assisting on going non-profit and tax credit projects

- ◆ Housing Rehabilitation and Real Estate Division projects also include:
 - 1) Planning and negotiation for acquisition of park sites
 - 2) Acquisition and negotiation projects –

<ul style="list-style-type: none"> ✓ South 14th Street widening ✓ Yankee Hill widening, 27th – 40th ✓ South 84th Street Widening (3 phases) ✓ Vine Street widening, 22nd – 27th ✓ Antelope Valley, 19th Street, K – Q ✓ Storm Water management, Phases I – III ✓ Vine Street bridge replacement ✓ Salt Valley trunk sewer phase III ✓ Pine Lake Road widening, 40th – 59th ✓ South 27th Street, porter Ridge Road to South of Yankee Hill Road 	<ul style="list-style-type: none"> ✓ Arterial rehab projects, South 56th Street, Old Cheney to Yankee Hill Road ✓ Pioneers Boulevard widening, 70th - 84th ✓ Sewer District 1175 ✓ Special assessment and executive order projects ✓ Various projects in Public Works/Utilities 6-year program ✓ Other Parks and Recreation projects city-wide ✓ Title research of water transmission – Lincoln to Ashland
--	--
 - 3) Acquisition and disposition of surplus properties including tax sale lots, street and alley vacation, surplus park sites, surplus right-of-way, and other miscellaneous properties
 - 4) Relocation projects including Antelope Valley Storm Management, Transportation, and Community Revitalization

- ◆ Neighborhood Revitalization projects include: Focus Areas -- Implementation of focus area public improvements. The focus areas are located in the Woods Park, Near South, Malone, Everett, Clinton, Downtown, North Bottoms and South Salt Creek neighborhoods.
- ◆ The Workforce Investment Act (WIA) is federal legislation which took effect on July 1, 2000. Under this legislation, Mayor Coleen J. Seng is the designated Chief Elected Official working in conjunction with a 49 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 which was approved by the State of Nebraska.

WIA has provided nearly \$3 million over the last four years to the workforce investment area of Lancaster and Saunders Counties. Gold's Galleria, located in downtown Lincoln, is the site of the One Stop Career Center. Since 2000, the number of program partners providing access to services through the One Stop Center has increased from 5 to 21. And in the past year, over 22,000 customer visits have been made to the Center.

Antelope Valley Project

The City of Lincoln, Lower Platte South Natural Resources District and the University of Nebraska-Lincoln have jointly partnered with the Lincoln community to develop a set of strategies to strengthen the historical center of Nebraska's Capital City. The new stormwater, transportation and community revitalization strategies have been incorporated into the Antelope Valley Amended Draft Single Package and formally approved by all three of the sponsoring governmental entities. The Joint Antelope Valley Authority (JAVA) has also submitted an Environmental Impact Statement (EIS) proposing defined projects as the action that best satisfies the purposes and needs with the least adverse environmental impacts. The EIS was approved by a Record of Decision by the Federal Highway Administration on October 31, 2001.

When implemented the Antelope Valley Projects will provide significant benefits to the State of Nebraska. Recognizing these benefits, the State Legislature authorized and appropriated one million dollars each state fiscal year, for a period of 15 years, to the City of Lincoln to fund the various projects. The City is required to provide matching funds equal to the ratio of one dollar for each three dollars of the State distribution.

The Antelope Valley Projects include community revitalization strategies in the project area and the implementation of the Closer to Home Strategies, developed by neighborhood residents and the City's Urban Development Department, which includes street, alley, and curb improvements, housing rehabilitation, and neighborhood clean-ups. Additional community revitalization strategies will be further defined as part of the Redevelopment Plan process, and will include housing relocation, commercial development and strategies to further strengthen existing neighborhoods.

Other projects identified are the construction of the approximately 6.2 mile Antelope Valley Roadway, which includes an overpass over the mainline railway west of the Bob Devaney Center, an expanded 19th Street corridor, changing some streets from minor arterials to urban collectors and local streets, and reduction of the rail/vehicular/pedestrian conflicts at street crossings.

Also included is the implementation of the Antelope Valley flood control project by constructing a new, open channel to contain the waters of a designated "100-year" rainfall event. The new channel will be developed in a park-like atmosphere and a trail will be constructed along the length of the channel.

Work is nearly complete on two projects that are part of the overall Antelope Valley Project. The Northeast Community Park project, located near 32nd and Leighton Streets, began in July 2003. This park, which will be ready for play in Spring 2004, provides replacement ball fields for those University fields at 19th and Vine Streets that will be displaced due to the channel and roadway construction. Work began in January 2003 and was substantially completed in November 2003 on the first section of channel work between Salt Creek and the BNSF Railway.

Work began in September 2003 on the Military Bridge and Roadway Project. This project will provide a single intersection of 14th Street, Military Road and the State Fair Park entrance, which becomes the new main entrance.

Work also began in September 2003 on the "Y" Street Bridge and Roadway Project. This project provides a new connection of "Y" Street to 16th Street and provides a new routing of 17th Street in preparation for the new overpass over the BNSF Railway south of the Devaney Center.

The Vine Street Bridge and Roadway Project is advertised and scheduled for letting in January 2004.

Wastewater System

The Lincoln Wastewater System is projecting a capital improvements program in the amount of approximately \$114,517,000 over the 6-year period of Fiscal Year 2003-04 through Fiscal Year 2008-09. Of that total, approximately \$40,000 will be financed by developer contributions, approximately \$100,000,000 will be financed by revenue bonds, approximately \$2,140,000 will be financed by impact fees, with the remaining \$12,337,000 to come from charges for services. 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 \$100,719,000 over the 6-year period of Fiscal Year 2003-04 through 2008-09. Of these dollars, approximately \$85,000,000 will be financed through revenue bonds, approximately \$494,000 will be financed through developer contributions, approximately \$4,330,000 will be financed through impact fees, with the balance of \$10,895,000 coming from charges for services. 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 2004-2009 Streets and Highways capital improvements program and Transportation improvement program identify average annual expenditures of over \$82.3 million for the next six years. Funding for these projects includes \$153 million in City revenues, \$92 million in federal aid, and \$249 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. Under the City's current 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.

Internal Accounting Controls

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or dispositions, and the reliability of financial records for preparing financial statements in accordance with generally accepted accounting principles 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.

Several major internal controls within the Finance Department affect transactions from all City departments. The City Charter requires the City Controller to audit all departmental expenditures as to documentation, coding, etc., after they have been approved by the responsible department head. A monthly reconciliation is made between the City's accounting system and the Treasurer's Office. The Purchasing Ordinance requires that all purchase requisitions must include certification by the Director of the ordering department that money has been appropriated for that purpose. The City has a fixed asset system which includes monitoring acquisition and disposition of fixed assets. In addition to these major controls, there are numerous controls within the various departments. The above is not all-inclusive of the City's internal accounting controls, but serves to support management's belief that controls are adequate to safeguard assets and provide reasonable assurance of proper recording of financial transactions.

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. This internal control structure is subject to periodic evaluation by management of the City.

As part of the City's Single Audit, tests were made of the City's internal control structure 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, 2003, disclosed no material internal control weaknesses.

Accounting System And Budgetary Control

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net assets, revenues, and expenses/expenditures. More information on descriptions of each fund and the accounting principles applied to each fund type is included in the Financial Section.

Budgetary control is maintained at the department level by the encumbrance of balances with purchase orders prior to payment to vendors. Purchase orders which result in an overrun of department balances are not released until additional appropriations are made available. Open encumbrances are reported as reservations of fund balance at August 31, 2003. Except for certain Special Revenue, Debt Service, and Capital Projects Funds, budgets for Governmental Type Funds are adopted annually. Capital Project Funds are budgeted by project and appropriations are continuing appropriations through completion of the project. Enterprise, Internal Service and Pension Trust Fund budgets are adopted annually.

As demonstrated by the statements and schedules included in the Financial Section of this report, the City continues to meet its responsibility for sound financial management.

Property Tax Collections

As of August 31, 2003, current tax collections by the County Treasurer were 96.20% of the tax levy, a decrease of .15% from last year. Allocations of property tax levy by purpose are as follows:

<u>City Tax Levy By Purpose</u>	<u>2002-2003</u>	<u>2001-2002</u>	<u>2000-2001</u>
General Fund	.17570	.17798	.18692
Library	.05345	.05219	.04673
Social Security	.01616	.01527	.01576
Police And Fire Pension	.01492	.01261	.01090
General Obligation Debt	.05429	.05647	.06356

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	700	October, 1994
Carriage Park	710	February, 1995
Market Place	430	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>2002-2003</u>	<u>2001-2002</u>
Operating Revenue	\$ 5,035,564	4,347,985
Operating Income Before Depreciation	2,730,932	2,383,596
On-Street Parking Meter Revenue	835,000	935,000
Revenue Available For Debt Service	3,565,932	3,318,596
Debt Service	2,160,650	2,160,650
Debt Service Coverage Ratio	1.65	1.54

Sanitary Landfill

The City of Lincoln owns and operates a solid waste disposal area and a construction and demolition disposal area which 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, 2003, the City estimates that it will incur costs approximating \$13.5 million to adhere to such requirements (see Note 17 of Notes to the Financial Statements).

Water And Wastewater System

The City's Water Utility System showed 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>2002-2003</u>	<u>2001-2002</u>
Operating Revenue	\$20,883,159	22,064,404
Operating Income	3,855,662	5,459,267
Revenue Available For Debt Service	9,902,469	11,213,356
Debt Service	5,908,489	4,990,590
Debt Service Coverage Ratio	1.68	2.25

The City's Wastewater 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>Wastewater System</u>	<u>2002-2003</u>	<u>2001-2002</u>
Operating Revenue	\$14,691,905	15,026,486
Operating Income	1,486,755	2,366,636
Revenue Available For Debt Service	6,699,374	7,099,462
Debt Service	1,299,222	1,309,347
Debt Service Coverage Ratio	5.16	5.42

Lincoln Electric System (LES)

The City owns and operates its own electric utility system which 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 2.55.090 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, 2002, is included in the City's August 31, 2003, financial statements.

Cash Management

Cash balances in excess of current requirements are invested in interest-bearing deposits and other securities. During the 2002-2003 fiscal year, 99.58% of available funds were invested with an average yield on investments of 2.40%. Note 4 of Notes to the Financial Statements discloses the City's investment policies and the manner in which these investments are held.

Risk Management

The City's Risk Management Division is responsible for the administration of insurance and self-insurance loss control, wellness, benefits, claims administration and collections to control and finance the City's loss exposures. Responsibilities include researching insurance markets, preparing bid specifications and cost-effectively purchasing coverage; reviewing coverage; budgeting annual costs and maintaining actuarial soundness of self-insured claims funds; administering self-insured claims programs in a cost effective manner; and increasing City effectiveness in subrogation/collection recoveries, along with leading the City's safety/loss control and wellness efforts. The City has a high self-insured retention for workers' compensation and general liability, and is totally self-insured for employee long-term disability. The City also has some liability exposures related to public officials, property, law enforcement, auto, and public transportation. These programs remain successful for the City. Since implementation, the self-insurance programs have provided the City considerable savings compared to fully insuring all loss exposures.

Independent Audit

The City Charter requires an annual audit to be made of all City funds and accounts by independent certified public accountants selected by the City Council. The federal government, under the revised OMB Circular A-133, and the Single Audit Act of 1984 as amended by the Single Audit Act Amendments of 1996, requires local governments that expend \$300,000 or more in federal funds in any fiscal year to have a financial and compliance audit performed. Through the efforts of the Finance Department staff and staff from the Public Works and Urban Development Departments, the City was able to accommodate the federal government's single audit requirements for grants.

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, 2002. This was the twentieth 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, 2002**

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.



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Enos".

Executive Director

FINANCIAL SECTION



1221 N Street, Suite 600
Lincoln, NE 68508-2030
402 473-7600 Fax 402 473-7698

1120 South 101st Street, Suite 410
Omaha, NE 68124-1088
402 392-1040 Fax 402 392-1772

bkd.com

**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, 2003, which collectively comprise the City of Lincoln's basic financial statements as listed in the table of contents. 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%, 33% and 72%, 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, 2002, which were audited by other accountants whose report dated January 3, 2003, expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Solutions
for
Success

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 as of August 31, 2003, 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 included in *Note 13* 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.

BKD, LLP

January 5, 2004

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, 2003. Please consider this discussion in conjunction with the additional information provided in the Letter of Transmittal (beginning on page viii) and the transactions, events and conditions reflected in the City's financial statements (beginning on page 18).

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at August 31, 2003, by \$1,137,728,137 (net assets). Of this amount, \$106,001,074 (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 \$64,752,048. Of this amount \$38,173,456, or 59 percent, was an increase in governmental activities and \$26,578,592, or 41 percent, related to business-type activities.
- As of August 31, 2003, the City's governmental funds reported combined ending fund balances of \$161,941,273, a decrease of \$8,606,153 in comparison with the prior year. Over half of this total amount, \$92,075,164, is available for spending at the City's discretion (unreserved fund balance).
- As of August 31, 2003, unreserved fund balance for the general fund was \$35,987,302, or 44 percent of total general fund expenditures.
- The City's total bonded debt increased by \$67,244,000 (13 percent) during the current fiscal year. The key factor in this increase was the issuance of \$55,000,000 in revenue bonds by Lincoln Wastewater System.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

The statement of activities presents information showing how the City's net assets changed during the year ended August 31, 2003. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

The basic proprietary fund financial statements can be found on pages 29-31 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 32-33 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 35-68 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its police and fire employees. Required supplementary information can be found on page 60 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 \$1,137,728,137 at August 31, 2003.

By far the largest portion of the City's net assets (76 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, 2003 and 2002

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and Other Assets	\$ 239,136,689	223,316,292	297,306,590	308,555,656	536,443,279	531,871,948
Capital Assets	403,821,753	377,780,466	833,059,833	833,163,760	1,236,881,623	1,210,944,706
Total Assets	642,958,444	599,096,758	1,250,406,478	1,163,659,416	1,822,964,922	1,759,756,174
Long-Term Liabilities Outstanding	87,165,314	82,430,754	591,870,462	509,299,026	679,035,776	591,729,780
Other Liabilities	23,450,856	19,897,186	52,750,153	75,153,119	76,201,009	95,050,305
Total Liabilities	110,616,170	102,327,940	644,620,615	584,452,145	755,236,785	686,780,085
Net Assets:						
Invested in Capital Assets, Net of Related Debt	353,228,671	321,761,052	513,682,743	476,054,560	866,911,414	797,815,612
Restricted	111,928,216	101,499,367	52,887,433	47,701,632	164,815,649	149,200,999
Unrestricted	66,785,387	70,398,399	39,215,687	55,451,079	106,001,074	125,959,478
Total Net Assets	\$ 531,942,274	493,768,818	605,785,863	579,207,271	1,137,728,137	1,072,976,089

An additional portion of the City's net assets (15 percent) represents resources that are subject to external restrictions on their use. The remaining balance of unrestricted net assets (9 percent) may be used to meet the government's ongoing obligations to citizens and creditors.

At August 31, 2003, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City Of Lincoln
Condensed Statement of Activities
For the Years Ended August 31, 2003 and 2002

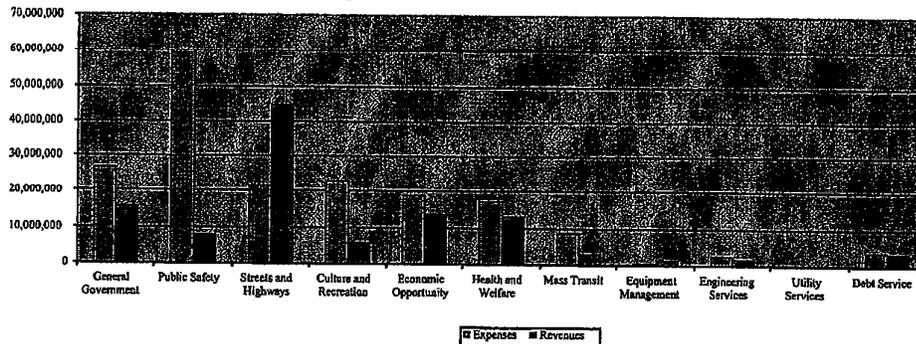
	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program Revenues:						
Charges for Services	\$ 32,413,754	33,708,219	219,247,308	214,711,471	251,661,062	248,419,690
Operating Grants and Contributions	44,670,484	47,775,520	294,915	3,296	44,965,399	56,864,603
Capital Grants and Contributions	32,549,986	31,715,049	7,538,876	6,073,286	40,088,862	28,702,548
General Revenues:						
Property Taxes	36,389,326	34,991,750	-	-	36,389,326	34,991,750
Sales and Use Tax	49,010,546	47,049,403	-	-	49,010,546	47,049,403
Other Taxes	20,190,242	20,414,161	565,790	-	20,756,032	20,414,161
Unrestricted Grants and Contributions	2,970,754	3,425,878	-	-	2,970,754	3,425,878
Investment Income	1,351,346	3,495,539	5,045,047	5,239,848	6,396,393	8,735,387
Other	1,478,257	1,407,755	164,763	353,338	1,643,020	1,761,093
Total Revenues	221,024,695	223,983,276	232,856,699	226,381,239	453,881,394	450,364,515
Expenses:						
General Government	26,781,326	23,530,070	-	-	26,781,326	23,530,070
Public Safety	60,312,147	58,784,389	-	-	60,312,147	58,784,389
Streets and Highways	21,627,658	21,073,128	-	-	21,627,658	21,073,128
Culture and Recreation	23,103,517	21,219,904	-	-	23,103,517	21,219,904
Economic Opportunity	18,803,783	14,097,457	-	-	18,803,783	14,097,457
Health and Welfare	17,232,211	18,133,340	-	-	17,232,211	18,133,340
Mass Transit	8,526,212	8,176,390	-	-	8,526,212	8,176,390
Equipment Management	580,423	906,227	-	-	580,423	906,227
Engineering Services	2,517,342	1,810,386	-	-	2,517,342	1,810,386
Interest and Fiscal Charges on Debt	3,510,748	2,680,738	-	-	3,510,748	2,680,738
Parking	-	-	4,512,610	3,914,224	4,512,610	3,914,224
Golf Courses	-	-	3,064,867	2,785,793	3,064,867	2,785,793
Auditorium	-	-	2,241,886	2,303,780	2,241,886	2,303,780
Sanitary Landfill	-	-	4,390,601	5,428,560	4,390,601	5,428,560
Ambulance Transport	-	-	3,905,011	3,518,764	3,905,011	3,518,764
Wastewater	-	-	13,205,150	12,659,850	13,205,150	12,659,850
Water	-	-	19,144,465	18,206,099	19,144,465	18,206,099
Electric	-	-	155,489,000	161,026,000	155,489,000	161,026,000
Total Expenses	183,075,367	170,412,029	206,053,590	202,843,070	389,128,957	380,255,099
Increase in Net Assets Before Transfers	37,949,328	53,571,247	26,803,109	16,538,169	64,752,437	70,109,416
Transfers	224,128	1,104,289	(224,517)	(1,087,038)	(389)	17,351
Increase in Net Assets	38,173,456	54,675,536	26,578,592	15,451,131	64,752,048	70,126,767
Net Assets - Beginning	493,768,818	439,093,282	579,207,271	563,756,140	1,072,976,089	1,002,849,422
Net Assets - Ending	\$ 531,942,274	493,768,818	605,785,863	579,207,271	1,137,728,137	1,072,976,089

GOVERNMENTAL ACTIVITIES

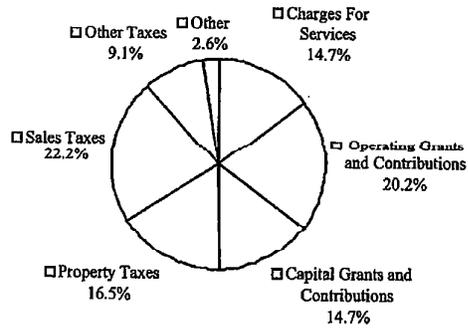
Governmental activities increased the City's net assets by \$38,173,456, accounting for 59 percent of the total growth in the net assets of the City of Lincoln. Key elements of this increase are as follows:

- Property taxes increased by approximately \$1.4 million (4 percent) during 2003. The value created by new growth (improvements, new construction, additions of new property, and annexations) in the tax base was 3.2%, prior to the revaluation of property. Total growth in the tax base, which includes revaluations and other adjustments, was 3.8%. As a result of these percentages being so similar, the tax rate remained unchanged for the 2003 fiscal year.
- Net sales and use tax increased by approximately \$2 million (4 percent) during 2003. Legislation passed by the Nebraska Legislature expanded the sales tax base to include certain services. The City expected sales tax revenues to increase 1.5% due to this tax base expansion.
- Capital contributions increased as a direct result of donations of land for the Joint Antelope Valley Authority (JAVA) projects, contributed to the City's share of equity in JAVA.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



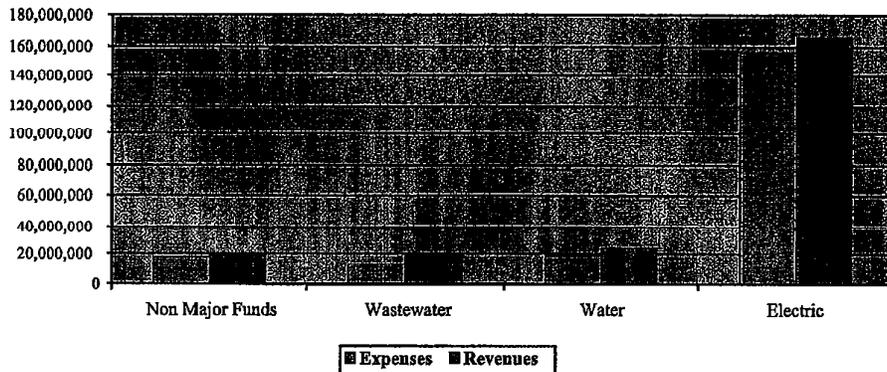
BUSINESS-TYPE ACTIVITIES

Business-type activities increased the city's net assets by \$26,578,592, accounting for 41 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

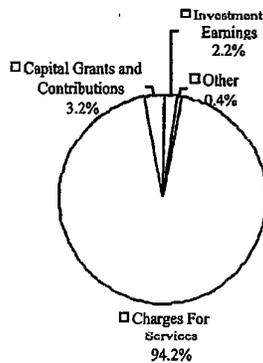
- Charges for services increased by approximately \$4.5 million, or 2.1 percent. The Water System revenues decreased 5.35 percent due to a reduction of 904,861 hundred cubic feet in water sales from the previous year. Water usage for 2003 more closely reflects an average year usage during normal weather conditions. Wastewater revenues are also based on water usage. Total water pumpage for fiscal year 2003 was 938,430,000 gallons less than the prior year which results in a 2.23 percent decrease in Wastewater revenues. Revenues increased 4 percent for the Electric System due to increases in both residential and commercial revenues. Cooling and heating degree days were above the prior year. Growth in the City remains constant with 2% more customers in 2002.

- Lincoln Electric System (LES) operating expenses for 2002 were 5% below 2001 with power costs and administrative and general expenses providing most of the change. A settlement agreement between Nebraska Public Power District and LES related to the Power Sales Agreement for Cooper Nuclear Station was completed and signed by officials of both parties in 2002. The decommissioning fund liability established by LES was used to reduce power costs by \$4.8 million after the settlement. Administrative and general expense in 2002 was well below 2001 because the litigation cost written off in 2001 related to Cooper Nuclear Station increased the 2001 expenses by \$4.8 million. Offsetting this expense was an increase in 2002 for health and risk insurance costs.

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, 2003, the City's governmental funds reported combined ending fund balances of \$161,941,273, a decrease of \$8,606,153 in comparison with the prior year. Of this total amount, 57 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:

- liquidate contracts and purchase orders of the prior period (\$15,985,316),
- pay debt service (\$13,069,991),
- 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 (\$3,810,802).

The General Fund is the chief operating fund of the City. At August 31, 2003, the unreserved fund balance of the General Fund was \$35,987,302, while total fund balance reached \$37,116,790. 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 44 percent of total general fund expenditures, while total fund balance represents 46 percent of that same amount.

The fund balance of the City's General Fund decreased by \$1,014,271 during 2003. This reduction is the result of several factors, including the following:

- A planned reduction in the General Fund balance of \$3.0 million.
- Favorable variance of \$1.0 million in sales tax revenues.
- Favorable variance of \$1.9 million in expenditures.
- Timing differences between the appropriation and expenditure of construction projects funded by the General Fund.

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

The Street Construction Fund had a total fund balance of \$14,797,623, which is to be used in the construction and maintenance of street and highways. The net decrease in fund balance during 2003 in the Street Construction Fund was \$8,043,301. This decrease was anticipated as a result of the Public Works Department's strategy to increase its capital construction program and to implement the acceleration of the awarding of construction contracts. An additional factor is the City's involvement in the Joint Antelope Valley projects and the related capital contributions made.

The Federal Grants Fund had a fund deficit of \$(1,051,304). Expenditures in the fund increased by \$2,651,616 (14 percent) over 2002, due in part to new programs, including Holmes Lake Restoration, East Saliue Wetlands, and the Northbridge Center.

PROPRIETARY FUNDS

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

Unrestricted net assets of the Wastewater System, Water System, Electric System, and other enterprise funds amounted to \$8,551,252, \$5,792,954, \$20,459,000 and \$4,412,481, respectively, at August 31, 2003. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were relatively minor (increase of \$107,041 in appropriations) and can be briefly summarized as follows:

- \$(61,125) in miscellaneous decreases in general government activities.
- \$267 in increases allocated to police.
- \$46,700 in increases allocated to traffic engineering.
- \$(26,664) in decreases allocated to street maintenance.
- \$(34,360) in decreases allocated to parks and recreation.
- \$182,223 in increases allocated for General Fund transfers to other City funds.

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

- \$1,193,286 positive variance in property taxes. Actual property tax collections were 96% for the 2002 levy, while estimated tax revenue is based on 90% collections as provided by the City Charter.
- \$1,045,072 positive variance in sales taxes. Projected collections for 2002 reflect a 4.8% increase over prior year collections, while 2002 actual collections on a budget basis increased by 7.2% due to an improving local economy, an expansion of the sales tax base to include additional services, and reduced refunds under the business incentive provisions of LB775.
- \$1,946,065 positive variance in general government/miscellaneous function expenditures. This variance was the result of better than anticipated insurance costs and contingency funds left unspent.

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, 2003, amounts to \$1,356,521,643 (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 2003 was 10 percent (an 8 percent increase for governmental activities and a 11 percent increase for business-type activities).

Major capital asset events during 2003 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, the construction-in-progress as of August 31, 2003, reached \$63,780,408.
- Construction of the Salt Valley Generating Station (SVGS) provided \$71 million to the construction work-in-progress, in addition to local construction related to an expanding customer base. The SVGS project represents a total of 165 megawatts of peaking and base load generation utilizing natural gas as the base fuel in a simple cycle and combined cycle operation.

- Wastewater System capital assets increased by \$14,121,276 due to major project additions such as:
 - ✓ Theresa Street aeration improvements - \$4,542,288
 - ✓ Northeast treatment plant solids screen - digester modifications - \$1,829,762
 - ✓ Salt Creek relief sewer - \$1,131,121
 - ✓ Theresa Street treatment plant grit removal basin - \$1,250,485
 - ✓ Northeast treatment plant disinfection improvements - \$1,047,733

- Water System capital assets increased by \$5,696,537 due to major project additions such as:
 - ✓ 84th & Pine Lake floating storage reservoir - \$1,053,158
 - ✓ 16th & 'A'/Coddington & Van Dorn 30" water main - \$1,366,237
 - ✓ East 'O' Street water main replacement - \$158,197
 - ✓ 84th/Cheney Ridge Road to Highway 2 water main - \$1,555,076

City Of Lincoln
Capital Assets (net of depreciation)
August 31, 2003 and 2002

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 40,506,899	57,810,841	14,371,950	14,185,253	54,878,849	51,996,094
Buildings	41,084,650	42,017,061	126,330,198	123,066,708	167,414,848	165,083,769
Improvements Other Than Buildings	31,285,551	31,967,261	231,820,817	225,201,069	263,106,368	257,168,330
Machinery and Equipment	28,980,113	29,938,223	10,462,767	10,731,801	39,442,882	40,690,024
Utility Plant	-	-	405,775,000	396,247,000	405,775,000	396,247,000
Infrastructure	191,786,564	171,464,392	-	-	191,786,564	171,464,392
Construction-in-progress	68,777,876	59,562,688	164,339,164	85,671,929	233,117,140	145,234,617
Total	\$ 403,421,734	372,780,466	953,099,888	855,103,760	1,356,521,643	1,227,884,726

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

LONG-TERM DEBT

At August 31, 2003, the City of Lincoln had total bonded debt outstanding of \$571,889,000. Of this amount, \$61,554,000 comprises debt backed by the full faith and credit of the City and \$205,000 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City Of Lincoln
Outstanding Bonded Debt
(dollar amounts in thousands)
August 31, 2003 and 2002

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
General Obligation Bonds	\$ 61,554	56,697	-	-	61,554	56,697
Special Assessment Debt With Governmental Commitment	205	310	-	-	205	310
Tax-supported Revenue Bonds	10,810	11,080	-	-	10,810	11,080
Revenue Bonds	-	-	499,320	436,568	499,320	436,568
Total	\$ 72,569	68,077	499,320	436,568	571,889	504,645

The City's total debt increased by \$67,244,000 (13 percent) during 2003. The key factor in this increase was the issuance of \$55,000,000 in revenue bonds by Lincoln Wastewater System to refund \$4,560,000 of outstanding 5% debt and to provide approximately \$48,000,000 of additional construction funds.

The City also issued \$19,305,000 in various purpose bonds to finance \$10,000,000 of drainage improvements and to refund \$8,305,000 of certain outstanding various purpose bonds of the City; \$18,510,000 of Water Revenue bonds to provide additional construction funds; and \$32,180,000 of Water Revenue Refunding bonds to pay off \$37,810,000 of 4.8% - 5.3% debt.

In an effort to reduce the borrowing costs for LES, a refunding issue of \$148,000,000 was completed to refund \$136,000,000 of 1993 Revenue Bonds and convert \$20,000,000 of commercial paper to long-term revenue bonds. With historically low interest rates, LES was able to obtain a true interest cost of 3.7% on the entire bond sale and total savings of \$23,000,000 in interest costs over the life of the bonds. Other commercial paper activity included converting \$34,000,000 taxable commercial paper to tax-exempt commercial paper. With \$35,000,000 of commercial paper capacity available, most smaller projects can be initially funded with this capacity.

The City maintains the following credit ratings:

	Moody's Investors Service	Standard And Poor's	Fitch Investors Service
General Obligation Bonds	Aaa	AAA	
Municipal Infrastructure			
Redevelopment Fund Bonds	Aa2	AAA	
Antelope Valley Project Bonds	Aa2	AA	
Water Revenue Bonds	Aa2	AA+	
Wastewater Revenue Bonds			
MBIA insured	Aaa	AAA	
Underlying	Aa2	AA+	
Parking Revenue Bonds	A2	A	
Electric Revenue :			
1993 Bonds	Aa2	AA+	AA
1998 Bonds	Aa2	AA	AA
2001 Bonds	Aa2	AA	AA
2002 Bonds	Aa2	AA	AA
Commercial Paper – tax exempt		A1+	F1+
Commercial Paper – taxable	MIG 1	A1+	F1+

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The County Assessor's office has completed a countywide revaluation of real property for the 2003-2004 fiscal year, which resulted in significant increases in valuations of real property. The increase in the City's property tax base provided by real growth is estimated at 4.51% for 2004. Total growth, including revaluations of current property, is estimated at 14.5%.
- Sales tax collections increased by 4% over the past year, with current collections through December 2003 showing a 3% increase over the same period in 2002. The sales tax base has been further expanded by the Nebraska Legislature to include additional services. Sales tax collections have been positively impacted by an improving local economy, a modest expansion of the sales tax base, and reduced refunds under the business incentive provisions of LB775.
- Occupation tax revenues are expected to increase 10.8% in 2004 due to amounts collected from the telecommunications occupation tax, with much of the growth related to cell phone revenue.
- In lieu of tax – State is expected to decrease 37.2% due to the State of Nebraska reducing payments by 10% proposed in the Governor's budget plus another lump sum reduction adopted by the Legislature. In addition, the Legislature eliminated payment from the Municipal Equalization Rollover Fund in order to keep the revenue for the State.

- Increase of 911 Surcharge on phone lines from \$.50 to \$.75 per month effective January 1, 2004. Revenue is used for operations as well as capital improvements.
- A 3% water rate increase and a 7% wastewater rate increase were adopted by the City Council.

All of these factors were considered in preparing the City's budget for the 2004 fiscal year.

During 2003, unreserved fund balance in the general fund increased to \$35,987,302. The City of Lincoln has appropriated \$6,272,137 of this amount for spending in the 2004 fiscal year budget. The use of available fund balance aids the City in avoiding the need to raise property taxes during 2004.

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, 2003
With Summarized Financial Information as of August 31, 2002

	Governmental Activities	Business Activities	Totals	
			2003	2002
ASSETS				
Cash and Cash Equivalents	\$ 22,233,194	17,787,835	40,021,029	85,015,463
Investments	106,578,146	31,480,712	138,058,858	136,190,571
Invested Securities Lending Collateral	7,414,973	-	7,414,973	7,653,943
Receivables, (Net of Allowance for Uncollectibles)	14,071,075	27,192,052	41,263,127	38,008,672
Internal Balances	1,054,546	(1,054,546)	-	-
Due from Other Governments	20,049,249	4,004	20,053,313	23,118,887
Inventories	1,536,324	6,954,746	8,493,070	8,371,715
Plant Operation Assets	-	3,784,000	3,784,000	4,073,000
Prepaid Items	394,791	724,559	1,119,350	1,107,585
Deferred Charges and Other Assets	1,234,861	19,991,890	21,226,751	25,290,698
Restricted Assets:				
Cash and Cash Equivalents	18,433	744,847	763,280	7,896,461
Investments	37,235,065	189,396,829	226,631,894	191,010,368
Receivables	416	299,602	300,018	191,101
Net Pension Asset	-	-	-	374,000
Investment in Joint Venture	26,713,616	-	26,713,616	1,569,684
Capital Assets:				
Non-depreciable	110,284,875	178,711,114	288,995,989	197,230,711
Depreciable (Net)	293,136,880	774,388,774	1,067,525,654	1,030,653,515
Total Assets	642,558,444	1,250,406,478	1,892,964,922	1,759,756,174
LIABILITIES				
Accounts Payable	8,608,467	17,394,579	26,003,046	10,696,862
Accrued Liabilities	4,586,844	8,728,590	13,315,434	11,664,851
Due to Other Governments	1,156,544	98,690	1,255,334	534,998
Unearned Revenue	965,852	127,676	1,093,528	1,333,451
Obligations under Securities Lending	7,414,973	-	7,414,973	7,653,943
Other Liabilities	613,826	5,866,361	6,480,187	5,909,122
Notes Payable	-	-	-	34,710,000
Matured Bonds and Interest Payable	104,250	-	104,250	104,250
Liabilities Payable from Restricted Assets	-	20,534,257	20,534,257	13,542,728
Noncurrent Liabilities:				
Compensated Absences:				
Payable within One Year	5,148,645	714,499	5,863,144	5,472,096
Payable in More Than One Year	2,108,277	284,576	2,392,853	2,340,392
Claims and Judgements:				
Payable within One Year	3,426,366	-	3,426,366	2,692,407
Payable in More Than One Year	2,714,445	-	2,714,445	2,814,937
Bonds, Notes and Leases Payable:				
Due within One Year	4,939,229	19,049,612	23,988,841	21,315,188
Due in More Than One Year	69,695,323	565,458,775	635,154,098	547,254,760
Deferred Credits and Other	-	119,000	119,000	3,274,000
Net Pension Obligation	130,000	-	130,000	-
Accrued Landfill Closure/Postclosure Care Costs	-	6,244,000	6,244,000	6,560,000
Total Liabilities	110,616,170	644,620,615	755,236,765	686,780,085
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	353,228,671	513,682,743	866,911,414	797,815,612
Restricted for:				
Debt Service, Net of Related Debt	15,127,340	24,181,259	39,308,599	44,077,645
Revenue Bond Indentures	-	-	-	15,645,422
Capital Projects	50,376,033	28,679,274	79,055,307	44,848,514
Other	793,575	26,900	820,475	73,896
Trust Donations:				
Expendable	1,472,719	-	1,472,719	1,201,549
Nonexpendable	160,000	-	160,000	-
Health Care:				
Expendable	6,998,549	-	6,998,549	5,624,910
Nonexpendable	37,000,000	-	37,000,000	37,000,000
Claims	-	-	-	729,063
Unrestricted	66,785,387	39,215,687	106,001,074	125,959,478
Total Net Assets	\$ 531,942,274	606,786,863	1,137,728,137	1,072,976,089

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, 2003
 With Summarized Financial Information for the Year Ended August 31, 2002

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Totals	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	2003	2002
Governmental Activities:								
General Government	\$ (26,781,326)	13,883,872	1,394,727	275,995	(11,226,732)	-	(11,226,732)	(5,255,067)
Public Safety	(60,312,147)	5,797,146	1,993,502	-	(52,521,499)	-	(52,521,499)	(49,374,986)
Streets and Highways	(21,627,658)	881,255	14,785,589	29,384,289	23,383,475	-	23,383,475	22,635,891
Culture and Recreation	(23,193,517)	2,700,504	1,830,608	1,165,340	(17,487,165)	-	(17,487,165)	(17,027,717)
Economic Opportunity	(18,803,783)	2,334,074	11,220,969	22,926	(5,225,814)	-	(5,225,814)	(2,876,105)
Health and Welfare	(17,232,211)	2,735,248	10,457,143	-	(4,039,820)	-	(4,039,820)	(5,843,878)
Mass Transit	(8,526,212)	1,278,920	1,489,957	-	(5,757,335)	-	(5,757,335)	(1,005,394)
Equipment Management	(580,423)	814,316	-	323,108	557,001	-	557,001	(94,372)
Engineering Services	(2,517,342)	1,665,483	-	-	(851,859)	-	(851,859)	268,752
Utility Services	-	77,575	-	-	77,575	-	77,575	-
Interest on Long-Term Debt	(3,510,746)	245,301	1,517,969	1,398,426	(348,970)	-	(348,970)	1,339,644
Total Governmental Activities	(183,075,367)	32,413,754	44,670,484	32,549,986	(73,441,143)	-	(73,441,143)	(57,213,241)
Business-Type Activities:								
Parking Lots	(184,222)	208,292	-	-	-	24,070	24,070	15,774
Golf	(3,084,857)	2,589,583	-	184,863	-	(290,421)	(290,421)	(4,909)
Parking Facilities	(4,328,388)	5,035,157	-	-	-	704,769	704,769	618,094
Municipal Auditorium	(2,341,886)	1,712,114	-	-	-	(629,772)	(629,772)	(494,160)
Sanitary Landfill	(4,390,604)	5,299,047	-	108,575	-	1,015,021	1,015,021	209,426
Emergency Medical Services	(3,905,011)	3,923,268	-	-	-	18,257	18,257	375,336
Wastewater System	(13,306,160)	14,866,990	178,100	4,185,547	-	5,824,487	5,824,487	4,302,656
Water System	(19,144,465)	20,841,857	116,815	3,061,891	-	4,876,098	4,876,098	7,533,766
Electric System	(155,489,000)	164,974,000	-	-	-	9,485,000	9,485,000	(1,611,000)
Total Business-Type Activities	(206,053,590)	219,247,308	294,915	7,538,876	-	21,027,509	21,027,509	10,944,983
Total Primary Government	\$ (389,128,957)	251,661,062	44,965,399	40,088,862	(73,441,143)	21,027,509	(52,413,634)	(46,268,258)
General Revenues:								
Property Tax					36,389,326	-	36,389,326	34,991,750
Motor Vehicle Tax					3,823,011	-	3,823,011	3,589,367
Wheel Tax					7,767,169	-	7,767,169	7,758,585
Sales and Use Tax					49,010,548	-	49,010,548	47,049,405
Sundry and In Lieu Tax					44,810	-	44,810	45,685
Occupation Tax					8,555,232	583,790	9,139,022	9,020,544
Unrestricted Grants and Contributions					2,970,764	-	2,970,764	3,425,878
Unrestricted Investment Earnings					1,351,346	5,045,047	6,396,393	8,735,387
Miscellaneous General Revenues					405,066	92,258	497,324	696,846
Gain on Sale of Capital Assets					1,073,191	72,505	1,145,696	1,064,247
Transfers					224,128	(224,517)	(389)	17,251
Total General Revenues and Transfers					111,614,599	5,551,083	117,165,682	116,394,925
Change in Net Assets					38,173,456	26,578,592	64,752,048	70,126,667
Net Assets - Beginning					493,768,818	579,207,271	1,072,976,089	1,002,849,422
Net Assets - Ending					\$ 531,942,274	605,785,863	1,137,728,137	1,072,976,089

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

CITY OF LINCOLN, NEBRASKA
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2003

	General Fund	Street Construction Fund	Federal Grants Fund	Community Health Permanent Endowment Fund	Other Governmental Funds	Total
ASSETS						
Cash and Cash Equivalents	\$ 5,192,376	1,930,240	-	118,488	12,050,789	19,291,891
Investments	21,808,070	10,322,097	-	43,797,878	34,530,637	130,539,488
Invested Securities Lending Collateral	-	-	-	7,414,973	-	7,414,973
Receivables, (Net of Allowance for Uncollectibles)	3,857,568	3,011,351	2,768	3,534	6,390,211	13,265,432
Due from Other Funds	1,072,073	-	-	-	787,213	2,469,286
Due from Other Governments	9,490,492	7,258,454	2,256,613	-	1,356,430	20,361,989
Assets Held for Resale	-	-	-	-	793,575	793,575
Inventories	317,898	45,812	-	-	727,231	1,090,941
Prepaid Items	199,653	-	-	-	-	199,653
Restricted Assets:						
Cash and Cash Equivalents	-	-	-	18,433	-	18,433
Investments	-	-	-	75,065	-	75,065
Receivables	-	-	-	416	-	416
Total Assets	<u>42,598,736</u>	<u>22,567,954</u>	<u>2,259,381</u>	<u>51,428,785</u>	<u>76,866,286</u>	<u>195,521,142</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable	707,217	2,759,083	1,152,127	9,333	2,520,860	7,148,620
Contracts Payable	-	69,811	-	-	748,954	818,765
Accrued Liabilities	2,360,693	114,842	311,328	5,782	1,342,951	4,135,596
Due to Other Funds	1,000,207	13,307	492,430	148	275,814	1,841,906
Due to Other Governments	272,408	351,892	449,911	-	76,380	1,150,591
Unearned Revenue	-	-	-	-	417,350	417,350
Obligations under Securities Lending	-	-	-	7,414,973	-	7,414,973
Deferred Revenue	1,081,421	4,461,396	904,889	-	4,100,112	10,547,818
Matured Bonds and Interest Payable	-	-	-	-	104,250	104,250
Total Liabilities	<u>5,481,946</u>	<u>7,770,331</u>	<u>3,310,685</u>	<u>7,430,236</u>	<u>9,586,671</u>	<u>33,579,869</u>
Fund Balances (Deficits):						
Reserved for:						
Encumbrances	611,937	7,732,428	5,177,096	-	2,463,855	15,985,316
Inventories	317,898	45,813	-	-	727,230	1,090,941
Prepaid Items	199,653	-	-	-	-	199,653
Debt Service	-	-	-	-	13,069,991	13,069,991
Trust Donations	-	-	-	-	1,632,719	1,632,719
Resale Assets	-	-	-	-	793,575	793,575
Health Care (non-expendable)	-	-	-	37,000,000	-	37,000,000
Donor Restrictions	-	-	-	93,914	-	93,914
Unreserved, Reported In:						
General Fund:						
Designated for Debt Service	381,653	-	-	-	-	381,653
Designated for Subsequent Years Expenditures	7,835,721	-	-	-	-	7,835,721
Undesignated	27,769,928	-	-	-	-	27,769,928
Special Revenue Funds:						
Designated for Subsequent Years Expenditures	-	71,121	-	-	1,269,428	1,340,549
Undesignated	-	6,948,261	(6,228,400)	-	16,109,952	16,829,813
Debt Service Funds	-	-	-	-	6,135,384	6,135,384
Capital Projects Funds	-	-	-	-	24,877,481	24,877,481
Permanent Fund	-	-	-	6,904,635	-	6,904,635
Total Fund Balances (Deficits)	<u>37,116,790</u>	<u>14,787,623</u>	<u>(1,051,304)</u>	<u>43,998,549</u>	<u>67,079,615</u>	<u>161,941,273</u>
Total Liabilities and Fund Balances	<u>\$ 42,598,736</u>	<u>22,567,954</u>	<u>2,259,381</u>	<u>51,428,785</u>	<u>76,866,286</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.	384,803,853
Investment in joint venture is not a financial resource and, therefore, not reported in the funds.	26,713,616
Other long-term assets are not available to pay for current-period expenditures and, therefore, deferred in the funds.	10,547,818
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.	19,496,681
Accrued pension contribution liability requires the use of unavailable financial resources and, therefore, is not reported in the funds.	(42,520)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds.	<u>(81,518,447)</u>
Net assets of governmental activities	<u>\$ 531,942,274</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, 2003

	General Fund	Street Construction Fund	Federal Grants Fund	Community Health Permanent Endowment Fund	Other Governmental Funds	Total
REVENUES						
Taxes:						
Property	\$ 19,864,870	-	-	-	16,485,272	36,350,142
Motor Vehicle	3,823,011	-	-	-	-	3,823,011
Wheel	-	-	-	-	7,767,169	7,767,169
Sales and Use	49,010,546	-	-	-	-	49,010,546
Sundry and In Lieu	30,609	-	-	-	14,200	44,809
Occupation	8,172,116	-	-	-	-	8,172,116
Special Assessments	58	-	-	-	1,946,726	1,946,784
Intergovernmental	4,117,759	24,450,927	16,748,342	-	7,456,396	52,773,424
Permits and Fees	3,006,483	281,178	482,488	-	8,909,474	12,679,623
Reimbursement for Services	5,062,777	9,842	420,243	-	604,474	6,097,336
Program Income	-	-	1,748,959	-	-	1,748,959
Investment Earnings	565,130	344,477	13,150	2,468,395	962,184	4,353,336
Donations	1,065,211	-	50,260	-	945,650	2,081,127
Keno Proceeds	-	-	-	-	3,178,094	3,178,094
Miscellaneous	392,498	605,609	10,675	59,784	157,392	1,225,958
Total Revenues	<u>95,131,068</u>	<u>25,692,033</u>	<u>19,474,123</u>	<u>2,528,179</u>	<u>48,427,031</u>	<u>191,252,434</u>
EXPENDITURES						
Current:						
General Government	22,207,234	-	145,898	-	6,585,720	28,938,852
Public Safety	42,198,734	-	1,915,890	-	6,818,661	50,933,285
Streets and Highways	5,711,876	4,097,356	-	-	1,708,431	12,517,663
Culture and Recreation	10,485,726	-	1,716,332	-	7,733,765	19,935,823
Economic Opportunity	292,221	-	11,884,713	-	4,292,711	16,469,645
Health and Welfare	360,123	-	6,589,646	1,907,833	8,757,149	17,614,751
Mass Transit	-	-	117,982	-	7,878,037	7,996,019
Debt Service	-	-	-	-	8,507,223	8,507,223
Capital Outlay	-	34,878,751	-	-	13,285,237	48,163,988
Total Expenditures	<u>81,255,914</u>	<u>39,776,107</u>	<u>22,370,461</u>	<u>1,907,833</u>	<u>65,566,934</u>	<u>210,877,249</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>13,875,154</u>	<u>(14,084,074)</u>	<u>(2,896,338)</u>	<u>620,346</u>	<u>(17,139,903)</u>	<u>(19,624,815)</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	1,855,034	7,520,400	323,472	-	21,999,862	31,698,768
Transfers Out	(16,781,029)	(1,479,627)	(16,492)	-	(13,210,684)	(31,487,832)
Issuance of Debt	-	-	-	-	19,347,418	19,347,418
Transfer to Bond Refunding Agent	-	-	-	-	(9,598,350)	(9,598,350)
Premiums / Discounts on Debt Issued	-	-	-	-	247,703	247,703
Sale of Capital Assets	36,570	-	-	-	774,385	810,955
Total Other Financing Sources (Uses)	<u>(14,889,425)</u>	<u>6,040,773</u>	<u>306,980</u>	<u>-</u>	<u>19,560,334</u>	<u>11,018,662</u>
Net Change In Fund Balances	<u>(1,014,271)</u>	<u>(8,043,301)</u>	<u>(2,589,358)</u>	<u>620,346</u>	<u>2,420,431</u>	<u>(8,606,153)</u>
Fund Balances - Beginning	<u>38,131,061</u>	<u>22,840,924</u>	<u>1,538,054</u>	<u>43,378,203</u>	<u>64,659,184</u>	<u>170,547,426</u>
Fund Balances (Deficits) - Ending	<u>\$ 37,116,790</u>	<u>14,797,023</u>	<u>(1,051,304)</u>	<u>43,998,549</u>	<u>67,079,615</u>	<u>161,941,273</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, 2003

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

Net change in fund balances - total governmental funds	\$ (8,606,153)
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.	19,552,863
The net effect of various miscellaneous transactions involving capital contributions is to increase net assets.	11,173,500
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(4,252,214)
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.	(4,388,214)
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.	(789,938)
Changes in the net pension asset/obligation do not represent financial activity in governmental funds.	(504,000)
Changes in the interest in the underlying capital assets of the joint venture do not represent financial activity in governmental funds.	25,143,932
Some pension contribution expenses require the use of unavailable financial resources and, therefore, are not reported as expenditures in governmental funds.	(5,457)
Internal service funds are used by management to charge the costs of certain services to individual funds.	<u>849,137</u>
Change in net assets of governmental activities	<u>\$ 38,173,456</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, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Real Estate and Personal Property Tax	\$ 22,099,479	22,099,479	23,292,765	1,193,286
Taxes Collected by Others	47,612,196	47,612,196	48,657,268	1,045,072
Sundry Taxes and In Lieu	29,115	29,115	29,773	658
Occupation Taxes	8,708,690	8,708,690	9,043,518	334,828
Special Assessments	6,200	6,200	366	(5,834)
Intergovernmental	4,045,255	4,045,255	4,299,169	253,914
Permits and Fees	2,516,270	2,516,270	2,392,525	(123,745)
Reimbursement for Services	1,989,342	1,989,342	2,144,442	155,100
Court Fees	588,500	588,500	623,887	35,387
Recreation Receipts	1,697,782	1,697,782	1,703,196	5,414
Investment Earnings	431,796	431,796	531,307	99,511
Donations	1,072,226	1,072,226	1,087,660	15,434
Rental Income	348,812	348,812	364,479	15,667
Parking Revenue	835,000	835,000	835,000	-
Miscellaneous	452,057	452,057	285,081	(166,976)
Total Revenues	92,432,720	92,432,720	95,290,436	2,857,716
Expenditures:				
General Government:				
Legislative	347,343	297,139	226,054	71,085
Executive	1,162,952	1,173,680	1,146,039	27,641
Financial Administration	2,163,842	2,163,842	2,030,456	133,386
Law	1,781,361	1,781,361	1,716,967	64,394
Personnel Administration	753,724	753,724	745,450	8,274
Planning and Zoning	1,549,184	1,549,184	1,344,442	204,742
Urban Development	680,642	680,642	623,249	57,393
Miscellaneous	16,452,532	16,430,883	14,484,818	1,946,065
Total General Government	24,891,580	24,830,455	22,317,475	2,512,980
Public Safety:				
Police	24,737,969	24,738,236	24,142,314	595,922
Fire	16,845,163	16,845,163	16,414,337	430,826
Traffic Engineering	1,666,388	1,713,088	1,670,141	42,947
Total Public Safety	43,249,520	43,296,487	42,226,792	1,069,695
Streets and Highways:				
Street Maintenance	2,579,476	2,552,812	2,143,652	409,160
Street Lighting	3,315,300	3,315,300	3,307,904	7,396
Total Streets and Highways	5,894,776	5,868,112	5,451,556	416,556
Culture and Recreation:				
Parks and Recreation	10,249,418	10,215,058	10,170,061	44,997
Libraries	175,416	175,416	175,416	-
Total Culture and Recreation	10,424,834	10,390,474	10,345,477	44,997
Economic Opportunity:				
Lincoln Area Agency on Aging	290,950	290,950	290,375	575
Health and Welfare:				
Lincoln/Lancaster County Health	347,583	347,583	347,583	-
Total Expenditures	85,099,243	85,024,061	80,979,258	4,044,803
Excess of Revenues Over Expenditures	7,333,477	7,408,659	14,311,178	6,902,519
Other Financing Sources (Uses):				
Transfers In	1,861,608	1,861,608	1,829,473	(32,135)
Transfers Out	(18,684,971)	(18,867,194)	(16,011,583)	2,855,611
Sale of Capital Assets	33,065	33,065	36,569	3,504
Total Other Financing Sources (Uses)	(16,790,298)	(16,972,521)	(14,145,541)	2,826,980
Net Change in Fund Balances	(9,456,821)	(9,563,862)	165,637	9,729,499
Fund Balances - Beginning	29,346,179	29,346,179	29,346,179	-
Fund Balances - Ending	\$ 19,889,358	19,782,317	29,511,816	9,729,499

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, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 14,000,000	14,000,000	14,677,045	677,045
Permits and Fees	-	-	279,095	279,095
Reimbursement for Services	225,000	225,000	9,842	(215,158)
Investment Earnings	500,000	500,000	326,061	(173,939)
Rental Income	-	-	251	251
Total Revenues	14,725,000	14,725,000	15,292,294	567,294
Expenditures -- Streets and Highways:				
Personal Services	2,690,555	2,690,555	2,719,356	(28,801)
Materials and Supplies	345,075	345,075	384,308	(39,233)
Other Services and Charges	2,051,480	1,809,657	1,692,393	117,264
Capital Outlay	50,646	75,646	73,001	2,645
Total Expenditures	5,137,756	4,920,933	4,869,058	51,875
Excess of Revenues Over Expenditures	9,587,244	9,804,067	10,423,236	619,169
Other Financing Sources (Uses):				
Transfers In	7,520,400	7,520,400	7,520,400	-
Transfers Out	(1,479,627)	(1,479,627)	(1,479,627)	-
Total Other Financing Sources (Uses)	6,040,773	6,040,773	6,040,773	-
Net Change in Fund Balances	15,628,017	15,844,840	16,464,009	619,169
Amount Not Required to be Budgeted	-	-	(25,233,598)	-
Fund Balances - Beginning	19,074,341	19,074,341	19,074,341	-
Fund Balances - Ending	\$ 34,702,358	34,919,181	10,304,752	(24,614,429)

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, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 16,383,164	16,383,164	16,279,471	(103,693)
Permits and Fees	549,601	549,601	549,601	-
Reimbursement for Services	223,665	223,665	223,685	20
Client Contributions	128	128	128	-
Program Income	1,195,736	1,195,736	1,748,959	553,223
Recreation Receipts	108,015	108,015	108,015	-
Investment Earnings	12,099	12,099	12,099	-
Donations	50,351	50,351	50,351	-
Rental Income	-	-	102,012	102,012
Private Sector Share of Project	3,489	3,489	3,489	-
Miscellaneous	6,965	6,965	7,275	310
Total Revenues	18,533,213	18,533,213	19,085,085	551,872
Expenditures:				
General Government:				
Materials and Supplies	199	199	199	-
Other Services and Charges	35,383	35,383	35,383	-
Capital Outlay	92,126	92,126	92,126	-
Total General Government	127,708	127,708	127,708	-
Public Safety:				
Personal Services	899,906	899,906	899,906	-
Materials and Supplies	164,748	164,748	164,748	-
Other Services and Charges	555,616	555,616	555,616	-
Capital Outlay	308,442	308,442	308,442	-
Total Public Safety	1,928,712	1,928,712	1,928,712	-
Culture and Recreation:				
Personal Services	292,339	292,339	292,339	-
Materials and Supplies	20,072	20,072	20,072	-
Other Services and Charges	269,491	269,491	269,491	-
Capital Outlay	662,487	662,487	662,487	-
Total Culture and Recreation	1,244,389	1,244,389	1,244,389	-
Economic Opportunity:				
Personal Services	3,350,288	3,303,730	3,285,990	17,740
Materials and Supplies	116,655	116,655	125,048	(8,393)
Other Services and Charges	1,963,276	2,148,544	2,019,162	129,382
Capital Outlay	61,944	982,741	392,486	590,255
Loans and Grants	5,046,808	6,548,741	5,668,315	880,426
Total Economic Opportunity	10,538,971	13,100,411	11,491,001	1,609,410

(Continued)

(Federal Grants Fund, Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Health and Welfare:				
Personal Services	3,553,659	3,553,659	3,553,659	-
Materials and Supplies	122,953	122,953	122,953	-
Other Services and Charges	2,255,509	2,255,509	2,255,509	-
Capital Outlay	151,132	151,132	151,132	-
Loans and Grants	90,721	90,721	90,721	-
Total Health and Welfare	6,173,974	6,173,974	6,173,974	-
Mass Transit:				
Personal Services	100,505	100,505	109,505	-
Materials and Supplies	1,209	1,209	1,209	-
Other Services and Charges	6,911	6,911	6,911	-
Capital Outlay	195	195	195	-
Total Mass Transit	117,820	117,820	117,820	-
Total Expenditures	20,131,574	22,693,014	21,083,604	1,609,410
Deficiency of Revenues Under Expenditures	(1,598,361)	(4,159,801)	(1,998,519)	2,161,282
Other Financing Sources (Uses):				
Transfers In	393,509	393,509	323,471	(70,038)
Transfers Out	(2,639)	(16,492)	(16,492)	-
Total Other Financing Sources (Uses)	390,870	377,017	306,979	(70,038)
Net Change in Fund Balances	(1,207,491)	(3,782,784)	(1,691,540)	2,091,244
Fund Balances - Beginning	377,621	377,621	377,621	-
Fund Balances (Deficits) - Ending	\$ (829,870)	(3,405,163)	(1,313,919)	2,091,244

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, 2003

	Business-Type Activities – Enterprise Funds					Governmental Activities -- Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds	Total	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 9,992,780	4,719,391	745,000	2,330,664	17,787,835	2,941,303
Investments	-	-	21,769,000	9,711,712	31,480,712	13,198,658
Accounts Receivable, (Net of Allowance for Uncollectibles)	1,427,707	3,086,033	8,943,000	2,137,286	15,594,026	740,914
Accrued Interest Receivable	-	-	562,000	57,366	619,366	64,729
Unbilled Revenues	1,257,384	2,804,276	6,917,000	-	10,978,660	-
Due from Other Funds	-	-	-	10,421	10,421	456,626
Due from Other Governments	-	-	-	4,064	4,064	287,260
Inventories	82,570	853,960	5,863,000	155,216	6,954,746	447,383
Plant Operation Assets	-	-	3,784,000	-	3,784,000	-
Prepaid Expenses	-	-	678,000	46,559	724,559	195,138
Total Current Assets	<u>12,760,441</u>	<u>11,463,660</u>	<u>49,261,000</u>	<u>14,453,288</u>	<u>87,938,389</u>	<u>18,332,011</u>
Noncurrent Assets:						
Restricted Assets:						
Cash and Cash Equivalents	-	-	-	744,847	744,847	-
Investments	65,337,062	23,263,315	97,521,000	3,275,452	189,396,829	-
Accounts Receivable	-	-	-	14,958	14,958	-
Accrued Interest Receivable	143,336	107,687	-	33,621	284,644	-
Total Restricted Assets	<u>65,480,398</u>	<u>23,371,002</u>	<u>97,521,000</u>	<u>4,068,878</u>	<u>190,441,278</u>	<u>-</u>
Deferred Charges	489,754	581,795	18,317,000	603,341	19,991,890	-
Capital Assets:						
Land	2,280,164	4,431,662	-	7,660,124	14,371,950	48,250
Buildings	37,600,319	92,937,842	-	49,080,376	179,618,337	351,081
Improvements Other Than Buildings	120,424,069	170,454,070	-	22,245,111	319,123,250	1,163,199
Machinery and Equipment	8,638,700	6,911,765	-	9,528,280	25,078,757	20,432,100
Utility Plant	-	-	854,127,000	-	854,127,000	-
Construction in Progress	24,590,688	10,701,532	127,068,000	1,978,944	164,339,164	-
Less Accumulated Depreciation	(57,950,774)	(69,503,732)	(248,352,000)	(27,752,064)	(403,558,570)	(13,376,688)
Total Capital Assets, Net	<u>135,583,172</u>	<u>221,932,939</u>	<u>532,843,000</u>	<u>62,740,777</u>	<u>953,099,888</u>	<u>8,617,902</u>
Total Assets	<u>214,313,765</u>	<u>257,349,396</u>	<u>697,942,000</u>	<u>81,866,284</u>	<u>1,251,471,445</u>	<u>26,949,913</u>
LIABILITIES						
Current Liabilities (Payable from Current Assets):						
Accounts Payable	216,928	576,194	8,242,000	2,043,114	11,078,236	641,082
Construction Contracts	2,327,335	3,989,008	-	-	6,316,343	-
Accrued Liabilities	354,501	675,053	7,480,000	219,036	8,728,590	408,728
Accrued Compensated Absences	229,902	268,770	-	215,827	714,499	519,760
Due to Other Funds	-	-	-	456,861	456,861	29,460
Due to Other Governments	-	-	-	98,690	98,690	6,053
Unearned Revenue	-	-	-	127,676	127,676	548,502
Claims	-	-	-	-	-	2,429,395
Accrued Interest	204,516	102,226	-	5,619	312,361	-
Current Portion of Capital Lease	-	-	-	299,612	299,612	-
Current Portion of Long-Term Debt	1,750,000	3,115,000	-	-	4,865,000	-
Other	-	-	5,554,000	-	5,554,000	-
Total Current Liabilities (Payable from Current Assets)	<u>5,083,182</u>	<u>8,726,251</u>	<u>21,276,000</u>	<u>3,466,435</u>	<u>38,551,868</u>	<u>4,582,980</u>
Current Liabilities (Payable from Restricted Assets):						
Accounts Payable	-	-	-	25,937	25,937	-
Construction Contracts	-	-	14,662,000	-	14,662,000	-
Arbitrage Rebate	-	-	-	40,666	40,666	-
Accrued Interest	-	-	5,764,000	41,654	5,805,654	-
Current Portion of Long-Term Debt	-	-	12,450,000	1,435,000	13,885,000	-
Total Current Liabilities (Payable from Restricted Assets)	<u>-</u>	<u>-</u>	<u>32,876,000</u>	<u>1,543,257</u>	<u>34,419,257</u>	<u>-</u>
Noncurrent Liabilities:						
Due to Other Funds	-	-	-	608,106	608,106	-
Accrued Compensated Absences	101,015	161,681	-	21,880	284,576	155,807
Claims	-	-	-	-	-	2,714,445
Long-Term Debt, Net	55,258,928	48,801,838	350,886,000	19,289,527	474,236,293	-
Capital Lease Payable	-	-	-	1,049,482	1,049,482	-
Commercial Paper Notes Payable	-	-	90,173,000	-	90,173,000	-
Deferred Credits and Other	-	-	119,000	-	119,000	-
Accrued Landfill Closure/Postclosure Care Costs	-	-	-	6,244,000	6,244,000	-
Total Noncurrent Liabilities	<u>55,359,943</u>	<u>48,963,519</u>	<u>441,178,000</u>	<u>27,212,995</u>	<u>572,714,457</u>	<u>2,870,252</u>
Total Liabilities	<u>60,443,125</u>	<u>57,689,770</u>	<u>495,330,000</u>	<u>32,222,687</u>	<u>645,665,582</u>	<u>7,453,232</u>
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	131,308,344	180,477,902	160,626,000	41,270,497	513,682,743	8,617,902
Restricted for:						
Debt Service, Net of Related Debt	204,516	102,226	21,527,000	2,347,517	24,181,259	-
Capital Projects	13,806,528	13,286,544	-	1,586,202	28,679,274	-
Other	-	-	-	26,900	26,900	-
Unrestricted	8,551,252	5,792,954	20,459,000	4,412,981	39,215,987	10,878,779
Total Net Assets	<u>\$ 153,870,640</u>	<u>199,659,626</u>	<u>202,612,000</u>	<u>49,643,597</u>	<u>605,785,865</u>	<u>19,496,681</u>

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

CITY OF LINCOLN, NEBRASKA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2003

	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	\$ 14,691,905	20,883,159	164,974,000	3,923,268	204,472,332	24,971,446
Fees	-	-	-	8,322,220	8,322,220	-
Parking Facility Revenue Pledged as Security for Revenue Bonds	-	-	-	2,848,609	2,848,609	-
Parking Facility Revenue - Unpledged	-	-	-	2,387,429	2,387,429	-
Performance Revenue	-	-	-	1,674,027	1,674,027	-
Other Operating Revenue	-	-	-	253,055	253,055	-
Total Operating Revenues	<u>14,691,905</u>	<u>20,883,159</u>	<u>164,974,000</u>	<u>19,408,608</u>	<u>219,957,672</u>	<u>24,971,446</u>
Operating Expenses						
Personal Services	-	-	-	6,468,474	6,468,474	10,705,369
Contractual Services	-	-	-	2,539,953	2,539,953	-
Operation and Maintenance	7,700,498	9,820,179	10,778,000	4,792,197	33,090,874	12,071,773
Purchased Power	-	-	75,603,000	-	75,603,000	-
Depreciation	4,118,681	5,396,000	20,088,000	3,226,385	32,829,066	2,156,223
Payments in Lieu of Taxes	-	-	5,954,000	-	5,954,000	-
Administrative Costs	1,385,971	1,811,317	20,702,000	-	23,899,288	-
Total Operating Expenses	<u>13,205,150</u>	<u>17,027,496</u>	<u>133,125,000</u>	<u>17,027,009</u>	<u>180,384,655</u>	<u>24,933,365</u>
Operating Income	<u>1,486,755</u>	<u>3,855,663</u>	<u>31,849,000</u>	<u>2,381,599</u>	<u>39,573,017</u>	<u>38,081</u>
Nonoperating Revenues (Expenses)						
Investment Earnings	915,838	535,807	3,305,000	288,401	5,045,046	280,916
Gain on Disposal of Capital Assets	-	-	-	71,768	71,768	105,397
Grants	178,100	114,999	-	-	293,099	-
Amortization of Deferred Charges	-	(42,350)	(4,165,000)	(46,785)	(4,254,135)	-
Interest Expense and Fiscal Charges	-	(2,074,619)	(18,199,000)	(1,140,444)	(21,414,063)	(40)
Total Nonoperating Revenues (Expenses)	<u>1,093,938</u>	<u>(1,466,163)</u>	<u>(19,059,000)</u>	<u>(827,060)</u>	<u>(20,258,285)</u>	<u>386,273</u>
Income Before Contributions and Transfers	<u>2,580,693</u>	<u>2,389,500</u>	<u>12,790,000</u>	<u>1,554,539</u>	<u>19,314,732</u>	<u>424,354</u>
Capital Contributions	4,185,547	3,061,892	-	240,938	7,488,377	411,591
Transfers In	-	-	-	1,385,397	1,385,397	13,193
Transfers Out	-	-	(1,181,000)	(428,914)	(1,609,914)	-
Change in Net Assets	<u>6,766,240</u>	<u>5,451,392</u>	<u>11,609,000</u>	<u>2,751,960</u>	<u>26,578,592</u>	<u>849,137</u>
Net Assets - Beginning	<u>147,104,400</u>	<u>194,208,234</u>	<u>191,003,000</u>	<u>46,891,637</u>	<u>579,207,271</u>	<u>18,647,544</u>
Net Assets - Ending	<u>\$ 153,870,640</u>	<u>199,659,626</u>	<u>202,612,000</u>	<u>49,643,597</u>	<u>605,785,863</u>	<u>19,496,681</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, 2003

	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	\$ 14,557,248	20,122,917	170,857,000	18,748,111	224,285,276	5,346,146
Receipts from Interfund Services Provided	175,936	458,772	7,306,000	217,413	8,158,121	19,197,213
Payments to Suppliers for Goods and Services	(3,747,453)	(4,656,876)	(116,082,000)	(6,218,460)	(130,704,789)	(10,079,265)
Payments to Employees	(5,295,804)	(5,928,009)	(15,985,000)	(6,475,183)	(33,683,996)	(10,633,843)
Payments for Interfund Services Provided	(1,528,474)	(3,125,722)	(2,252,000)	(1,276,886)	(8,183,082)	(2,256,005)
Payments in Lieu of Taxes	-	-	(5,674,000)	-	(5,674,000)	-
Other Receipts	-	-	-	253,055	253,055	-
Net Cash Provided by Operating Activities	4,161,453	6,871,082	38,170,000	5,248,050	54,450,585	1,574,246
Cash Flows from Noncapital Financing Activities						
Transfers from Other Funds	-	-	-	1,330,239	1,330,239	13,192
Transfers to Other Funds	-	-	(1,140,000)	(428,914)	(1,568,914)	-
Advance from General Fund	-	-	-	541,531	541,531	-
Payment to General Fund	-	-	-	(422,308)	(422,308)	-
Interest Paid to General Fund	-	-	-	(16,132)	(16,132)	(40)
Federal Grant Revenue	178,100	114,999	-	-	293,099	-
Net Cash Provided (Used) by Noncapital Financing Activities	178,100	114,999	(1,140,000)	1,004,416	157,515	13,152
Cash Flows from Capital and Related Financing Activities						
Additions to Capital Assets	(11,740,470)	(4,041,637)	(83,549,000)	(2,432,300)	(101,763,407)	(2,330,968)
Proceeds from Sale of Capital Assets	13,395	-	-	72,505	85,900	262,237
Proceeds from Long-Term Debt	56,519,174	51,931,753	197,602,000	-	306,052,927	-
Net Cost of Retiring Plant	-	-	(591,000)	-	(591,000)	-
Principal Payments of Capital Lease	-	-	-	(129,538)	(129,538)	-
Principal Payments of Capital Debt	(5,592,566)	(37,810,000)	(201,533,000)	(1,525,000)	(246,460,566)	-
Interest Paid and Fiscal Charges	-	(2,183,793)	(20,195,000)	(1,130,060)	(23,508,853)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	39,199,533	7,896,323	(108,266,000)	(5,144,393)	(68,314,537)	(2,068,731)
Cash Flows from Investing Activities						
Proceeds from Sale and Maturities of Investments	40,831,487	10,944,639	624,152,000	8,466,360	684,394,486	11,782,403
Purchases of Investments	(77,604,325)	(26,425,542)	(556,299,000)	(13,130,876)	(673,459,743)	(15,129,786)
Interest and Other Receipts	966,930	646,665	4,023,000	339,364	5,975,959	308,618
Net Cash Provided (Used) by Investing Activities	(35,805,908)	(14,834,238)	71,876,000	(4,325,152)	16,910,702	(3,038,765)
Net Increase (Decrease) in Cash and Cash Equivalents	7,733,178	48,166	640,000	(3,217,079)	5,204,265	(3,520,098)
Cash and Cash Equivalents - Beginning	2,259,602	4,671,225	105,000	6,292,590	13,328,417	6,461,401
Cash and Cash Equivalents - Ending	\$ 9,992,780	4,719,391	745,000	3,075,511	18,532,682	2,941,303
Reconciliation of Operating Income to Net Cash Provided by Operating Activities						
Operating Income	\$ 1,486,755	3,855,663	31,849,000	2,381,599	39,573,017	38,081
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:						
Depreciation and Amortization	4,116,661	5,447,512	20,080,000	3,226,365	32,880,538	2,150,223
Changes in Assets and Liabilities:						
Accounts Receivable and Unbilled Revenues	86,740	(301,470)	941,000	(144,459)	581,811	(340,128)
Due from Other Funds	-	-	-	2,116	2,116	3,396
Due from Other Governments	-	-	-	2,638	2,638	12,439
Inventories	17,827	(12,791)	(110,000)	9,496	(95,468)	(36,708)
Plant Operation Assets	-	-	289,000	-	289,000	-
Prepaid Expenses	-	-	(135,000)	63,895	(71,105)	36,622
Other Assets	-	-	(9,983,000)	-	(9,983,000)	-
Accounts Payable	(1,566,631)	(2,003,129)	(2,257,000)	(7,928)	(5,834,688)	88,145
Accrued Liabilities	(10,865)	(150,193)	-	(16,432)	(177,490)	27,890
Accrued Compensated Absences	28,946	35,490	-	9,723	74,159	43,638
Due to Other Funds	-	-	-	16,064	16,064	9,569
Due to Other Governments	-	-	-	(23,623)	(23,623)	2,568
Unearned Revenue	-	-	-	49,676	49,676	(103,794)
Claims	-	-	-	-	-	(363,504)
In Lieu of Taxes	-	-	280,000	-	280,000	-
Other Current Liabilities	-	-	343,000	-	343,000	-
Deferred Credits and Other Liabilities	-	-	(3,155,000)	-	(3,155,000)	-
Accrued Landfill Closure/Postclosure Care Costs	-	-	-	(322,000)	(322,000)	-
Total Adjustments	2,674,698	3,015,419	6,321,000	2,866,451	14,877,568	1,536,165
Net Cash Provided by Operating Activities	\$ 4,161,453	6,871,082	38,170,000	5,248,050	54,450,585	1,574,246
Supplemental Disclosure of Noncash Investing, Capital, and Financing Activities:						
Contribution of Capital Assets	\$ 4,185,547	2,386,137	-	240,938	6,812,622	411,591
Purchase of Capital Assets on Account	2,327,335	3,989,008	-	1,370,145	7,686,488	51,024
Change in Fair Value of Investments	(2,358)	(110,858)	-	(48,166)	(161,382)	(53,394)

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, 2003

	Police And Fire Pension Trust Fund	Agency Funds	Total
ASSETS			
Cash and Cash Equivalents	\$ 48,484	3,753,808	3,802,292
Investments	137,585,246	-	137,585,246
Receivables:			
Contributions	219,038	-	219,038
Accrued Interest	489,078	713	489,791
Other	-	43,172	43,172
Due from Other Governments	235	-	235
Contractor Retainage	-	1,051,174	1,051,174
Total Assets	138,342,081	4,848,867	143,190,948
LIABILITIES			
Warrants Payable	-	1,994,606	1,994,606
Accounts Payable	1,024	113,205	114,229
Accrued Liabilities	3,453	-	3,453
Accrued Compensated Absences	5,868	-	5,868
Due to Other Governments	-	733,768	733,768
Due to Contractors	-	1,827,641	1,827,641
Due to Joint Venture	-	167,274	167,274
Due to Bondholders	-	12,373	12,373
Total Liabilities	10,345	4,848,867	4,859,212
NET ASSETS			
Held in Trust for Pension Benefits	\$ 138,331,736	-	138,331,736

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, 2003

	Police And Fire Pension Trust Fund
Additions:	
Contributions:	
Employer	\$ 1,840,417
Employee	1,774,506
Total Contributions	3,614,923
Investment Earnings:	
Interest	3,606,283
Dividends	1,105,613
Net Increase in Fair Value of Investments	4,782,615
Net Investment Earnings	9,494,511
Total Additions	13,109,434
Deductions:	
Benefit Payments	6,664,742
Refunds of Contributions	246,949
Administrative Costs	184,460
Total Deductions	7,096,151
Change in Net Assets	6,013,283
Net Assets Held in Trust for Pension Benefits Beginning	132,318,453
Net Assets Held in Trust for Pension Benefits - Ending	\$ 138,331,736

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, 2003

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

REPORTING ENTITY

The City of Lincoln, Nebraska (City) was incorporated on April 7, 1869. 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 7 members. Three Council members are elected at large and 4 by district on a nonpartisan basis for a term of 4 years. The administration of City government is performed under the direction of the Mayor through administrative departments.

The accompanying financial statements present the government of the City. Based upon the criteria identified in Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, 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 fund types of the City, with the exception of Lincoln Electric System (LES), are reported as of and for the year ended August 31, 2003. 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, 2002. The amounts included in the City's 2003 financial statements for LES are figures as of and for the year ended December 31, 2002.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) 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. *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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

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 fiduciary 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 levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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 claims and judgments are recorded only when payment is due.

Property taxes, sales taxes, highway user fees, interdepartmental charges, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Special assessments are recorded as revenues in the year the assessments become current. Annual installments not yet due are reflected as special assessment receivables and deferred revenues. Other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund finances the day-to-day operation of the basic governmental activities, such as legislative, judicial, administration, police and fire protection, legal services, planning, and parks and recreation.

The Street Construction Fund accounts for the resources accumulated and payments made for the maintenance, construction, and improvement of the streets and highways in the City.

The Federal Grants Fund accounts for the costs of providing services under the City's Community Development Block Grant Program with funding provided by grants from the Department of Housing and Urban Development; monies received from various federal and state agencies under several small categorical grants and the City's matching funds to provide services as stipulated in the individual grant agreements; costs of providing services under the Workforce Investment Act with funding provided by grants from the Department of Labor; and reimbursements from the Federal Emergency Management Agency due to disasters caused by storm and flood damage with funds used to reimburse other funds for related costs and to pay disaster related expenses.

The Community Health Permanent Endowment Fund accounts for the cash proceeds realized by the City from the sale of Lincoln General Hospital together with any interest or other investment income earned. The endowment may be increased by donations, bequests, or appropriations to the fund. Monies in the fund are used for funding health and health-related programs that further the health, safety, or welfare of the citizens of Lincoln.

The government reports the following major enterprise funds:

The Lincoln Wastewater System Fund accounts for the activities of the government's wastewater utility.

The Lincoln Water System Fund accounts for the activities of the government's water distribution operations.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

The Lincoln Electric System Fund accounts for the activities of the government's electric distribution operations.

Additionally, the government reports the following fund types:

Internal Service Funds account for data processing, engineering, risk management, fleet management, telecommunications, and copy services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

The Pension Trust Fund accounts for the receipt, investment, and distribution of retirement contributions made for the benefit of police officers and firefighters.

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

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 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

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

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 market information of similar financial instruments. Income from investments held by the individual funds is recorded in the respective funds as it is earned.

In accordance with authorized investment laws, the Pension Trust Fund of the City is allowed to invest in various mortgage-backed securities, such as collateralized mortgage obligations. They are reported in aggregate as mortgage-backed securities in the disclosure of custodial credit risk (see Note 4).

Receivables and Payables

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.

Amounts of governmental fund inventories and prepaid items are offset by a fund balance reserve account to indicate that they do not represent "available spendable resources".

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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

Certain assets of the Pershing Municipal Auditorium Enterprise Fund are classified as restricted assets to be used for improvements and to supplement event net losses.

Certain assets of the Community Health Permanent Endowment Fund are classified as restricted assets because their use is restricted by donors for specific purposes.

A recap of restrictions and related balances at August 31, 2003, are as follows:

Fund Account	Golf	Parking Facilities	Pershing Municipal Auditorium	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Community Health Permanent Endowment	Totals
Principal and Interest	\$ -	225,065	-	-	-	9,721,000	-	9,946,065
Reserve	316,500	2,052,495	-	3,931,914	3,169,645	11,688,000	-	21,158,554
Surplus	-	11,068	-	4,403,733	-	-	-	4,414,801
Depreciation and Replacement	100,000	775,660	-	-	-	-	-	875,660
Construction	-	282,522	-	57,144,751	20,201,357	75,995,000	-	153,623,630
Capital Improvements	88,897	-	189,775	-	-	-	-	278,672
Marketing	-	-	26,900	-	-	-	-	26,900
Communications Escrow	-	-	-	-	-	117,000	-	117,000
Donor Specific Purpose	-	-	-	-	-	-	93,914	93,914
	\$ 505,393	3,346,810	216,675	65,480,398	23,371,002	97,521,000	93,914	190,535,192

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 government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset 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:

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

The one 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 34 days.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

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 one-fourth or one-half of 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 compensated for one-fourth of accumulated sick leave to the date of separation. LES is covered by a separate personnel plan regarding vacation and sick leave with the liability for these benefits recorded in accrued liabilities.

Vacation leave and other compensated absences with similar characteristics are accrued as the benefits are earned if the leave is attributable to past service and it is probable that the City will compensate the employees for such benefits. Sick leave and other compensated absences with similar characteristics are accrued as the benefits are earned only to the extent it is probable that the City will compensate the employees for such benefits through cash payments conditioned on the employee's termination or retirement. Such accruals are based on current salary rates and include salary-related payments directly and incrementally associated with payments made for compensated absences on termination.

All vacation and sick leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. In the governmental funds, only compensated absences expected to be liquidated with expendable available financial resources are recorded as a fund liability.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the bonds-outstanding method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. 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 \$20,907,429 of the General Fund's unreserved fund balance of \$35,987,302 meets the requirements of this policy, leaving an additional unreserved balance of \$15,079,873.

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

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt.

Restricted – This component of net assets consists of restrictions placed on net assets use through external constraints imposed by creditors (such as debt covenants), contributors, or law or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

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 result 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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

- 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, Special Assessment, Property Tax Refunds, Parks and Recreation Special Projects, and Commission on Aging Gift Trust), debt service (Special Assessment), and agency funds. In addition, capital project funds are budgeted on a project rather than an annual basis.

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, 2002, from which the summarized information was derived.

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.

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

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

The governmental fund 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 \$81,518,447 difference are as follows:

Bonds Payable	\$ 72,569,237
Less deferred charge for issuance costs	(441,286)
Less issuance discounts	(3,066)
Plus issuance premiums	387,861
Capital Leases Payable	1,680,520
Accrued Interest Payable	613,826
Net Pension Obligation	130,000
Compensated Absences	<u>6,581,355</u>
Net difference	<u>\$ 81,518,447</u>

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

The governmental fund 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,

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

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 \$19,552,863 difference are as follows:

Capital outlay	\$ 34,881,007
Depreciation expense	<u>(15,328,144)</u>
Net difference	<u>\$ 19,552,863</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 \$(4,388,214) difference are as follows:

Debt issued or incurred:	
Issuance of general obligation storm sewer bonds	\$ (19,305,000)
Deferred charge for issuance costs	214,350
Issuance premiums	<u>(247,703)</u>
Principal repayments	<u>14,950,139</u>
Net difference	<u>\$ (4,388,214)</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 \$(789,938) difference are as follows:

Loss on disposal of capital assets	\$ (565,595)
Accrued interest	77,141
Claims	24,230
Compensated absences	<u>(325,714)</u>
Net difference	<u>\$ (789,938)</u>

(3) RECONCILIATION OF BUDGET BASIS TO GAAP

Amounts presented on a non-GAAP budget basis of accounting differ from those presented in accordance with GAAP due to the treatment afforded accruals, encumbrances, and funds for which legally adopted annual budgets are not established. A reconciliation for the year ended August 31, 2003, 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	\$ (1,014,271)	(8,043,301)	(2,589,358)
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.	1,179,908	(726,288)	897,818
Entity differences occur when the budget excludes programs or entities that fall within the financial reporting entity as defined by GAAP.	-	<u>25,233,598</u>	-
Balance on a budget basis	<u>\$ 165,637</u>	<u>16,464,009</u>	<u>(1,691,540)</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

(4) DEPOSITS AND INVESTMENTS

DEPOSITS

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 which is insured by the Federal Deposit Insurance Corporation (FDIC).

For purposes of classifying categories of custodial risk, the bank balances of the City's deposits as of August 31, 2003, are either entirely insured or collateralized with securities held by the City's agent in other than the City's name.

As of August 31, 2003, the book balances of the City's deposits approximates bank balances.

INVESTMENTS

For reporting purposes, the carrying amount of securities is classified into the following three categories of custodial credit risk:

- 1) Insured or registered, or securities held by the City or its agent in the City's name.
- 2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- 3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

Pension Fund

At August 31, 2003, the Pension Trust fund had investments as follows:

	<u>Category</u>	Reported	Fair
	3	Amount	Value
Mortgage-backed Securities	\$ 53,807,258	53,807,258	53,807,258
Government Agencies	207,263	207,263	207,263
Government Securities	<u>2,480,537</u>	<u>2,480,537</u>	<u>2,480,537</u>
	<u>\$ 56,495,058</u>	56,495,058	56,495,058
Mutual Funds		64,527,567	64,527,567
Real Estate Limited Partnerships		10,096,951	10,096,951
Mutual Funds - Hedge Funds		3,188,340	3,188,340
Pooled Investment Funds - (internal and external)		<u>3,295,990</u>	<u>3,295,990</u>
		<u>\$137,603,906</u>	<u>137,603,906</u>

Lincoln Electric System (LES)

At December 31, 2002 LES had investments as follows:

	<u>Category 2</u>	
	Reported	Fair
	Amount	Value
Government Securities	\$ 33,383,000	34,236,000
Government Money Markets	38,505,000	39,005,000
Commercial Paper	<u>47,402,000</u>	<u>47,332,000</u>
	<u>\$119,290,000</u>	<u>120,573,000</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

Lincoln Wastewater System

At August 31, 2003, Lincoln Wastewater System had investments as shown below:

	<u>Category</u> 3	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
Government Agencies	\$ 58,446,697	58,446,697	58,452,825
Government Securities	<u>6,019,980</u>	<u>6,019,980</u>	<u>6,019,980</u>
	<u>\$ 64,466,677</u>	64,466,677	64,472,805
Pooled Investment Funds - (internal and external)		<u>3,779,460</u>	<u>3,779,460</u>
		<u>\$ 68,246,137</u>	<u>68,252,265</u>

Lincoln Water System

At August 31, 2003, Lincoln Water System had investments as follows:

	<u>Category</u> 3	<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
Government Agencies	\$ 20,130,208	20,130,208	20,132,503
Government Securities	<u>3,392,370</u>	<u>3,392,370</u>	<u>3,392,370</u>
	<u>\$ 23,522,578</u>	23,522,578	23,524,873
Pooled Investment Funds (internal and external)		<u>1,553,051</u>	<u>1,553,051</u>
		<u>\$ 25,075,629</u>	<u>25,077,924</u>

Community Health Permanent Endowment

At August 31, 2003, Community Health Permanent Endowment had investments as follows:

	<u>Category</u>		<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
	1	3		
Government Agencies	\$ 11,124,526	579,603	11,704,129	11,773,546
Government Securities	3,663,978	6,413	3,670,391	3,670,391
Corporate Bonds	24,525,863	-	24,525,863	24,525,863
Foreign Obligations	<u>1,084,428</u>	-	<u>1,084,428</u>	<u>1,084,428</u>
	<u>\$ 40,398,795</u>	<u>586,016</u>	40,984,811	41,054,228
Securities Lending Short-term Investment Pool			7,414,973	7,414,973
Pooled Investment Funds (internal and external)			<u>2,940,313</u>	<u>2,940,313</u>
			<u>\$ 51,340,097</u>	<u>51,409,514</u>

All Other City Funds

Investments of all other City funds do not vary significantly in either type or risk. These investments at August 31, 2003, were as follows:

	<u>Category</u>		<u>Reported</u> <u>Amount</u>	<u>Fair</u> <u>Value</u>
	2	3		
Government Agencies	\$ 2,017,653	111,004,710	113,022,363	113,034,763
Government Securities	31,294	1,177,162	1,208,456	1,208,456
Corporate Bonds	<u>90,020</u>	-	<u>90,020</u>	<u>90,020</u>
	<u>\$ 2,138,967</u>	<u>112,181,872</u>	114,320,839	114,333,239
Equity Securities			289,129	289,129
Pooled Investment Funds (internal and external)			9,559,030	9,559,030
Interfund Investments			<u>704,079</u>	<u>704,079</u>
			<u>\$ 124,873,077</u>	<u>124,885,477</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

Summary of Deposit and Investment Balances

Following is a reconciliation of the City's deposit and investment balances as of August 31, 2003:

	Totals			
Investments	\$	526,428,846		
Certificates of Deposit		16,000,000		
Money Market Accounts		7,000,000		
Bank Accounts and Cash on Hand		<u>4,848,726</u>		
	\$	<u>554,277,572</u>		
		Government-wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	
		Totals		
Cash and Cash Equivalents	\$	40,021,029	3,802,292	43,823,321
Investments		138,058,858	137,585,246	275,644,104
Invested Securities Lending		7,414,973	-	7,414,973
Restricted Assets:				
Cash and Cash Equivalents		763,280	-	763,280
Investments		<u>226,631,894</u>	<u>-</u>	<u>226,631,894</u>
	\$	<u>412,890,034</u>	<u>141,387,538</u>	<u>554,277,572</u>

There were no investments that resulted in significantly greater custodial credit risk held during the fiscal year ended August 31, 2003, than those held at year end.

The City's Pension Trust Fund invests in collateralized mortgage obligations to maximize investment earnings. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

The policies of the Community Health Endowment (CHE) Board of Trustees authorize the CHE fund 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 44 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 the Fund by the contract with the custodian.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

(5) RECEIVABLES

Receivables at August 31, 2003, consist of the following (in thousands):

Fund	Taxes	Accounts	Contributions	Special Assessment		Accrued Interest	Gross Receivables	Allowance For Uncollectibles	Net
				Current	Deferred				
General	\$ 2,739	1,019	-	-	-	100	3,858	-	3,858
Street Construction	-	2,928	-	-	-	83	3,011	-	3,011
Federal Grants	-	-	-	-	-	3	3	-	3
Community Health Endowment	-	-	-	-	-	4	4	-	4
Wastewater System	-	2,685	-	-	-	143	2,828	-	2,828
Water System	-	5,890	-	-	-	108	5,998	-	5,998
Electric System	-	15,860	-	-	-	562	16,422	-	16,422
Nonmajor - Special Revenue	1,258	468	-	-	-	75	1,801	-	1,801
Debt Service	905	-	-	508	3,295	74	4,782	285	4,497
Capital Projects	-	-	-	-	-	91	91	-	91
Enterprise	-	3,220	-	-	-	91	3,311	1,067	2,244
Internal Service	-	741	-	-	-	65	806	-	806
Fiduciary	-	43	219	-	-	490	752	-	752
	<u>\$ 4,902</u>	<u>32,854</u>	<u>219</u>	<u>508</u>	<u>3,295</u>	<u>1,889</u>	<u>43,667</u>	<u>1,352</u>	<u>42,315</u>

Enterprise funds customer accounts receivable include unbilled charges for services.

Delinquent special assessment receivables at August 31, 2003, were \$237,928.

No other receivables are expected to be uncollected within one year.

(6) DUE FROM OTHER GOVERNMENTS

The total of Due From Other Governments of \$20,653,313 includes the following significant items:

Fund/Fund Type	Amount	Service
General/General	\$ 8,944,272	State of Nebraska, July/August Sales and Use Tax
	368,064	August Motor Vehicle Taxes Collected by Lancaster County
	79,907	Lancaster County, Cost Reimbursements
Street Construction/Special Revenue	2,818,407	State of Nebraska, July/August Highway User Fees
	4,440,047	Federal Government, Cost Reimbursements
Federal Grants/Special Revenue	2,256,613	Federal Government, Cost Reimbursements
Lincoln Area Agency on Aging/Special Revenue	93,150	Federal Government, Cost Reimbursements
Lincoln/Lancaster Co. Health/Special Revenue	359,937	Lancaster County, Cost Reimbursements
Snow Removal/Special Revenue	92,600	August Motor Vehicle Taxes Collected by Lancaster County
Antelope Valley/Debt Service	166,167	State of Nebraska, July/August Development Fund disbursements
Vehicle Tax/Capital Projects	629,708	August Motor Vehicle Taxes Collected by Lancaster County
Information Services/Internal Service	227,965	Lancaster County Billings
Engineering Revolving/Internal Service	33,159	Railroad Transportation Safety District, Project Cost Reimbursements
Subtotal	20,509,996	
All other	143,317	
Total Due From Other Governments	<u>\$ 20,653,313</u>	

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

(7) **CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2003, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 37,810,841	2,907,018	210,960	40,506,899
Construction in Progress	59,562,688	10,604,610	389,322	69,777,976
Total Capital Assets, not being Depreciated	97,373,529	13,511,628	600,282	110,284,875
Capital Assets, being Depreciated:				
Buildings	61,658,948	948,646	913,318	61,694,276
Improvements Other Than Buildings	46,532,393	841,190	22,731	47,350,852
Machinery and Equipment	62,615,359	4,694,235	4,271,220	63,038,374
Infrastructure	253,608,073	29,241,713	-	282,849,786
Total Capital Assets, being Depreciated	424,414,773	35,725,784	5,207,269	454,933,288
Less Accumulated Depreciation for:				
Buildings	19,641,887	1,565,916	598,177	20,609,626
Improvements Other Than Buildings	14,565,132	1,522,900	22,731	16,065,301
Machinery and Equipment	32,657,136	5,476,010	4,074,887	34,058,259
Infrastructure	82,143,681	8,919,541	-	91,063,222
Total Accumulated Depreciation	149,007,836	17,484,367	4,695,795	161,796,408
Total Capital Assets, being Depreciated, Net	275,406,937	18,241,417	511,474	293,136,880
Governmental Activities Capital Assets, Net	\$ 372,780,466	31,753,045	1,111,756	403,421,755
	Beginning Balances	Increases	Decreases	Ending Balances
Business-type Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 14,185,253	186,697	-	14,371,950
Construction in Progress	85,671,929	121,080,968	42,413,733	164,339,164
Total Capital Assets, not being Depreciated	99,857,182	121,267,665	42,413,733	178,711,114
Capital Assets, being Depreciated:				
Buildings	172,546,376	7,071,961	-	179,618,337
Improvements Other Than Buildings	305,386,608	13,744,043	7,401	319,123,250
Machinery and Equipment	23,908,765	1,561,672	391,680	25,078,757
Utility Plant	628,316,000	28,822,000	3,011,000	654,127,000
Total Capital Assets, being Depreciated	1,130,157,749	51,199,676	3,410,081	1,177,947,344
Less Accumulated Depreciation for:				
Buildings	49,479,668	3,808,479	-	53,288,147
Improvements Other Than Buildings	80,185,539	7,124,295	7,401	87,302,433
Machinery and Equipment	13,176,964	1,808,292	369,266	14,615,990
Utility Plant	232,069,000	20,088,000	3,805,000	248,352,000
Total Accumulated Depreciation	374,911,171	32,829,066	4,181,667	403,558,570
Total Capital Assets, being Depreciated, Net	755,246,578	18,370,610	(771,586)	774,388,774
Business-type Activities Capital Assets, Net	\$ 855,103,760	139,638,275	41,642,147	933,099,888

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 800,929
Public Safety	1,323,532
Streets and Highways, including Infrastructure	8,620,395
Culture and Recreation	3,250,089
Economic Opportunity	55,138
Health and Welfare	137,922
Mass Transit	1,140,139
Internal Service Funds Capital Assets	
Depreciation is charged to the various functions based on usage of the assets.	<u>2,156,223</u>
Total Depreciation Expense - Governmental	<u>\$ 17,484,367</u>
 Business-type Activities:	
Parking Lots	\$ 21,881
Golf	532,063
Parking Facilities	1,028,433
Pershing Municipal Auditorium	152,576
Sanitary Landfill	1,315,319
Emergency Medical Services	176,113
Wastewater System	4,118,681
Water System	5,396,000
Lincoln Electric System	<u>20,088,000</u>
Total Depreciation Expense - Business-type	<u>\$ 32,829,066</u>

Capital asset activity of each major fund was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Wastewater System:				
Capital Assets, not being Depreciated:				
Land	\$ 2,138,362	141,802	-	2,280,164
Construction In Progress	<u>14,177,593</u>	<u>13,369,134</u>	<u>2,976,039</u>	<u>24,590,688</u>
Total Capital Assets, not being Depreciated	<u>16,315,955</u>	<u>13,530,936</u>	<u>2,976,039</u>	<u>26,870,852</u>
Capital Assets, being Depreciated:				
Buildings	36,948,285	652,034	-	37,600,319
Improvements Other Than Buildings	114,131,419	6,292,650	-	120,424,069
Machinery and Equipment	<u>7,988,285</u>	<u>753,771</u>	<u>103,350</u>	<u>8,638,706</u>
Total Capital Assets, being Depreciated	<u>159,067,989</u>	<u>7,698,455</u>	<u>103,350</u>	<u>166,663,094</u>
Less Accumulated Depreciation for:				
Buildings	15,820,738	1,000,251	-	16,820,989
Improvements Other Than Buildings	33,613,288	2,660,022	-	36,273,310
Machinery and Equipment	<u>4,488,022</u>	<u>458,408</u>	<u>89,955</u>	<u>4,856,475</u>
Total Accumulated Depreciation	<u>53,922,048</u>	<u>4,118,681</u>	<u>89,955</u>	<u>57,950,774</u>
Total Capital Assets, being Depreciated, Net	<u>105,145,941</u>	<u>3,579,774</u>	<u>13,395</u>	<u>108,712,320</u>
Wastewater System Capital Assets, Net	<u>\$ 121,461,896</u>	<u>17,110,710</u>	<u>2,989,434</u>	<u>135,583,172</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Water System:				
Capital Assets, not being Depreciated:				
Land	\$ 4,386,767	44,895	-	4,431,662
Construction in Progress	12,626,211	7,600,412	9,525,091	10,701,532
Total Capital Assets, not being Depreciated	<u>17,012,978</u>	<u>7,645,307</u>	<u>9,525,091</u>	<u>15,133,194</u>
Capital Assets, being Depreciated:				
Buildings	87,276,794	5,660,848	-	92,937,642
Improvements Other Than Buildings	169,366,277	7,087,793	-	176,454,070
Machinery and Equipment	6,742,019	231,963	62,217	6,911,765
Total Capital Assets, being Depreciated	<u>263,385,090</u>	<u>12,980,604</u>	<u>62,217</u>	<u>276,303,477</u>
Less Accumulated Depreciation for:				
Buildings	20,280,489	1,603,112	-	21,883,601
Improvements Other Than Buildings	39,475,988	3,428,915	-	42,904,903
Machinery and Equipment	4,405,189	363,973	53,934	4,715,228
Total Accumulated Depreciation	<u>64,161,666</u>	<u>5,396,000</u>	<u>53,934</u>	<u>69,503,732</u>
Total Capital Assets, being Depreciated, Net	<u>199,223,424</u>	<u>7,584,604</u>	<u>8,283</u>	<u>206,799,745</u>
Water System Capital Assets, Net	<u>\$ 216,236,402</u>	<u>15,229,911</u>	<u>9,533,374</u>	<u>221,932,939</u>
	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Electric System:				
Capital Assets, not being Depreciated:				
Construction in Progress	\$ 58,567,000	98,117,000	29,616,000	127,068,000
Capital Assets, being Depreciated:				
Utility Plant	628,316,000	28,822,000	3,011,000	654,127,000
Less Accumulated Depreciation	232,069,000	20,088,000	3,805,000	248,352,000
Total Capital Assets, being Depreciated, Net	<u>396,247,000</u>	<u>8,734,000</u>	<u>(794,000)</u>	<u>405,775,000</u>
Electric System Capital Assets, Net	<u>\$ 454,814,000</u>	<u>106,851,000</u>	<u>28,822,000</u>	<u>532,843,000</u>

During 2003, Lincoln Wastewater System incurred \$435,730 of interest cost which was capitalized into construction in progress. Lincoln Water System incurred \$2,771,148 of interest cost, of which \$696,529 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 interest costs on proceeds of commercial paper notes/bonds, less net earnings on proceeds temporarily invested. The weighted-average rate for 2002 was 4.9%.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

(8) PROPERTY TAXES

The Home Rule Charter of the City imposes a tax ceiling for general revenue purposes. The City tax ceiling was established by using the September 1, 1966, City dollar tax limit as an initial tax limit, and increasing that tax limit each year following 1966 by 7% so that in each fiscal year thereafter the amount of the City tax limit shall be the amount of the City tax limit for the previous year plus 7% thereof. In addition, the City has the power to levy taxes each year sufficient to pay any judgment existing against the City, the interest on bonded debt, and the principal on bonded debt maturing during the fiscal year or within 6 months thereafter, as well as taxes authorized by state law. The 2002 tax levy, for the 2002-2003 fiscal year, was \$48,669,563 below the legal limit, with a tax rate per \$100 valuation of 0.31452. The assessed value upon which the 2002 levy was based was \$11,130,588,167.

The tax levies for all political subdivisions in Lancaster County are certified by the County Board on or before October 15th. Real estate taxes are due on December 31st and attach as an enforceable lien on property on January 1st following the levy date and become delinquent in two equal installments on April 1st and August 1st. Personal property taxes are due December 31st and become delinquent on April 1st and August 1st following the levy date. Delinquent taxes bear 14% interest.

Property taxes levied for 2002-2003 are recorded as revenue when expected to be collected within 60 days after August 31, 2003. Prior-year levies were recorded using these same principles, and remaining receivables are re-evaluated annually. Property taxes expected to be collected after 60 days are recorded as deferred revenue on the fund balance sheets.

The City-owned electric utility is required by City Charter to make payments in lieu of taxes, aggregating 5% of its gross retail operating revenues derived from within the city limits of incorporated cities and towns served.

(9) LONG-TERM DEBT

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

Net assets of \$6,162,316, \$3,028,825, \$4,045,517, and \$5,968,717 are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, Tax Allocation Bonds, and Special Assessment Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

The City has entered into lease agreements for financing the acquisition of land, buildings, emergency ambulances and defibrillators, 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:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Land	\$ 42,000	\$ 210,000
Buildings	2,183,750	-
Machinery and Equipment	206,597	1,748,261
Less Accumulated Depreciation, (where applicable)	<u>(246,057)</u>	<u>(472,980)</u>
Total	<u>\$ 1,888,290</u>	<u>\$ 1,485,281</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

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.

On October 1, 2002, LES issued \$148.2 million in electric revenue and refunding bonds with interest rates ranging from 4% to 5% and have annual maturities of \$3.7 million to \$13.5 million due from 2004 to 2025. These bonds were issued to advance refund \$136.3 million in outstanding 1993 Series bonds with an average interest rate of 5.2% and to pay down \$20 million in outstanding commercial paper notes with an average interest rate of 2%. LES advance refunded a portion of the 1993 bonds and paid down the commercial paper notes to restructure its debt and to provide for flexible covenants and business operations. The refunding resulted in an economic gain of \$9.7 million, and an accounting loss of approximately \$22 million, which is deferred and is being amortized through 2015, the period over which LES expects to recover the costs. The net proceeds of \$141.8 million plus an additional \$9.5 million of the 1993 series reserve fund were used to purchase U.S. government securities and money market funds and were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 bonds. As a result, the defeased portion of the 1993 bonds have been removed from the financial statements.

In prior years, the City defeased certain bonds by placing the proceeds of the refunding bonds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On August 31, 2003, the following bonds outstanding are considered defeased:

Revenue Bonds:		
08/15/80	Lincoln Wastewater	\$ 5,000
Various	Lincoln Electric	<u>136,300,000</u>
Total Defeased Bonds Outstanding		<u>\$ 136,305,000</u>

LES issued short-term taxable commercial paper notes dated August 15, 2001 to refund \$35.510 million in outstanding 1992 Series bonds. The notes matured in June 2002, and had an interest rate of 1.9% at the time of maturity.

In July 2003, the Lincoln Wastewater System issued \$55,000,000 in revenue bonds to pay off \$4,560,066 of outstanding 5% debt, resulting in an economic gain of \$329,680. The revenue bonds also provided approximately \$48,000,000 of additional funds to be used for construction costs.

In August 2003, The Lincoln Water System issued \$32,180,000 in Water Revenue Refunding Bonds at an interest rate of 5% to refund \$37,810,000 of bonds with interest rates ranging from 4.8% to 5.3%. The City completed the advance refunding to reduce its total debt service payments over the next 25 years by \$2,620,000 to obtain an economic gain of \$1,346,358.

In June 2003, the City issued \$19,305,000 in General Obligation Various Purpose Bonds at interest rates ranging from 2.625% to 4.125% to refund \$9,419,000 in various outstanding general obligation bonds with interest rates averaging from 4.4% to 5.5%. The refunding resulted in a cash flow differential of \$1,368,752 and an economic gain of \$947,337. The bonds also provided approximately \$10,000,000 of additional funds to be used for construction and improvements to the City's storm sewer and drainage system.

Established by City Ordinance, LES may borrow up to \$125 million under a commercial paper note program. At December 31, 2002, LES had \$90.2 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, 2002, was 1.4 percent. The annual requirement to pay interest on this outstanding debt is approximately \$1,263,000. The outstanding commercial paper notes are secured by a revolving credit agreement which provides for borrowings up to \$125 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement LES refinances the commercial paper upon maturity.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

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

Original Amount	Issued	Issue	Interest Rate	When Due	Date Callable	Interest Date	Outstanding
General Obligation Bonds:							
General Bonds:							
8,230	08/15/97	Storm Sewer and Drainage	4.500 - 5.125	Ser. '99 to '17	2005	Semiannually	\$ 7,065
14,435	03/01/99	Various Purpose Series A	3.000 - 4.600	Ser. '00 to '14	2009	"	11,390
7,365	03/01/99	Various Purpose Series A	4.750	Term '15 to '19	2009	"	7,365
8,220	03/01/99	Various Purpose Series B	3.000 - 4.250	Ser. '99 to '11	2007	"	5,240
7,500	05/29/02	Storm Sewer and Drainage	3.000 - 5.000	Ser. '04 to '22	2010	"	7,500
15,595	06/24/03	Various Purpose	2.625 - 3.750	Ser. '04 to '17	2013	"	15,595
3,710	06/24/03	Various Purpose	4.000 - 4.125	Term '18 to '23	2013	"	3,710
Total General Bonds							<u>\$ 57,865</u>
Municipal Infrastructure Redevelopment Bonds:							
3,200	06/13/00	Municipal Infrastructure Redevelopment	4.750 - 5.100	Ser. '01 to '09	2005	Semiannually	\$ 2,395
Tax Allocation Bonds:							
1,310	11/15/92	Tax Allocation Bonds	3.250 - 6.200	Ser. '93 to '06	1997	Semiannually	\$ 325
105	11/15/92	Tax Allocation Bonds	6.350	Term '93 to '06	1997	"	45
90	11/15/92	Tax Allocation Bonds	6.300	Term '93 to '05	1997	"	35
303	10/18/94	Tax Allocation Bonds	8.000	Term '95 to '05	Anytime	"	95
232	04/21/00	Tax Allocation Bonds	6.390	Ser. '00 to '10	2000	"	177
1,200	03/01/01	Tax Allocation & Refunding Bonds	3.430 - 3.730	Ser. '01 to '04	2003	"	575
42	06/01/03	Tax Allocation Bonds	4.060	Ser. '04 to '11	Anytime	"	42
Total Tax Allocation Bonds							<u>\$ 1,294</u>
Total General, MRF, and Tax Allocation Bonds							<u>\$ 61,534</u>
Special Assessment Bonds:							
3,860	11/15/89	Special Assessment Revolving	5.900 - 6.850	Ser. '90 to '04	1996	Semiannually	\$ 205
TOTAL GENERAL OBLIGATION BONDS							<u>\$ 61,759</u>
Tax-Supported Revenue Bonds:							
11,080	2/27/02	Antelope Valley Project	1.500 - 5.000	Ser. '02 to '16	2012	Semiannually	\$ 10,810
Revenue Bonds:							
11,850	11/22/02	Water Revenue	2.750 - 5.000	Ser. '05 to '17	2012	Semiannually	\$ 11,850
6,660	11/22/02	Water Revenue	5.000	Term '18 to '22	2012	"	6,660
32,180	05/20/02	Water Revenue	5.000	Ser. '04 to '12	-	"	32,180
Total Water Bonds							<u>\$ 50,690</u>
15,765	08/01/03	Wastewater Revenue	2.000 - 5.000	Ser. '04 to '23	2013	Semiannually	\$ 15,765
39,235	08/01/03	Wastewater Revenue	4.625 - 5.000	Term '24 to '28	2013	"	39,235
Total Wastewater Bonds							<u>\$ 55,000</u>
6,815	09/08/99	Parking Revenue Series A	4.000 - 5.000	Ser. '00 to '09	2009	Semiannually	\$ 5,500
6,695	09/08/99	Parking Revenue Series A	5.375	Term '10 to '14	2009	"	6,695
2,125	09/08/99	Parking Revenue Series B	6.250	Ser. '00 to '04	Anytime	"	485
6,000	12/05/01	Parking Revenue	3.750 - 5.125	Ser. '02 to '21	2011	"	5,505
Total Parking Bonds							<u>\$ 18,185</u>
3,165	10/23/01	Golf Course Revenue Refunding	2.300 - 4.050	Ser. '02 to '11	2008	Semiannually	\$ 2,580
184,650	07/01/93	Electric Refunding '93 Series A	4.700 - 5.400	Ser. '94 to '11	2003	Semiannually	\$ 32,770
62,005	07/01/93	Electric Refunding '93 Series A	5.250	Term '12 to '15	2003	"	12,330
45,560	02/15/98	Electric Revenue Bonds '98 Series A	4.500 - 5.000	Ser. '98 to '18	2008	"	38,225
141,130	08/13/01	Electric Revenue Bonds '01	4.000 - 5.250	Ser. '06 to '20	2011	"	141,150
148,190	10/01/02	Electric Revenue Bonds '02	4.000 - 5.000	Ser. '04 to '25	2012	"	148,190
Total Electric Bonds							<u>\$ 372,865</u>
TOTAL REVENUE BONDS							<u>\$ 499,320</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

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

Fiscal Year Ended August 31	Governmental Activities							
	General Obligation Bonds		Special Assessment Bonds		Tax-Supported Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 4,114	2,447	105	10	555	436	105	66
2005	4,526	2,335	100	3	565	423	147	61
2006	4,330	2,173	-	-	580	409	143	56
2007	4,000	2,014	-	-	595	391	105	52
2008	3,992	1,864	-	-	615	372	112	49
2009 - 2013	17,252	7,095	-	-	3,430	1,484	612	175
2014 - 2018	15,905	3,745	-	-	4,470	535	266	69
2019 - 2023	7,435	820	-	-	-	-	130	3
	<u>\$ 61,554</u>	<u>22,493</u>	<u>205</u>	<u>13</u>	<u>10,810</u>	<u>4,050</u>	<u>1,680</u>	<u>531</u>

Fiscal Year Ended August 31	Business-Type Activities			
	Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2004	\$ 18,750	23,447	300	53
2005	19,375	23,517	310	40
2006	20,145	22,705	320	28
2007	21,050	21,852	207	14
2008	22,010	20,878	212	5
2009 - 2013	120,475	87,503	-	-
2014 - 2018	137,740	56,867	-	-
2019 - 2023	111,205	20,191	-	-
2024 - 2028	28,570	3,706	-	-
	<u>\$ 499,320</u>	<u>280,666</u>	<u>1,349</u>	<u>140</u>

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

Fiscal Year Ended August 31	Major Funds					
	Wastewater System		Water System		Electric System	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 1,750	2,135	3,115	2,412	12,450	17,002
2005	1,500	2,404	4,000	2,256	12,440	17,924
2006	1,520	2,358	4,175	2,072	12,960	17,399
2007	1,545	2,313	4,365	1,879	13,585	16,849
2008	1,580	2,274	4,560	1,672	14,240	16,190
2009 - 2013	8,585	10,544	19,525	4,999	83,745	69,478
2014 - 2018	10,200	8,539	5,495	2,204	118,705	45,450
2019 - 2023	12,555	5,771	5,455	698	91,935	13,590
2024 - 2028	15,765	2,404	-	-	12,805	1,302
	<u>\$ 55,000</u>	<u>38,742</u>	<u>50,690</u>	<u>18,192</u>	<u>372,865</u>	<u>216,084</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

Long-term liability activity for the year ended August 31, 2003, was as follows (in thousands of dollars):

	09/01/02 Beginning Balance	Additions	Reductions	08/31/03 Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
General Obligation Bonds	\$ 52,157	19,305	(13,597)	57,865	3,215
Municipal Infrastructure Redevelopment Bonds	2,685	-	(290)	2,395	305
Tax Allocation Bonds	1,845	42	(593)	1,294	594
Special Assessment Debt with Government Commitment	310	-	(105)	205	105
Tax-Supported Antelope Valley Project Bonds	11,080	-	(270)	10,810	555
Capital Leases	1,818	785	(923)	1,680	165
Gross Bonds and Leases Payable	<u>69,895</u>	<u>20,132</u>	<u>(15,778)</u>	<u>74,249</u>	<u>4,939</u>
Deferred Amounts:					
For Issuance Premiums	144	248	(4)	388	-
For Issuance Discounts	(3)	-	-	(3)	-
Net Bonds and Leases Payable	<u>70,036</u>	<u>20,380</u>	<u>(15,782)</u>	<u>74,634</u>	<u>4,939</u>
Other Liabilities:					
Compensated Absences	6,888	5,181	(4,812)	7,257	5,149
Claims and Judgements	5,507	1,805	(2,168)	5,144	2,429
Net Pension Obligation	-	130	-	130	-
Governmental Activity Long-Term Liabilities	<u>\$ 82,431</u>	<u>27,496</u>	<u>(22,762)</u>	<u>87,165</u>	<u>12,517</u>
Business-Type Activities:					
Bonds, Notes and Leases Payable:					
Water Revenue Bonds	\$ 37,810	50,690	(37,810)	50,690	3,115
Wastewater Revenue Project Loan	5,593	-	(5,593)	-	-
Wastewater Revenue Bonds	-	55,000	-	55,000	1,750
Parking Revenue Bonds	19,270	-	(1,085)	18,185	1,145
Golf Course Revenue Bonds	2,860	-	(280)	2,580	290
Electric System Revenue Bonds	371,833	148,190	(146,360)	372,863	12,150
Commercial Paper Notes	75,000	35,173	(20,000)	90,173	-
Capital Leases	1,639	-	(290)	1,349	300
Gross Bonds, Notes and Leases Payable	<u>513,207</u>	<u>289,053</u>	<u>(211,418)</u>	<u>590,842</u>	<u>19,050</u>
Deferred Amounts:					
For Issuance Premiums	3,215	19,036	(562)	21,689	-
For Issuance Discounts	(17,842)	(11,115)	2,191	(26,766)	-
For Refunding	(45)	(1,221)	9	(1,257)	-
Net Bonds, Notes and Leases Payable	<u>498,535</u>	<u>295,753</u>	<u>(209,780)</u>	<u>584,508</u>	<u>19,050</u>
Other Liabilities:					
Compensated Absences	925	734	(660)	999	714
Business-Type Activity Long-Term Liabilities	<u>\$ 499,460</u>	<u>296,487</u>	<u>(210,440)</u>	<u>585,507</u>	<u>19,764</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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

Long-term liability activity for the major funds for the year ended August 31, 2003, was as follows (in thousands of dollars):

	09/01/02 Beginning Balance	Additions	Reductions	08/31/03 Ending Balance	Due Within One Year
Lincoln Wastewater System:					
Loans Payable:					
Wastewater Revenue Project Loan	\$ 5,593	-	(5,593)	-	-
Bonds Payable:					
Wastewater Revenue Bonds	-	55,000	-	55,000	1,750
Deferred For Issuance Premiums	-	2,016	(7)	2,009	-
Net Bonds Payable	-	57,016	(7)	57,009	1,750
Other Liabilities:					
Compensated Absences	302	241	(212)	331	230
Total Long-Term Liabilities	\$ 5,895	57,257	(5,812)	57,340	1,980
Lincoln Water System:					
Bonds Payable:					
Water Revenue Bonds	\$ 37,810	50,690	(37,810)	50,690	3,115
Deferred for Issuance Premiums	-	2,463	(20)	2,443	-
Deferred for Issuance Discounts	(250)	-	250	-	-
Deferred for Refunding	-	(1,221)	5	(1,216)	-
Net Bonds Payable	37,560	51,932	(37,575)	51,917	3,115
Other Liabilities:					
Compensated Absences	395	277	(242)	430	269
Total Long-Term Liabilities	\$ 37,955	52,209	(37,817)	52,347	3,384
Lincoln Electric System:					
Bonds and Notes Payable:					
Electric System Revenue Bonds	\$ 371,035	148,190	(146,360)	372,865	12,450
Commercial Paper Notes	75,000	35,173	(20,000)	90,173	-
Deferred for Issuance Premiums	3,215	14,557	(535)	17,237	-
Deferred for Issuance Discounts	(17,592)	(11,112)	1,941	(26,766)	-
Total Long-Term Liabilities	\$ 431,658	186,805	(164,954)	453,509	12,450

(10) FAIR VALUE OF FINANCIAL INSTRUMENTS

In the opinion of management, the carrying value of financial instruments, including commercial paper notes, of the City's utility proprietary funds (Lincoln Wastewater, Lincoln Water, and Lincoln Electric Systems) is presented in the City's financial statements at values which approximated fair value at August 31, 2003, (December 31, 2002 for Lincoln Electric System), with the exception of LES' long-term debt for which the estimated fair value is \$398,000,000.

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.

(11) SEGMENT INFORMATION

The City has issued revenue bonds and other debt instruments to finance capital construction and acquisitions for both the Parks and Recreation and Public Works/Utilities Departments. The Golf Division of the Parks and Recreation Department operates the City's golf courses and is accounted for in the Golf Fund. The Parking Facilities Division of the Public Works/Utilities Department operates the City's downtown parking garages and is accounted for in the Parking Facilities Fund. Summary financial information as of and for the year ended August 31, 2003, for these two divisions is presented as follows:

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

	<u>Golf</u>	<u>Parking Facilities</u>
CONDENSED STATEMENT OF NET ASSETS		
Assets:		
Current Assets	\$ 188,088	2,772,307
Restricted Assets	505,393	3,346,810
Deferred Charges	62,685	530,361
Capital Assets	<u>8,015,834</u>	<u>36,901,002</u>
Total Assets	<u>8,772,000</u>	<u>43,350,480</u>
Liabilities:		
Current Liabilities	533,977	247,133
Due to Other Funds	7,209	1,411
Current Liabilities Payable from Restricted Assets	319,752	1,223,505
Noncurrent Liabilities	<u>2,506,338</u>	<u>17,049,017</u>
Total Liabilities	<u>3,367,276</u>	<u>18,512,066</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	5,175,395	19,246,363
Restricted	475,640	3,268,304
Unrestricted	<u>(246,311)</u>	<u>2,523,747</u>
Total Net Assets	<u>\$ 5,404,724</u>	<u>25,038,414</u>

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating Revenues	\$ 2,640,994	5,035,564
Depreciation Expense	(532,063)	(1,028,433)
Other Operating Expenses	<u>(2,408,947)</u>	<u>(2,304,632)</u>
Operating Income (Loss)	(300,016)	1,702,499
Nonoperating Revenues (Expenses):		
Investment Earnings	7,558	117,676
Interest Expense and Fiscal Charges	(123,857)	(995,323)
Capital Contributions	134,362	-
Transfers	<u>-</u>	<u>942,239</u>
Change in Net Assets	(281,952)	1,767,091
Beginning Net Assets	<u>5,686,676</u>	<u>23,271,323</u>
Ending Net Assets	<u>\$ 5,404,724</u>	<u>25,038,414</u>

CONDENSED STATEMENT OF CASH FLOWS		
Net Cash Provided (Used) by:		
Operating Activities	\$ 358,665	2,834,500
Noncapital Financing Activities	-	942,239
Capital and Related Financing Activities	(823,771)	(3,226,970)
Investing Activities	<u>(320,129)</u>	<u>(2,160,835)</u>
Net Increase (Decrease) in Cash	(785,235)	(1,611,066)
Beginning Balance	<u>882,038</u>	<u>2,639,276</u>
Ending Balance	<u>\$ 96,803</u>	<u>1,028,210</u>

(12) DEFICIT NET ASSETS

The following funds had a net asset or fund balance deficit as of August 31, 2003:

Major Governmental	
Federal Grants Fund	\$ (1,051,304)
Special Revenue	
911 Communication Fund	(82,616)
Impact Fees Fund	(7,792)
Enterprise	
Emergency Medical Services Fund	(40,914)

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

(13) EMPLOYEES' RETIREMENT PLANS

The employees of the City are covered by several retirement plans. The Police and Fire Department Plan (PFDP) is administered by the City and is included in the Fiduciary Fund type. 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. All other plans are administered by outside trustees and are not included in the City's combined 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. Cost-of-living adjustments are provided to members and beneficiaries in accordance with the plan document. Article II Section 3 of the Lincoln Charter assigns the authority to establish and amend benefit provisions to the City Council. The City does not issue a separate report that includes financial statements and required supplementary information for PFDP.

The City has established the Deferred Retirement Option Plan (DROP) for police and fire pension members. The DROP program allows a member to retire for pension purposes, but to continue working. The member receives a paycheck and the member's monthly pension benefit is deposited into the member's DROP account. At the end of five years, or anytime before five years, the member must "retire-in-fact". Contributions to the pension are eliminated at the beginning of the DROP period. Pension benefits are set, and will not be increased because of raises, promotions, increased years of service or pension enhancements. When a member retires-in-fact, their monthly pension benefit will be paid directly to them and the member will have access to the funds in their DROP account.

Membership of the pension plan consisted of the following at August 31, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	309
Terminated plan members entitled to but not yet receiving benefits	31
Active plan members (non-DROP)	535
DROP members	<u>57</u>
Total	<u>932</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 2003 was 7.54% of annual covered payroll. Actual contributions by the City were 6.71% 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	\$ 2,234
Interest on net pension obligation	(28)
Adjustment to annual required contribution	<u>81</u>
Annual pension cost	2,287
Contributions made	<u>1,783</u>
Increase in net pension obligation	504
Net pension obligation (asset) beginning	<u>(374)</u>
Net pension obligation ending	<u>\$ 130</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

The annual required contribution for the current year was determined as part of the August 31, 2001, 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 5.0–9.0% per year, 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 five years.

Three-Year Trend Information
(Dollar Amounts in Thousands)

Year Ended <u>August 31</u>	Annual Pension Cost (APC)	Annual Pension Contribution	Percentage of APC Contributed	Net Pension Obligation
2003	\$ 2,287	\$ 1,783	78 %	\$ 130
2002	1,989	1,585	80	(374)
2001	894	1,156	129	(777)

Required Supplementary Information (Unaudited)

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 *	TIAAT, as a Percentage of Covered Payroll (b-a)/c
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
August 31, 2001	128,070	122,661	(5,409)	104.4	28,216	(19.2)
August 31, 2000	121,404	115,671	(5,733)	105.0	25,808	(22.2)
August 31, 1999	113,903	104,692	(9,211)	108.8	23,611	(39.0)
August 31, 1998	109,213	94,848	(14,365)	115.1	21,860	(65.7)

* Non-DROP payroll in 2002 and later

Schedule of Employer Contributions
(Dollar Amounts in Thousands)

Year Ended <u>August 31</u>	Annual Required Contribution	Annual Pension Contribution	Percentage Contributed
2003	\$ 2,234	\$ 1,783	80 %
2002	1,878	1,585	84
2001	821	1,156	141
2000	92	958	1041
1999	962	904	94
1998	531	504	95

ELECTRIC SYSTEM

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

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

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 a financial institution. LES' contribution is equal to 200% of the employees' contributions which range from 2-5% of gross wages. This plan and related contribution requirements were authorized by the administrative board of directors under LES' retirement plan, on October 12, 1972, (latest restatement June 15, 1989). 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 \$2,316,000 (9.6% of covered payroll) and its employees contributed approximately \$1,249,600 (5.2% 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, 2002, was \$1,318,829. City contributions totaled \$152,641 or 11.6% of covered payroll. There were no voluntary employee contributions made for the year ended December 31, 2002.

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' contribution. Employee forfeitures are used to reduce employer contributions. Employees covered by the Plan may also make voluntary contributions. During the year ended December 31, 2002, total payroll was approximately \$59,314,000 and covered payroll was approximately \$49,240,000. City contributions totaled \$5,417,206 or 11.0% of covered payroll and employee contributions totaled \$2,767,896 or 5.6% of covered payroll. Employees made \$50,071 in voluntary contributions for the year ended December 31, 2002.

(14) COMMITMENTS AND CONTINGENCIES

GENERAL

The City participates in a number of federally assisted grant programs. Federal financial assistance programs are subject to financial and compliance audits. The amount of expenditures, if any, which may be disallowed by the granting agencies is not determinable at this time; however, City officials do not believe that such amounts would be significant.

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

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

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

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 soil, 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 regulatory officials have made a final review of reported findings.

STREET CONSTRUCTION PROJECTS

The City's Street Construction Capital Projects Fund has commitments under major construction contracts in progress of approximately \$13,840,000 as of August 31, 2003, which will be financed primarily through highway user fees, federal and state grants, and developer contributions.

LINCOLN WASTEWATER SYSTEM

The Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$19,897,000 at August 31, 2003.

Lincoln Wastewater System has commitments to fund Lincoln Water System's purchase of automated meter reading system equipment. Under the agreement, Lincoln Wastewater System will fund approximately \$400,000 per year for an additional four years. The maximum remaining commitment is approximately \$1,600,000 at August 31, 2003.

LINCOLN WATER SYSTEM

The Lincoln Water System has commitments under major construction contracts in progress of approximately \$5,733,000 as of August 31, 2003.

Lincoln Water System has commitments to purchase approximately \$1,000,000 of automated meter reading system equipment for four years. The maximum remaining commitment is approximately \$4,000,000 at August 31, 2003.

LINCOLN ELECTRIC SYSTEM (LES)

Participation Contract with NPPD for Cooper Nuclear Station

On May 21, 1968, LES and Consumers Public Power District, now known as Nebraska Public Power District (NPPD), entered into a Power Sales Contract (PSC) relating to the sale of capacity and energy from Cooper Nuclear Station (CNS). CNS is an approximately 800 megawatt (MW) nuclear generating plant located near Brownville, Nebraska, and is owned and operated by NPPD. The LES share under the original contract was 12.5% of the output of the facility. From 1973 through July 2002, LES received energy from the Cooper facility while contributing fixed and variable expenses equivalent to ownership costs and fuel costs. Fixed cost payments under the contract were on the same percentage basis whether or not the plant was operating or operable. LES recognized expense for its share of the total fixed demand costs of approximately \$8,400,000 in 2002.

LES and NPPD have each made allegations and brought claims against one another and have pursued related court actions and appeals against each other that are related to or arising from the PSC and CNS management and operating performance.

During 2002, LES and NPPD entered into settlement discussions that culminated in a settlement agreement to resolve all pending and threatened litigation related to CNS. This agreement includes power supply alternatives for LES that are advantageous for LES' future resource reliability and cost, including a 95 MW energy contract from NPPD at an advantageous fixed cost that will replace energy previously received from CNS.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

On July 31, 2002, the LES Administrative Board approved the settlement with NPPD and executed the "Settlement Agreement, Mutual Release and Indemnity" outlining all terms and conditions of the settlement. The settlement included:

- A new Power Sales Agreement (PSA) with NPPD effective August 1, 2002 through September 30, 2003, for 95 MW of accredited capacity and energy from NPPD.
- An amendment to the agreement for Gerald Gentlemen Station (GGS) relating to LES' entitlement to fully schedule an additional 7 MW from GGS.
- Authorization for the LES Administrator and CEO and LES legal counsel to prepare and file all documents necessary to effectuate the dismissal of all outstanding litigation with NPPD related to CNS.

A significant and key factor in the overall settlement is the provision whereby NPPD agrees not only to release LES from any future decommissioning obligation, but also to indemnify and hold LES harmless from any claim of any nature from any person or entity (including government agencies) that arises from or relates to the PSC of the operation of CNS.

The economic benefit of the settlement to LES includes an estimated \$5,000,000 in immediately available decommissioning funds, \$3,500,000 in savings in power costs due to the firm PSA, and approximately \$1,000,000 per year in additional savings from the low costs of GGS energy for so long as GGS continues to operate.

Upon expiration of the previous contract, if the nuclear facility was no longer in operation, LES would have been liable for no more than 12.5% of the costs of decommissioning the nuclear facility. LES recognized expense for these potential costs of approximately \$4,800,000 from the period of December 2000 to July 2002. As a result of the settlement, this reserve was reversed and purchased power expense was decreased by this amount.

Under the previous contract, LES was responsible for 12.5% of capital additions and improvements at the nuclear facility. Capital additions and improvements were billed to LES over periods ranging from six to eight years. LES recognized as purchased power approximately \$818,000 in 2002 for its share of these costs.

Other 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' 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 \$7,600,000 in 2002. 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 \$16,900,000 in 2002.

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 expected fixed cost payments to NPPD under these contracts, including capital additions and improvements, debt service payments, and fixed costs and credits aggregate approximately \$16,100,000, \$15,400,000, \$16,300,000, \$15,500,000, and \$15,800,000, respectively, in each of the five years subsequent to December 31, 2002.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

Laramie River Station (LRS)

LES is an 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 \$62,000,000 are reflected in utility plant at December 31, 2002.

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 approximately \$118,000 per month through July 1, 2003, for demand charges. 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. At July 1, 2003, it was determined that the rate would continue at approximately \$118,000 per month. 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 2002, LES billed the County approximately \$2,300,000 for demand and energy charges.

(15) INTERFUND BALANCES AND ACTIVITY

Balances Due To/From Other Funds at August 31, 2003, consists of the following:

	General Fund	Street Construction	Federal Grants	Community		Nonmajor Enterprise	Internal Service	Total
				Health Endowment	Nonmajor Governmental			
General Fund	\$ -	-	477,442	-	145,812	1,048,755	64	1,672,073
Nonmajor Governmental	715,009	800	4,685	-	76,719	-	-	797,213
Nonmajor Enterprise	3,460	6,928	-	-	33	-	-	10,421
Internal Service	341,738	5,579	10,303	148	53,250	16,212	29,396	456,626
Total	\$ 1,060,207	13,307	492,430	148	275,814	1,064,967	29,460	2,936,333

"Due to" and "Due from" balances are recorded when funds overdraw their share of pooled cash. The total due to the General Fund includes \$861,832 from the Emergency Medical Services Enterprise Fund for an advance made for cash flow needs. Of this amount, \$608,106 is not expected to be repaid within one year. All remaining 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.

Transfers To/From Other Funds at August 31, 2003, consists of the following:

	General Fund	Street Construction	Federal Grants	Nonmajor Governmental	Lincoln Electric System	Nonmajor Enterprise	Total
Street Construction	-	-	-	7,520,400	-	-	7,520,400
Federal Grants	310,142	-	-	13,330	-	-	323,472
Nonmajor Governmental	16,022,182	1,479,627	16,492	4,084,133	-	397,428	21,999,862
Nonmajor Enterprise	443,158	-	-	942,239	-	-	1,385,397
Internal Service	5,547	-	-	7,645	-	-	13,192
Total	\$ 16,781,029	1,479,627	16,492	13,210,684	1,180,611	428,914	33,097,357

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, 2003

The variance of \$389 on the Statement of Activities transfers is caused by the different fiscal year end dates used by the City (August 31) and Lincoln Electric System (December 31). Lincoln Electric System records an estimate for payments in lieu of taxes as an accrued liability at the end of their fiscal year. The City however, receives the transfer before the August 31 fiscal year end, and records the exact amount as a transfer in.

(16) RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and the public; or acts of God. For the year ended August 31, 2003, the City has a self-insured retention for workers' compensation exposures up to \$400,000 per individual; building and contents exposures up to \$50,000 per occurrence; law enforcement liability exposures up to \$350,000 per occurrence; general liability exposures up to \$250,000 per occurrence; public officials exposures up to \$250,000 per occurrence; public transportation liability exposures up to \$250,000 per occurrence; auto liability exposures up to \$250,000, and employee long-term disability benefits, all of which are covered under the Insurance Revolving Fund which is included in the internal service funds. The self-insurance programs are administered through the Risk Management Division.

Workers' compensation is covered by a policy which provides statutory limits above the City's retention of \$400,000 per individual. Law enforcement liability is covered by a policy which provides limits of \$5 million per occurrence and \$6 million in annual aggregate. General liability is covered by a policy which provides limits of \$5 million per occurrence and \$6 million in annual aggregate. Public officials liability provides limits of \$5 million per occurrence and \$5 million in annual aggregate. Auto liability and public transportation liability are covered by a policy which provides a limit of \$5 million. 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 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 (IBNR) 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 \$5,143,840 were recorded at August 31, 2003. This is the actuarially estimated amount of claims based on an estimate of ultimate incurred and IBNR 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. These liabilities have been discounted using a 4.0% 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, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Balance at September 1	\$ 5,507,344	4,762,334
Current year claims and changes in estimates	1,805,085	2,449,075
Claim payments	<u>(2,168,589)</u>	<u>(1,704,065)</u>
Balance at August 31	<u>\$ 5,143,840</u>	<u>5,507,344</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

(17) LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The City of Lincoln currently owns and operates a solid waste disposal area and a construction and demolition disposal area. 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 solid waste disposal area and five subsequent years on the construction and demolition disposal area. Although certain closure and postclosure care costs will be paid only near or after the date that the landfill stops 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, 2003, the City had incurred a liability of approximately \$3,834,000 for the solid waste disposal area which represents the amount of costs reported to date based on the approximately 31 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$8.6 million which will be recognized as the remaining capacity is used (estimated to be approximately 23 years).

As of August 31, 2003, the City had incurred a liability of approximately \$465,000 for the construction and demolition disposal area which represents the amount of costs reported to date based on the approximately 44 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$599,000 which will be recognized as the remaining capacity is used (estimated to be approximately 17 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 which 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 soil, monitoring of ground water conditions and landfill gas migration, and general site maintenance. At August 31, 2003, a liability for closure and postclosure care costs is recorded in the amount of approximately \$1,945,000, 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 will be identified once testing is completed and regulatory officials have made a final review of subsequent findings. Consequently, costs associated with the potential corrective action have not been accrued as of August 31, 2003.

(18) PUBLIC BUILDING COMMISSION

In 1990, the City and the County of Lancaster, pursuant to state statute, activated a separate governmental entity denominated as the Lincoln-Lancaster County Public Building Commission. The purpose of this joint venture is to design, acquire, construct, maintain, operate, improve, remodel, remove and reconstruct, so long as its corporate existence continues, public buildings, structures, or facilities for use jointly by the City and the County. The City and the County each appoint two members to the five-member Commission, with the fifth member being appointed by the other four members. All property held or acquired by the Commission is held or acquired in the name of the City and the County for use by the Commission in its corporate capacity. The Commission's costs of operation and debt service are funded through rental payments made by the City and the County based upon their proportionate occupancy of such buildings to the extent not covered by a maximum property tax levy of 1.7 cents for each \$100 of actual valuation of taxable property in the County. For the year ended August 31, 2003, the City made rental payments of approximately \$2 million to the Commission.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

As of August 31, 2003, the Commission has bonds outstanding of \$38,500,000 attributable to several bond issues. Certain proceeds from the bonds totaling \$5,400,000 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 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.

Bonds of \$8,330,000 have been issued to acquire and construct a parking facility adjacent to the County-City complex. The City's proportionate share of the parking facility will be recorded in capital assets upon completion, in relation to the ultimate transfer of the asset to the City and County.

Complete separate financial statements for the Commission may be obtained at the Lincoln-Lancaster County Public Building Commission, 920 "O" Street, Room 203, Lincoln, Nebraska 68508.

(19) JOINT ANTELOPE VALLEY AUTHORITY

Joint Antelope Valley Authority (JAVA) is a joint administrative entity created April 15, 2000, in accordance with Article XV, Section 18 of the Constitution of the State of Nebraska and Nebraska Revenue Statutes Sections 13.801 through 13.827 (1997) authorizing the creation of a joint entity by public agencies. Per an interlocal cooperative agreement by and between the Board of Regents of the University of Nebraska, a public body corporate, the City of Lincoln, Nebraska, a municipal corporation, and the Lower Platte South Natural Resources District, a political subdivision of the State of Nebraska. 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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2003

(20) JOINTLY GOVERNED ORGANIZATIONS

District Energy Corporation

LES, in conjunction with two other governmental entities, created the District Energy Corporation (DEC) in 1989 to own, operate, maintain, and finance the heating and cooling facilities utilized by certain city, county, and state buildings. The Board of Directors of DEC is comprised of five members: two appointed by the county board of commissioners, two by the Mayor of Lincoln who must be confirmed by the City Council, and one by LES. No participant has any obligation, entitlement, or residual interest.

The DEC Board of Directors, under a twenty-year management agreement, have 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 \$118,000 in 2002. The total amount of payments to LES for energy was approximately \$67,000 in 2002.

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 to acquire services in order to furnish energy requirements, utility and infrastructure services, 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, has 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 \$136,000 in 2002. The total amount of payments to LES for energy was approximately \$4.8 million in 2002.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDINANCE

SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDINANCE

The following is a summary of certain provisions and defined terms of the Bond Ordinance. Summaries of certain definitions contained in the Bond Ordinance are set forth below. Other terms defined in the Bond Ordinance for which summary definitions are not set forth herein are also indicated by capitalization. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Bond Ordinance, to which reference is hereby made. Copies of the Bond Ordinance may be obtained from the City or from the Underwriter.

Definitions

The terms defined below are among those used in the summary of the Bond Ordinance. Except where otherwise indicated or provided, words in the singular include the plural and vice versa.

“Accreted Value” means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon from the date of original issuance thereof to the Periodic Compounding Date next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Capital Appreciation Bonds determined in accordance with such Series Bond Ordinance compounded periodically on each Periodic Compounding Date, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Accreted Value as of the immediately preceding Periodic Compounding Date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Accreted Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in such Series Bond Ordinance, Accreted Value accrues in equal daily amounts on the basis of a year consisting of twelve 30-day months.

“Act” means Sections 15-244 and 18-1803 to 18-1805, inclusive, Reissue Revised Statutes of Nebraska, as amended, and Sections 8 and 44 of Article IX of the Charter of the City, as each may be amended from time to time.

“Appreciated Value” means, with respect to any Deferred Income Bond, (i) as of any date of computation prior to the Current Interest Commencement Date with respect to such Deferred Income Bond, an amount equal to the principal amount of such Bond plus the interest accrued on such Bond from the date of original issuance of such Bond to the Periodic Compounding Date next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Deferred Income Bonds determined in accordance with the Series Bond Ordinance authorizing such Bonds, compounded periodically on each Periodic Compounding Date, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Appreciated Value as of the immediately preceding Periodic Compounding date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Appreciated Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in the Series Bond Ordinance authorizing such Deferred Income Bonds, Appreciated Value accrues in equal daily amounts on the basis of a year consisting of twelve 30-day months and (ii) as of any date of computation on and after the Current Interest Commencement Date, the Appreciated Value on the Current Interest Commencement Date.

“Arbitrage Certificate” means the certificate dated as of the date of issuance, sale and delivery of a Series of Bonds concerning the requirements of the Internal Revenue Code of 1986, as amended, and any applicable regulations with respect to such Series of Bonds.

“Arbitrage Instructions” means the Arbitrage Instructions included in any Arbitrage Certificate, as the same may be amended or supplemented in accordance with the provisions thereof.

“Authorized Investments” means any of the following investments in which the City may legally invest sums subject to its control pursuant to the Constitution and statutes of the State and the Charter of the City (all as may be amended from time to time):

(1) Any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any Federal agency to the extent unconditionally guaranteed by the United States of America, and any certificates or any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this paragraph (1);

(2) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are (i) not callable prior to maturity or (ii) as to which irrevocable instructions have been given to the trustee or paying agent of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in paragraph (1) above which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in (a) of this paragraph (2), as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described in paragraph (1) above which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph (2) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in (a) of this paragraph (2) as appropriate, and any certificates or any other evidences of an ownership interest in obligations or specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this paragraph (2);

(3) Any bonds or other obligations or specified portions thereof (which may consist of specified portions of the interest thereon) which the Finance Director determines are of credit quality essentially equivalent to the investments described in paragraph (1) above, and any certificates or any other evidences of an ownership interest in obligations or specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this paragraph (3);

(4) Bonds, debentures, or other evidences of indebtedness issued or guaranteed by any agency or corporation which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America;

(5) New housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(6) Obligations of any state of the United States of America, or of any agency, instrumentality or local governmental unit of any such state which are, at the time of purchase, rated by

Moody's Investors Service ("Moody's") and Standard & Poor's Corporation ("S & P") in either of its two highest whole rating categories, for comparable types of debt obligations;

(7) Certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Registrar) or any savings and loan association, in each case, which is an insured depository institution (as defined in 12 U.C.C. §§ 1801 et seq.) provided that the aggregate principal amount of all certificates of deposit issued by any such bank, trust company, national banking association or savings and loan association which are purchased with monies held in any fund or account under the Bond Ordinance shall be (a) fully insured by the Federal Deposit Insurance Corporation or (b) secured, to the extent not insured by the Federal Deposit Insurance Corporation, by such securities as are described in paragraphs (1) through (6) or (8) through (11) of this definition having market value (exclusive of accrued interest, other than accrued interest paid in connection with the purchase of such securities) at least equal to the principal amount of such certificates of deposit (or portion thereof not insured by the Federal Deposit Insurance Corporation) which shall be lodged with the Registrar or another fiduciary, as custodian, by such bank, trust company, national banking association or savings and loan association shall furnish the Registrar or the City Treasurer, as the case may be, with an undertaking satisfactory to him or it that the aggregate market value of all such obligations securing such certificates of deposit will at all times be an amount which meets the requirements of this clause (b) and the City Treasurer or the Registrar, as the case may be, shall be entitled to rely on each such undertaking;

(8) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1" by S & P and which matures not more than 270 calendar days after the date of purchase;

(9) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S & P;

(10) Any repurchase agreement which is secured by any one or more of the securities described in paragraphs (1), (2), (3), (4), or (5) above;

(11) Interests in a portfolio of debt instruments containing only obligations described in any of the foregoing paragraphs, including, without limitation a mutual fund or a money market fund satisfying the requirements of this paragraph (11); and

(12) Any other obligations which are, at the time of purchase, rated by Moody's and S & P or which are guaranteed or provided by an entity which is rated by Moody's and S & P in either of its two highest whole rating categories.

"Bond" or **"Bonds"** means any bonds, notes or other obligations or evidences of indebtedness, as the case may be, authenticated and delivered under and Outstanding pursuant to the Bond Ordinance but shall not mean Subordinated Indebtedness.

"Bond Fund" means the City of Lincoln, Nebraska Water Revenue Bond Fund established pursuant to the Bond Ordinance.

"Bond Obligation" means, as of any date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date), and (3) with respect to any Outstanding Deferred Income Bond, the Appreciated Value thereof as of the date on which interest on such Deferred Income Bond is

computed next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case as of such date).

“Capital Appreciation Bonds” means any Bonds the interest on which is (i) compounded periodically on dates that are determined in accordance with the Series Bond Ordinance authorizing such Capital Appreciation Bonds and (ii) payable only at the maturity, earlier redemption or other payment thereof pursuant to the Bond Ordinance or the Series Bond Ordinance authorizing such Capital Appreciation Bonds.

“Capital Improvement Fund” means the Capital Improvement Fund created with the City pursuant to the provisions of the Bond Ordinance.

“Construction Fund” means the Construction Fund established with the City pursuant to the provisions of the Bond Ordinance.

“Costs,” with respect to the System or any part thereof, means the costs, expenses and liabilities paid or incurred or to be paid or incurred by the City in connection with the planning, engineering, designing, acquiring, constructing, installing, financing, operating, maintaining, repairing, extending, improving, reconstructing, retiring, decommissioning and disposing thereof and the obtaining of governmental approvals, certificates, permits and licenses with respect thereto, including, but not limited to, any good faith or other similar payment or deposits required in connection with the acquisition or construction of such part of the System, the cost of acquisition by or for the City of real and personal property or any interests therein, costs of physical construction of such part of the System and costs of the City incidental to such construction or acquisition, all costs relating to injury and damage claims relating to such part of the System, preliminary investigation and development costs, engineering fees and expenses, contractors’ fees and expenses, the costs of labor, materials, equipment and utility services and supplies, legal and financial advisory fees and expenses, capitalized interest and financing costs, including, without limitation, bank commitment and letter of credit fees and bond insurance and indemnity premiums, fees and expenses of the Fiduciaries (if any), administration and general overhead expense and costs of keeping accounts and making reports required by the Bond Ordinance prior to or in connection with the completion of acquisition or construction of such part of the System, amounts, if any, required by the Bond Ordinance to be paid into the Bond Fund to provide, among other things, for interest accruing on Bonds or into the Reserve Fund to provide for such reserves, if any, as may be specified in a Series or Supplemental Bond Ordinance or to be paid into the Water Revenue Fund for any of the respective purposes thereof, payments when due (whether at the maturity of principal or the due date of interest or upon redemption) on any indebtedness of the City with respect to the System and reserves therefor, and all federal, state and local taxes and payments in lieu of taxes in connection with any part of the System and shall include reimbursements to the City for any of the above items theretofore paid by or on behalf of the City.

“Credit Facility” means a letter of credit, line of credit, liquidity facility or other credit facility issued by a financial institution or other form of credit enhancement, including, but not limited to, municipal bond insurance and guarantees, delivered to the Paying Agent for all or a portion of a Series of Bonds, which provides for payment, in accordance with the terms of such Credit Facility, of principal, Accreted Value, Appreciated Value, premium and/or interest of all or a portion of a Series of Bonds and/or the purchase price of such Series of Bonds or portion thereof. A Credit Facility may be comprised of one or more credit facilities issued by one or more financial institutions.

“Current Interest Bonds” means the Bonds of any Series, other than Capital Appreciation Bonds or Deferred Income Bonds, which pay interest at least annually to the Owners thereof excluding the first payment of interest thereon.

“Current Interest Commencement Date” means with respect to any particular Deferred Income Bonds, the date determined in accordance with the Series Bond Ordinance authorizing such Deferred Income Bonds (which date must be prior to the maturity date for such Deferred Income Bonds) after which interest

accruing on such Deferred Income Bonds shall be payable periodically on dates determined in accordance with such Series Bond Ordinance, with the first such payment date being the first such periodic date immediately succeeding such Current Interest Commencement Date.

“Debt Service” for any period means, as of any date of calculation and with respect to any Series of Bonds, an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits in the Bond Fund made from the proceeds of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City (including amounts, if any, transferred thereto from the Construction Fund) and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for Bonds of such Series (or, if (a) there shall be no such preceding Principal Installment due date or (b) such preceding Principal Installment due date is more than one year prior to the due date of such Principal Installment, then, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever date is later). Such interest and Principal Installments for Bonds of such Series shall be calculated on the assumption that (x) no Bonds (except for Option Bonds actually tendered for payment prior to the stated maturity thereof) of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof, and (y) the principal amount of Option Bonds tendered for payment before the stated maturity thereof shall be deemed to accrue on the date required to be paid pursuant to such tender.

“Deferred Income Bonds” means any Bond issued under the Bond Ordinance as to which interest accruing prior to the Current Interest Commencement Date is (i) compounded periodically on dates determined in accordance with the Series Bond Ordinance authorizing such Deferred Income Bonds and (ii) payable only at the maturity, earlier redemption or other payment thereof pursuant to the Bond Ordinance or the Series Bond Ordinance authorizing such Deferred Income Bonds.

“Depreciation” means the depreciation and amortization expenses with respect to the System, classified as such in accordance with generally accepted accounting principles for proprietary governmental operations such as the System.

“Federal Securities” means direct obligations of, or obligations the timely payment of which are unconditionally guaranteed by, the United States of America or the Treasury Department of the United States of America or securities or receipts evidencing direct ownership interests in the foregoing obligations or specific portions (such as principal or interest) of the foregoing obligations which are maintained under the book entry system operated by Federal Reserve Banks.

“Independent Consultant” means an independent firm, person or corporation recognized as having expertise and with a favorable reputation for special skill and knowledge in the operations and financing of municipal water production, treatment and distribution facilities and systems similar in size to the System.

“Insurance Consultant” means an individual or firm selected by the City qualified to survey risks and to recommend insurance coverage for entities engaged in operations similar to those of the System and having a favorable reputation for skill and experience in making such surveys and recommendations.

“Municipal Obligations” means municipal obligations, rated in the highest Rating Category by any Rating Agency meeting the following conditions:

- (a) the municipal obligations are not to be redeemable prior to maturity, or the trustee, registrar or paying agent, as appropriate, with respect to such obligations has been given irrevocable instructions concerning their calling and redemption;

(b) the municipal obligations are secured by Federal Securities, which Federal Securities, except for provisions relating to surplus moneys not required for the payment of the municipal obligations and the substitution of such Federal Securities for other Federal Securities satisfying all criteria for Federal Securities, may be applied only to interest, principal and premium payments of such municipal obligations;

(c) the principal of and interest on the Federal Securities (plus any cash in the escrow und) are sufficient, without reinvestment, to meet the liabilities of the municipal obligations; and

(d) the Federal Securities serving as security for the municipal obligations are held by an escrow agent or trustee.

“Net Revenues” means Revenues less Operation and Maintenance Expenses plus Depreciation, determined in accordance with generally accepted accounting principles for proprietary governmental operations such as the System.

“Operation and Maintenance Expenses” means the necessary expenditures for operating and maintaining the System and shall include expenditures generally classified as operating expenses in accordance with generally accepted accounting principles for proprietary governmental operations such as the System.

“Option Bonds” means Bonds which by their terms may or are required to be tendered by and at the option of the Owner thereof for payment by the City prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the Owner thereof.

“Outstanding” means when used as of any particular time with reference to Bonds (subject to the provisions of the Bond Ordinance), all Bonds theretofore, or thereupon being, authenticated and delivered by the Registrar under the Bond Ordinance except (a) Bonds theretofore cancelled by the Paying Agent or surrendered to the Paying Agent for cancellation (or in the case of Book Entry Bonds, to the extent provided in the Bond Ordinance, portions thereof deemed to have been cancelled); (b) Bonds (or in the case of Book Entry Bonds, to the extent provided in the Bond Ordinance, portions thereof with respect to which all liability of the City shall have been discharged in accordance with the Bond Ordinance; (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Registrar pursuant to the Bond Ordinance; and (d) Bonds no longer deemed to be outstanding under the Bond Ordinance as provided in the Series Bond Ordinance pursuant to which such Bonds were issued.

“Paying Agent” means the person or institution, which may include the City Treasurer or the Finance Director or his designee, or such other agent or official of the City as may be designated in a Series Bond Ordinance to make payments of the principal of, Redemption Price and interest on the Series of Bonds authorized by such Series Bond Ordinance to the registered owners thereof.

“Payment Date” means, with respect to a Series of Bonds, the date upon which any principal, Accreted Value, Appreciated Value or Redemption Price, and interest thereon is payable to the registered owners of such Series of Bonds.

“Periodic Compounding Date” means, with respect to a Capital Appreciation Bond or a Deferred Income Bond, the periodic date determined in accordance with the Series Bond Ordinance authorizing such Capital Appreciation Bond or Deferred Income Bond on which interest on such Bond is to be compounded.

“Principal Installment” means, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds (including the principal amount of any Option Bonds tendered for payment prior to the stated maturity thereof) of such Series due (or so tendered for payment) on a certain future date for which no Sinking Fund Installments have been established, or (ii) the

unsatisfied balance (determined as provided in the Bond Ordinance) of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bond on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

“Project” means any water generation, transmission, distribution and general plant facilities, and all other property, real and personal, of every kind and nature material or pertinent thereto or necessary therefor, located within or without the City or the State of Nebraska, which may be used or useful in the generation, transmission, distribution, sale, purchase, exchange or interchange of water, and in the supplying of water to all those contracting with the City therefor, as provided in the Act, including any interest therein or right to capacity thereof, and may include, without limitations, a divided or undivided interest in any water generation, transmission, distribution or general plant facility in which the City shall participate as an owner in common with others.

“Prudent Utility Practice” means any of the practices, methods and acts (including, but not limited to, any practices, methods and acts engaged in or approved by a significant portion of the water utility industry prior thereto) which, in the exercise of reasonable judgment, in the light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at reasonable cost consistent with reliability, safety and expediency. In applying the standard of Prudent Utility Practice to any matter under the Bond Ordinance, equitable consideration shall be given to the circumstances, requirements and obligations of the City, and there shall be taken into account the fact that the City is a political subdivision of the State with prescribed statutory powers, duties and responsibilities. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at reasonable cost consistent with reliability, safety and expediency. Prudent Utility Practice includes due regard for manufactures’ warranties and the requirements of governmental agencies which have jurisdiction.

“Rebate Fund” means the Rebate Fund established with the City pursuant to the Bond Ordinance.

“Registrar” means the person or institution, which may include the City Treasurer or the Finance Director or his designee, or such other agent or official of the City as may be designated in a Series Bond Ordinance to maintain on behalf of the City books of record in which the registered owners of the Bonds authorized by such Series Bond Ordinance and their registered addresses shall be duly recorded.

“Reserve Fund” means the Reserve Fund established with the City pursuant to the provisions of the Bond Ordinance, in which there shall be established an account for each Series of Bonds issued pursuant to the Bond Ordinance.

“Reserve Requirement” means, with respect to a Series of Bonds, an amount which is equal to the lower of (a) the maximum annual Debt Service requirements on such Series of Bonds, or (b) 125% of average annual Debt Service requirements on such Series of Bonds; provided that the amount required to be deposited into any account in the Reserve Fund in connection with the issuance of any Series of Bonds shall not exceed 10% of the original principal amount of such Series of Bonds (adjusted as required by the Code for any original issue discount or original issue premium).

“Revenue Fund” means the Water Revenue Fund created with the City into which all of the Revenues of the System shall be deposited.

“Revenues” means (i) total operating revenues, plus (ii) interest income, plus (iii) tap fees, plus (iv) impact fees, if any, allocable to the System, plus (v) such other revenues and income as shall be determined to

be appropriate in accordance with generally accepted accounting principles for proprietary governmental operations such as the System.

“Sinking Fund Installment” means an amount so designated which is established pursuant to a Series Bond Ordinance authorizing a Series of Bonds and which is required by the Bond Ordinance to be deposited in the Bond Fund for the payment of Term Bonds of such series and maturity.

“Subordinated Indebtedness” means an evidence of indebtedness or obligation to pay money complying with the provisions of the Bond Ordinance requiring the payment of the principal of and interest on the same be payable subordinate in all respects to the security interest in and pledge created by the Bond Ordinance as security for the Bonds.

“Surplus Fund” means the Surplus Fund established with the City pursuant to the provisions of the Bond Ordinance.

“System” means all properties and assets, and interests in properties and assets, real and personal and tangible and intangible, of the City now or hereafter existing used for or pertaining to acquiring, producing, treating, transmitting, distributing and selling water, and shall be broadly construed to encompass and include all Projects, now existing and hereafter acquired by lease, contract, purchase or otherwise or constructed by the City, including any interest or participation of the City in any such facilities or any rights to the output or capacity thereof, together with all additions, betterments, extensions and improvements to said water system or any part thereof hereafter made and together with all lands, easements and rights of way of the City and all other works, property or structures of the City and contract rights and other tangible and intangible assets of the City used or useful in connection with or related to said water system.

“Variable Rate Indebtedness” means any indebtedness or obligation the interest rate on, or amount of, which is not fixed at the time of incurrence of such indebtedness or obligation, and has not at some subsequent date been fixed, at a single numerical rate for the entire remaining term of the indebtedness or obligation.

Pledge

The Bonds of each Series are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal, Accreted Value and Appreciated Value thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured by a lien upon (i) the Net Revenues and (ii) the other funds, assets and security described under the Bond Ordinance and under the Series Bond Ordinance creating such Series. In the Bond Ordinance, the City pledges and places a charge upon all Net Revenues to secure the payment of the principal, Accreted Value and Appreciated Value of, premium, if any, and interest on the Bonds in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Bond Ordinance, permitting the application thereof for the purposes and on the terms and conditions set forth therein, and the Net Revenues constitute a trust for the security and payment of the interest and any premium on and principal, Accreted Value and Appreciated Value of the Bonds. The Bond Ordinance pledges to secure the payment of the principal, Accreted Value and Appreciated Value of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the City in the Bond Fund and the Reserve Fund, subject only to the provisions of the Bond Ordinance permitting the application thereof for the purposes and on the terms and conditions set forth therein. The pledge of Net Revenues made in the Bond Ordinance shall remain in effect until there are no Bonds Outstanding.

Application of Revenues

The Revenues are pledged by the Bond Ordinance to secure the payment of the principal of and interest and redemption premium on the Bonds of all Series, subject to the provisions of the Bond Ordinance permitting

application for other purposes. The Bond Ordinance requires that all Revenues of the System be collected on each Business Day of the City by or for the account of the City and deposited as promptly as practicable after the receipt thereof in the Revenue Fund. The Revenue Fund and the moneys deposited therein shall be used and applied only in the manner and for the purposes provided in the Bond Ordinance.

Funds

In addition to the Water Revenue Fund, the following funds and accounts, to be held by the City, are established by the Bond Ordinance:

- (i) Operation and Maintenance Account in the Revenue Fund;
- (ii) Bond Fund;
- (iii) Reserve Fund, in which there shall be established an account for each Series of Bonds issued pursuant to the Bond Ordinance;
- (iv) Capital Improvement Fund;
- (v) Rebate Fund;
- (vi) Surplus Fund; and
- (vii) Construction Fund

At any time and from time to time, there may be established such other funds and accounts as the City shall determine to be necessary, desirable, advisable or in the best interests of City for such purposes as the City shall determine.

Water Revenue Fund. The City covenants and agrees in the Bond Ordinance that from and after the delivery of the initial Series of Bonds issued under the Bond Ordinance, and continuing as long as any Bonds remain Outstanding, all of the Revenues derived and collected from the operation of the System shall as and when received be paid and deposited into the Water Revenue Fund. Said Revenues shall be segregated and kept separate and apart from all other moneys, revenues, funds and accounts of the City and shall not be commingled with any other moneys, revenues, funds and accounts of the City. The Water Revenue Fund shall be administered and applied solely for the purposes and in the manner provided in the Bond Ordinance.

Application of Money in Funds. Subject to the provisions of the Bond Ordinance, the City covenants and agrees that from and after the delivery of the initial Series of Bonds under the Bond Ordinance and continuing so long as any Bonds shall remain Outstanding, it will on the first day of each month administer and allocate all of the moneys then held in the Water Revenue Fund as follows:

- (a) *Operation and Maintenance.* There shall first be deposited and credited to the Operation and Maintenance Account as a first charge against the Water Revenue Fund an amount sufficient to pay the estimated Operation and Maintenance Expenses during the current calendar month and the next succeeding calendar month as the same become due and payable .
- (b) *Bond Fund.* There shall next be paid and credited monthly to the Bond Fund, an amount such that if the same amount were deposited on the first day of each month thereafter, the balance of the Bond Fund would be sufficient to pay the interest on and principal of, Accreted Value or Appreciated Value, on the next succeeding Payment Date. Any amounts deposited in the Bond Fund as

accrued interest or as capitalized interest in accordance with a Series Bond Ordinance shall be credited against the City's payment obligations as set forth in the Bond Ordinance.

(c) *Reserve Fund.* After all payments and credits required at the time to be made under the provisions of paragraphs (a) and (b) above have been made, there shall next be paid and credited to each Account established in the Reserve Fund, all remaining Revenues until the amount on deposit in each Account in the Reserve Fund aggregates the Reserve Requirement for the Series of Bonds for which such Account was established. So long as each Account in the Reserve Fund aggregates the Reserve Requirement with respect to the Series of Bonds for which such Account was established, no further payments into said Account shall be required, but if the City is ever required to expend and use a part of the moneys in said Account for the purpose authorized in the Bond Ordinance and such expenditure reduces the amount of said Account below the Reserve Requirement for the Series of Bonds for which such Account was established, the City shall resume and continue said monthly payments into said Account until said Account shall again aggregate the Reserve Requirement with respect to the Series of Bonds for which such Account was established.

(d) *Surplus Fund.* After all payments and credits required at the time to be made under the provisions of paragraphs (a), (b) and (c) of this Section have been made, all moneys remaining in the Water Revenue Fund shall be paid and credited to the Surplus Fund.

(e) *Deficiency of Payments into Funds or Accounts.* If at any time the Revenues derived from the operation of the System are insufficient to make any payment on the date or dates specified in the Bond Ordinance, the City will make good the amount of such deficiency by making additional payments or credits out of the first available Revenues thereafter received from the operation of the System, such payments and credits being made and applied in the order hereinbefore specified under the caption "Application of Money in Funds."

Bond Fund.

The City shall pay out of the Bond Fund to the respective Paying Agents not less than three (3) Business Days before (i) each Payment Date for any of the Bonds the amount required for the interest and principal; and (ii) before any redemption date for the Bonds, the amount required for the payment of interest on and the Redemption Price of the Bonds then to be redeemed. Such amounts shall be applied by the Paying Agents on the due dates thereof. The City shall also pay out of the Bond Fund the accrued interest included in the purchase price of the Bonds purchased for retirement.

The amount, if any, deposited in the Bond Fund from the proceeds of each Series of Bonds shall be set aside in the Bond Fund and applied to the payment of interest on Bonds in accordance with the Series Bond Ordinance pursuant to which such Series of Bonds were authorized. The amount, if any, deposited in the Bond Fund from the proceeds of Subordinated Indebtedness or other evidences of indebtedness of the City shall be set aside in the Bond Fund and applied to the payment of interest on Bonds in accordance with the Series Bond Ordinance authorizing such Subordinated Indebtedness.

In the event of the refunding or defeasance of any Bonds, the City shall withdraw from the Bond Fund all or any portion of the amounts accumulated therein and deposit such amounts with the Paying Agent(s) to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to the Bond Ordinance. In the event of such refunding or defeasance, the City may also withdraw from the Bond Fund all or any portion of the amounts accumulated therein and deposit such amounts in any fund or account established under the Bond Ordinance; provided that such withdrawal shall not be made unless item (i) referred to hereinabove have been satisfied.

Reserve Fund.

(a) The Bond Ordinance required that the City establish a debt service reserve account for a within the Reserve Fund for each Series of Bonds issued pursuant to the Bond Ordinance which shall be for the benefit and security such Series of Bonds. The City shall hold any such Account and shall deposit therein from the proceeds of the Series of Bonds for which such Account is established or from other funds of the City legally available therefore, an amount equal to the Reserve Requirement for such Series of Bonds.

(b) If any withdrawal from any Account in the Reserve Fund is made for the purpose of Subsection (c)(i) below, the amount of such withdrawal shall be restored by the City in no more than 12 substantially equal, consecutive, monthly installments, each payable on the last Business Day of the month, commencing with the month in which the withdrawal is made; provided that, if any withdrawal is made and if, prior to the restoration of the amount withdrawn, an additional withdrawal is made, such additional withdrawal shall be restored in equal monthly installments over the remainder of the restoration period for the initial withdrawal.

(c) Money on deposit in any Account in the Reserve Fund shall be applied as follows:

(i) On the date of each required payment from the Bond Fund with respect to a Series of Bonds, moneys in the Account established in the Reserve Fund with respect to such Series of Bonds shall be applied to cure any deficiency in the Bond Fund with respect thereto.

(ii) Any amount in any Account in the Reserve Fund in excess of the Reserve Requirement with respect to the Series of Bonds for which such Account was established shall be transferred to the Bond Fund and credited against the payments of the principal and interest next becoming due on such Series of Bonds.

(iii) On the interest payment date immediately preceding the final maturity date of a Series of Bonds, money held in the Account established in the Reserve Fund with respect to such Series of Bonds shall be deposited into the Bond Fund and credited against the deposits required to be made into the Bond Fund with respect to such Series of Bonds but only to the extent that, immediately following such crediting and transfer, the amount on deposit in such Account in the Reserve Fund is equal to the lesser of (A) the Reserve Requirement with respect to such Series of Bonds and (B) the amount of principal and interest due in respect of such Series of Bonds on such final maturity date.

(d) The City shall be permitted to substitute a letter of credit, surety bond or other credit enhancement (each, a "credit facility") for funds on deposit in any Account in the Reserve Fund, provided that:

(i) the credit facility (including any replacement credit facility) is issued by a bank, trust company, national banking association or insurance company whose unsecured long term debt obligations (in the case of a bank, trust company or national banking association) or whose claims paying abilities (in the case of an insurance company) are rated not lower than the "AAA" Rating Category by a Rating Agency at the time the credit facility is issued and at the time of each extension or renewal thereof;

(ii) the issuer of the credit facility does receive as security for any reimbursement obligation in respect of the credit facility a lien solely on the Net Revenues on a parity with any Bonds then Outstanding; and

(iii) the credit facility (including any replacement credit facility, if provided by a different issuer) has an initial term of not less than one year and any extension, renewal or replacement (if provided by the same issuer) thereof has a term of not less than one year.

Upon such substitution, funds on deposit in any Account in the Reserve Fund which, when added to the face amount of the credit facility, exceed the Reserve Requirement on the Bonds for which such Account was established, shall be applied as provided in Subsection (c)(ii) above (subject to yield restriction, if any, as determined by Bond Counsel). Thereafter, the credit facility shall be considered a part of such Account in the Reserve Fund and the amount available thereunder shall be included in any calculations of the amount required to be retained in such Account; provided that, (A) if the sum of the amount available under the credit facility and the amount of moneys on deposit in such Account in the Reserve Fund exceed the amount required to be on deposit pursuant to subsection (a) above, the City shall be permitted (i) to cause the amount available under the credit facility to be reduced by an amount equal to such excess, or (ii) to direct that the excess money be applied as permitted under subsection (d)(ii) above, and (B) if the credit facility is not extended, renewed or replaced at least six months prior to its scheduled expiration or termination date, the City shall be obligated to restore the difference between the Reserve Requirement and the value of such Account in the Reserve Fund computed without regard to the credit facility prior to the expiration or termination date of such credit facility.

Capital Improvement Fund.

There shall be deposited into the Capital Improvement Fund, at the option of the City, such amounts from the Surplus Fund as shall be directed by the City from time to time, together with any moneys received for or in connection with the System by the City from any other source, unless required to be applied otherwise as provided by the Bond Ordinance. All amounts on deposit in the Capital Improvement Fund shall be expended and disbursed from time to time by the City for the purpose of paying Costs of the System not otherwise paid from the Construction Fund. Money in the Capital Improvement Fund may be used to pay the principal of and interest on Bonds to the extent that balances in the Bond Fund, the Surplus Fund and the Reserve Fund are insufficient to pay the same.

Rebate Fund.

(a) There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Arbitrage Instructions. All money in the Rebate Fund shall be held in trust, to the extent required to satisfy the Rebate Amount (as defined in the Arbitrage Instructions), for payment to the United States of America, and neither the City nor the Registered Owner of any Bond shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section and the Arbitrage Instructions.

(b) The City shall periodically determine the rebatable arbitrage under Section 148(f) of the Code in accordance with the Arbitrage Instructions, and the City shall make payments to the United States Government at the times and in the amounts determined under the Arbitrage Instructions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and the interest thereon, and payment and satisfaction of any Rebate Amount, or provision made therefor, shall be released to the City.

(c) Notwithstanding any other provision of the Bond Ordinance, the obligation to pay rebatable arbitrage to the United States and to comply with all other requirements of this Section and the Arbitrage Instructions shall survive the defeasance or payment in full of the Bonds.

Surplus Fund.

Moneys in the Surplus Fund may be expended and used for the following purposes as determined by the City:

- (1) Paying extraordinary costs of the operation, maintenance and repair of the System;

(2) Making deposits to the Capital Improvement Fund for the purpose of paying the cost of extending, enlarging or improving the System;

(3) Preventing default in, anticipating payments into or increasing the amounts in the Bond Fund or any Account in the Reserve Fund referred to in paragraphs (b) and (c) of this Section;

(4) Calling, redeeming and paying prior to maturity thereof, or, at the option of the City, purchasing in the open market at the best price obtainable not exceeding the redemption price (if any bonds are callable), any Bonds, including principal, interest and redemption premium, if any;

(5) Paying Debt Service with respect to Subordinated Indebtedness; or

(6) Any other lawful purpose in connection with the operation of the System and benefiting the System.

So long as any of Bonds remain Outstanding, no moneys derived from the operation of the System shall be diverted to any other purpose.

Construction Fund.

(a) There shall be paid into the Construction Fund such amounts from the proceeds of a Series of Bonds as may be required by the provisions of the Bond Ordinance and any Series Bond Ordinance. Amounts in the Construction Fund shall be applied to pay the Costs of the System in the manner provided in this Section.

(b) The proceeds of insurance maintained pursuant to the Bond Ordinance against physical loss of or damage to any portion of the System, or of contractors' performance bonds with respect thereto, pertaining to the period of construction thereof, shall, upon receipt by the City, be paid into the Construction Fund.

(c) The City shall make payments from the Construction Fund in the amounts, at the times, in the manner and on the other terms and conditions established by the City.

(d) Notwithstanding any of the other provisions regarding the Construction Fund, to the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal, Accreted Value or Appreciated Value of and interest on Bonds when due.

(e) Amounts credited to the Construction Fund which the City at any time determines to be in excess of the amounts required for the purposes thereof shall be transferred to the Capital Improvement Fund; provided, however, that the amount of any such credit to the Capital Improvement Fund shall not constitute or be deemed to constitute Revenues for any purpose of the Bond Ordinance.

(f) Nothing in the Bond Ordinance shall be construed to prevent the City from permanently discontinuing the acquisition or construction of any portion of the System, the Costs of which are at the time being paid out of the Construction Fund, if the City determines that such discontinuance is necessary or desirable in the conduct of the business of the City and not disadvantageous to the Owners of the Bonds.

Subordinated Indebtedness.

The City may, at any time, or from time to time, issue Subordinated Indebtedness for any lawful purpose of the City related to the System, which Subordinated Indebtedness shall be payable out of, and may be secured by a security interest in and pledge and assignment of, such amounts in the Surplus Fund as may from time to time be available for the purpose of payment thereof; provided, however, that any security interest and

pledge and assignment shall be, and shall be expressed to be, subordinated in all respects to the security interest in and pledge created by the Bond Ordinance as security for the Bonds.

Investment of Funds.

Unless limited by the provisions of a Series Bond Ordinance, all amounts held in any fund or account established under the Bond Ordinance may be invested and reinvested in Authorized Investments which investment shall mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such funds and accounts. Any Paying Agent shall make all such investments of moneys held by it in accordance with written instructions received from any Authorized Representative. If any Paying Agent does not receive any such written instructions, such Paying Agent shall invest such fund in such Federal Securities as the Paying Agent shall determine.

Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in any fund or account shall be paid into the respective fund or account in which such investment is held; provided, however, that at the direction of the City, such interest earned on moneys or investments in any such fund or account or any portion thereof shall be paid into the Construction Fund. Interest earned on any moneys or investments in the Construction Fund shall be held in the Construction Fund for application as provided in the Bond Ordinance or paid into the Revenue Fund.

In computing the amount in any fund or account created under the provisions of the Bond Ordinance for any purpose provided in the Bond Ordinance, obligations purchased as an investment of moneys therein shall be valued as provided in the applicable policies established by the City from time to time.

Covenant as to Rates, Fees and Charges.

The City will fix, establish, maintain and collect such rates, charges and fees for water and services furnished by the System and revise such rates, charges and fees to produce Revenues each Fiscal Year sufficient:

- (i) to pay all Operation and Maintenance Expenses;
- (ii) to produce Net Revenues equal to the annual Debt Service due and payable in such Fiscal Year of the then Outstanding Bonds; and
- (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the System reasonably anticipated to be paid from Revenues.

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified above the City shall within sixty (60) days from the date of receipt of the annual audit for such Fiscal Year either (a) cause such rates and charges to be revised and adjusted to comply with this covenant or (b) obtain a written report from an Independent Consultant after a review and study of the operations of the System has been made concluding that, in their opinion, the rates and charges then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates and charges to comply with this covenant and such adjustments and revisions to water rates and charges are promptly implemented and enacted in accordance with such Independent Consultant's report.

Additional Bonds.

- (a) So long as any of the Bonds remain Outstanding, the City will not issue any additional bonds or incur or assume any other debt obligations appearing as liabilities on the balance sheet of the City for the payment of moneys determined in accordance with generally accepted accounting principles including capital

leases as defined by generally accepted accounting principles, payable out of the Revenues of the System or any part thereof which are superior to the Bonds.

(b) So long as any of the Bonds remain Outstanding, the City will not issue any Additional Bonds payable out of the Net Revenues of the System or any part thereof which stand on a parity or equality with the Bond unless the following conditions are met:

(i) The City shall not be in default in the payment of principal of or interest on any Bonds at the time Outstanding under the Bond Ordinance or in making any payment at the time required to be made into the respective funds and accounts created by and referred to in the Bond Ordinance (unless such additional revenue bonds or obligations are being issued to provide funds to cure such default); and

(ii) The City shall have satisfied either of the following:

(A) The annual Net Revenues derived by the City from the operation of the System for the Fiscal Year immediately preceding the issuance of such Additional Bonds shall have been equal to at least 125% of the maximum annual Debt Service required to be paid from the Net Revenues in any succeeding Fiscal Year on account of both principal (at maturity or through a Sinking Fund Installment) and interest becoming due with respect to all Outstanding Bonds of the City, including the Additional Bonds proposed to be issued; or

(B) An Independent Consultant shall project that the annual Net Revenues to be derived by the City from the operation of the System for the Fiscal Year immediately following the Fiscal Year in which the improvements to the System, the cost of which is being financed by such Additional Bonds, are to be in use and operation, shall be equal to at least 125% of the maximum annual Debt Service required to be paid out of the Net Revenues in any succeeding Fiscal Year following such use or operation on account of both principal (at maturity or through a Sinking Fund Installment) and interest becoming due with respect to all Outstanding Bonds of the City, including the Additional Bonds proposed to be issued. In determining the projected Net Revenues for the purpose of this subsection, the Independent Consultant may adjust the Net Revenues by adding thereto any estimated increase in Net Revenues resulting from any increase in rates for the use and services of the System which, in the opinion of the Independent Consultant, are economically feasible and reasonably considered necessary based on projected operations of the System.

Additional Bonds issued under the conditions set forth under this caption shall stand on a parity with the Bonds and shall enjoy complete equality or lien on and claim against the Net Revenues with the Bonds, and the City may make equal provision for paying said Additional Bonds and the interest thereon out of the Revenue Fund.

Certain Other Covenants.

Restrictions on Mortgage or Sale of System. The City will not mortgage, pledge or otherwise encumber the System or any part thereof, nor will it sell, lease or otherwise dispose of the System or any material part thereof; provided, however, the City may:

(a) sell at fair market value any portion of the System which has been replaced by other similar property of at least equal value, or which ceases to be necessary for the efficient operation of the System, and in the event of sale, the City will apply the proceeds to either (1) redemption of Outstanding Bonds in accordance with the provisions governing repayment of Bonds in advance of the maturity thereof, or (2) replacement of the property so disposed of by other property the revenues of which shall be incorporated into the System as hereinbefore provided;

(b) cease to operate, abandon or otherwise dispose of any property which has become obsolete, nonproductive or otherwise unusable to the advantage of the City;

(c) lease, (1) as lessor, any real or personal property which is unused or unimproved, or which has become obsolete, nonproductive or otherwise unusable to the advantage of the City, or which is being acquired as a part of a lease/purchase financing for the acquisition and/or improvement of such property; and/or (2) as lessee, with an option of the City to purchase, any real or personal property for the extension and improvement of the System. Property being leased as lessor and/or lessee pursuant to this subparagraph (c) shall not be treated as part of the System for purposes of this Section 7.05 and may be mortgaged, pledged or otherwise encumbered.

Annual Budget. For each Fiscal Year following delivery of any Bonds under the Bond Ordinance, the City shall prepare and adopt a budget for the System for the next ensuing Fiscal Year.

Operation and Maintenance of the System. The City shall at all times use its best efforts to operate or cause to be operated the System properly and in an efficient and economical manner, consistent with Prudent Utility Practice, and shall use their best efforts to maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make, or use their best efforts to cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the System may be properly conducted. The City shall promptly pay all Operation and Maintenance Expenses and all other costs and expenses payable from the Revenues.

Maintenance of Insurance. The City will carry and maintain insurance with respect to the System and its operations against such casualties, contingencies and risks (including but not limited to property and casualty, fire and extended coverage insurance upon all of the properties forming a part of the System insofar as the same are of an insurable nature, public liability, business interruption or use and occupancy insurance, worker's compensation and employee dishonesty insurance), such insurance to be of the character and coverage and in such amounts as would normally be carried by other enterprises engaged in similar activities of comparable size and similarly situated. In the event of loss or damage, the City, with reasonable dispatch, will use the proceeds of such insurance in reconstructing and replacing the property damaged or destroyed, or in paying the claims on account of which such proceeds were received, or if such reconstruction or replacement is unnecessary or impracticable, then the City will pay and deposit the proceeds of such insurance into the Water Revenue Fund. The City will annually review the insurance it maintains with respect to the System to determine that it is customary and adequate to protect its property and operations. The City may elect to be self-insured for all or any part of the foregoing requirements if (i) the City annually obtains a written evaluation with respect to such self-insurance program from an Insurance Consultant, (ii) the evaluation is to the effect that the self-insurance program is actuarially sound, (iii) unless the evaluation states that such reserves are not necessary, the City deposits and maintains adequate reserves for the self-insurance program with a corporate trustee, who may be the Paying Agent, and (iv) in the case of workers' compensation, adequate reserves created by the City for such self-insurance program are deposited and maintained in such amount and manner as are acceptable to the State of Nebraska. The City shall pay any fees and expenses of such Insurance Consultant in connection therewith. The cost of all insurance obtained pursuant to the requirements of this Section shall be paid as an Operation and Maintenance Expense out of the Revenues of the System.

Application of Insurance Proceeds. (a) If any useful portion of the System shall be damaged or destroyed, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds available for such purpose as the City in its sole discretion shall determine, shall be used to repair the property damaged or replace the property destroyed; provided, however, if the insurance proceeds and other funds that might be lawfully appropriated therefore are insufficient to repair or replace the damaged

property, then such insurance proceeds received for the damaged or destroyed property shall be deposited to the credit of a special insurance account or fund until other funds become available which, together with funds on deposit to the credit of such special insurance account, will be sufficient to make the repairs or replacements to the property damaged or destroyed that resulted in such insurance proceeds or make other improvements to the System.

Accounts and Reports. (a) The City shall keep or cause to be kept proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the System and each fund and account established under the Bond Ordinance, and which, together with all other books and papers of the City, including insurance policies, relating to the System, shall upon reasonable advance notice and during regular business hours, be subject to the inspection of the Owners of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

(b) Annually, promptly after the end of each Fiscal Year, the City will cause an audit to be made of the System for the preceding Fiscal Year by a certified public accountant or firm of certified public accountants to be employed for that purpose and paid from the Revenues. Said annual audit shall cover in reasonable detail the operation of the System during such Fiscal Year.

(c) Each Paying Agent shall advise the City promptly after the end of each Fiscal Year of its transactions during such Fiscal Year relating to all balances handled by it under the Bond Ordinance.

(d) For so long as Rule 15c2-12(b) of the Securities and Exchange Commission (the "Rule") is applicable, the City covenants and agrees that it will comply with and carry out all of the provisions of each undertaking entered into by it to satisfy the requirements of the Rule with respect to each Series of Bonds issued pursuant to the Bond Ordinance. Notwithstanding any other provision of the Bond Ordinance, failure of the City to comply with such undertaking shall not be considered an Event of Default; however, the Owner or Beneficial Owner of any Bond may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this subsection. For purposes of this subsection, "Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

Amendment of Bond Ordinance.

(a) (1) Unless such modifications or amendments are permitted under subsection (b) below, the Bond Ordinance and the rights and obligations of the City, the Owners and any Fiduciary may only be modified or amended from time to time and at any time by filing with each Fiduciary a Supplemental Bond Ordinance adopted by the City with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Bond Ordinance is only applicable to a Series of Bonds, the Bonds of that Series) then Outstanding; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding.

(2) No such modification or amendment shall (A) extend the fixed maturity of any Bond, or reduce the amount of Bond Obligation thereof, or extend the time of payment or reduce the amount of any Sinking Fund Installment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, (B) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such

modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under the Bond Ordinance prior to or on a parity with the lien created by the Bond Ordinance, or deprive the Owners of the Bonds of the lien created by the Bond Ordinance on such Net Revenues and other assets (in each case, except as expressly provided in the Bond Ordinance), without the consent of the Owners of all of the Bonds then Outstanding, or (C) modify any rights or duties of any Fiduciary without its consent.

(3) It shall not be necessary for the consent of the Owners to approve the particular form of any Supplemental Bond Ordinance, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the adoption by the City of any Supplemental Bond Ordinance pursuant to this subsection (a), the Registrar shall mail a notice provided by the Bond Ordinance, setting forth in general terms the substance of such Supplemental Bond Ordinance to the Owners of the Bonds at the addresses shown on the registration books of the Registrar. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Bond Ordinance.

(4) If within one year from the date of the mailing by the Registrar of written notice to the Owners of the Bonds, the City shall receive an instrument or instruments executed by the Owners of at least a majority in aggregate amount of the Bond Obligation consenting to and approving such amendment in substantially the form of the copy thereof on file with each Registrar, as the case may be, for the Bonds, the governing body of the City may pass the supplemental Bond Ordinance in substantially the same form.

(5) Any consent given by the Owner of a Bond pursuant to the provisions of the Bond Ordinance shall be irrevocable for a period of six months from the date for measuring the one year period to obtain consents noted in paragraph (4) above, and shall be conclusive and binding upon all future owners of the same Bond during such period. At any time after six months from the date for measuring the one year period to obtain consents noted in paragraph (4) above, such consent may be revoked by the Owner who gave such consent, or by a successor in title, by filing written notice thereof with the Registrar, as the case may be, for such Bond and the City, but such revocation shall not be effective if the Owners of at least a majority in aggregate amount of the then Outstanding Bond Obligation as determined in accordance with this Section have, prior to the attempted revocation, consented to and approved the amendment.

(b) The Bond Ordinance and the rights and obligations of the City, of each Fiduciary and of the Owners may also be modified or amended from time to time at any time by a Series Bond Ordinance or a Supplemental Bond Ordinance, which the City may adopt without the consent of any Owners but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in the Bond Ordinance thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Bond Ordinance to or conferred upon the City, in each case which shall not materially and adversely affect the interests of the Owners in the determination of the City;

(2) 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 Bond Ordinance, or in regard to matters or questions arising under the Bond Ordinance, as the City may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Owners in the determination of the City;

(3) to modify, amend or supplement the Bond Ordinance in such manner as to permit the qualification of the Bond Ordinance 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 which shall not materially and adversely affect the interests of the Owners;

(4) to provide for the issuance of a Series of Bonds in a Series Bond Ordinance with such interest rate, payment, maturity and other terms as the City may deem desirable subject to the provisions of the Bond Ordinance;

(5) if the City has covenanted in a Series Bond Ordinance to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(6) to modify any of the provisions of the Bond Ordinance in any other respect whatsoever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of each Series Outstanding at the date of the adoption of such Series or Supplemental Bond Ordinance shall cease to be Outstanding, and (ii) such Series or Supplemental Bond Ordinance shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Series Bond Ordinance and of Bonds issued in exchange therefor or in place thereof;

(7) to authorize Subordinated Indebtedness and, in connection therewith, specify and determine any matters and things relative to such Subordinated Indebtedness which are not contrary to or inconsistent with the Bond Ordinance as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Subordinated Indebtedness;

(8) to authorize the establishment such funds or accounts as the City may determine to be necessary, desirable, advisable or in the best interests of the City, and, in connection therewith, to specify and determine the matters and things referred to the Bond Ordinance or to modify any such matters and things in any other respect whatsoever; or

(9) for any other purpose which, in the determination of the City, does not materially and adversely affect the interests of the Owners of any of the Bonds.

In making any determination that any modification or amendment does not materially and adversely affect the interest of the Owners, the City may rely on an opinion of counsel which may be counsel to the City or bond counsel.

Defeasance.

Except as may be provided in any Series Bond Ordinance creating a Series of Bonds, Bonds of any Series may be paid by the City in any of the following ways:

(a) by paying or causing to be paid the Bond Obligation of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable;

(b) by depositing with the Paying Agent, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Bond Ordinance) to pay or redeem all Bonds Outstanding of the Series; or

(c) by delivering to the Paying Agent, for cancellation by it, all Bonds then Outstanding of the Series.

Upon the deposit with the Paying Agent, an escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Bond Ordinance) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, irrevocable notice of such redemption shall have been given as provided in Article IV or provision satisfactory to the Registrar and Paying Agent shall have been made for the giving of such notice, then all liability of the City in respect of such Bond shall cease, terminate and be completely discharged; provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and the City shall remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to the provisions of the Bond Ordinance and the continuing duties of the Paying Agent and Registrar.

Whenever in the Bond Ordinance it is provided or permitted that there be deposited with or held in trust by the Paying Agent, an escrow agent or other fiduciary, money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Paying Agent in the funds and accounts established pursuant to the Bond Ordinance and shall be one or more of the following:

(i) lawful money of the United States of America in an amount equal to the Bond Obligation of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV or provision satisfactory to each Fiduciary shall have been made for the giving of such notice, the amount to be deposited or held shall be the Bond Obligation or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(ii) Federal Securities or Municipal Obligations which are non-callable by the issuer, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Paying Agent for which payment is being made (upon which opinion the Paying Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such Bond Obligation or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV of the Bond Ordinance or provision satisfactory to the shall have been made for the giving of such notice;

provided, in each case, that the Paying Agent shall have been irrevocably instructed (by the terms of the Bond Ordinance or by Request of the City) to apply such money to the payment of such Bond Obligation or Redemption Price and interest with respect to such Bonds.

Events of Default; Remedies.

Events of Default. Each of the following events shall be an "Event of Default:"

(a) Default by the City in the due and punctual payment of the principal, Accreted Value or Appreciated Value of, or premium, if any, on any Bond (whether at maturity, by acceleration, call for redemption or otherwise);

(b) Default by the City in the due and punctual payment of the interest on any Bond and such default shall continue for a period of thirty (30) days after the due date for the payment of such interest;

(c) Failure of the City to observe and perform any of its other covenants, conditions or agreements under the Bond Ordinance or in the Bonds for a period of 90 days after written notice from the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then outstanding, specifying such failure and

requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of the City to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;

(d) (1) Failure of the City generally to pay its debts as the same become due, (2) commencement by the City of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by the City to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for the City, the System or any substantial part of the City's property, or to the taking possession by any such official of the System or any substantial part of the City's property, (4) making by the City of any assignment for the benefit of creditors, or (5) taking of corporate action by the City in furtherance of any of the foregoing;

(e) The entry of any (1) decree or order for relief by a court having jurisdiction over the City or its property in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the City, the System or any substantial part of the City's property, or (3) order for the termination or liquidation of the City, the System or the affairs of any of them; or

(f) Failure of the City within 90 days after the commencement of any proceedings against it under the Federal bankruptcy laws prior any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed.

The provisions of subsection (c) above are subject to the limitation that if by reason of force majeure the City is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Bond Ordinance, the City shall not be deemed in default during the continuance of such disability. The term "force majeure" as used in the Bond Ordinance shall include without limitation acts of God, strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of the State or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the City. The City shall, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the City, and the City shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties.

Enforcement of Remedies. Upon the happening and continuance of any Event of Default, then and in every such case the Owners of not less than twenty-five percent (25%) of the Bond Obligation may appoint any state bank, national bank, trust company or national banking association qualified to transact business in the State of Nebraska to serve as trustee for the benefit of the Owners of all Bonds then outstanding (the "Receiver"). Notice of such appointment, together with evidence of the requisite signatures of the Owners of twenty-five percent (25%) of the Bond Obligation and the trust instrument under which the Receiver shall have agreed to serve shall be filed with the City with a copy to the Receiver and notice of such appointment shall be mailed to the Owners of the Bonds. After the appointment of a Receiver under the Bond Ordinance, no further Receivers may be appointed; however, the Owners of a majority of the Bond Obligation may remove the Receiver initially appointed and appoint a successor and subsequent successors at any time. If the default for which the Receiver was appointed is cured or waived pursuant to the Bond Ordinance, the appointment of the Receiver shall terminate with respect to such default.

After a Receiver has been appointed pursuant to the foregoing, the Receiver may proceed, and upon the written request of Owners of twenty-five percent (25%) of the Bond Obligation shall proceed, to protect and enforce the rights of the Owners under the laws of the State of Nebraska, including the Act, and under the Bond Ordinance, by such suits, actions or special proceedings in equity or at law, or by regulatory or administrative proceedings in the office of any board, body or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the Bond Ordinance or in aid of execution of any power granted in the Bond Ordinance or for the enforcement of any proper legal or equitable remedy, all as the Receiver, being advised by counsel, shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy against the City, under the Bond Ordinance the Receiver shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due from the or the City, for principal, interest or other sums due under any provisions of the Bond Ordinance or of such Bonds and unpaid, with interest on overdue payments of principal and, if permitted by law, at the rate or rates of interest specified in such Bonds, together with any and all reasonable costs and expenses of collection and of all proceedings under the Bond Ordinance and under such Bonds without prejudice to any other right or remedy of the Receiver or of the Owners, and to recover and enforce any judgment or decree against the City, but solely as provided in the Bond Ordinance and in such Bonds, for any portion of such amounts remaining unpaid and interest, costs and expenses as above provided, and to collect (but solely from moneys in the Water Revenue Fund and any other moneys available for such purpose) in any manner provided by law, the moneys adjudged or decreed to be payable.

Effect of Discontinuing Proceedings. In case any proceeding taken by the Receiver or any Owner on account of any default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Receiver or such Owner, then and in every such case the City and the Owners shall be restored to their former positions and rights under the Bond Ordinance, respectively, and all rights, remedies and powers of the Receiver shall continue as though no such proceeding had been taken.

Directions to Receiver as to Remedial Proceedings. Anything in the Bond Ordinance to the contrary notwithstanding, the Owners of a majority of the Bond Obligation shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Receiver, to direct the method and place of conducting all remedial proceedings to be taken by the Receiver under the Bond Ordinance, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Bond Ordinance, and that the Receiver shall have the right to decline to follow any such direction which in the opinion of the Receiver would be unjustly prejudicial to Owners not parties to such direction.

Pro Rata Application of Funds. (a) Anything in the Bond Ordinance to the contrary notwithstanding, if at any time the moneys in the Water Revenue Fund, shall not be sufficient to pay the principal Accreted Value, Appreciated Value or Redemption Price of or the interest on the Bonds as the same become due and payable, such moneys, together with any moneys then available or thereafter becoming available for such purpose, whether through the exercise of the remedies provided for in the Bond Ordinance or otherwise, shall be applied as follows:

(i) Unless the principal of all the Bonds shall have become due and payable, all such moneys shall be applied (A) to the payment of all installments of interest then due on the Bonds then due, in the order of the maturity of the installments of such interest, to the persons entitled thereto, ratable, without any discrimination or preference, and (B) to the payment of all installments of principal of Bonds then due.

(ii) If the principal of all the Bonds shall have become due and payable, all such moneys shall be applied to the payment of the principal Accreted Value, Appreciated Value or Redemption Price or interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of

any Bonds over any other Bonds, ratable, according to the amounts due, respectively, for principal or interest to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(b) Whenever moneys are to be applied by the Receiver pursuant to the provisions stated above, such moneys shall be applied by the Receiver at such times, and from time to time, as the Receiver in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future; the setting aside of such moneys, in trust for the proper purpose, shall constitute proper application by the Receiver; and the Receiver shall incur no liability whatsoever to the City, to any Owner or to any other person for any delay in applying any such moneys, so long as the Receiver acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Bond Ordinance as may be applicable at the time of application by the Receiver. Whenever the receiver shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an interest payment date unless the Receiver shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue, the Accreted Value of Capital Appreciation Bonds shall cease to accrete and the Appreciated Value of any Deferred Income Bond. The Receiver shall give such notice as it may deem appropriate of the fixing of any such date, and shall not be required to make payment to the Owner of any Bond unless such Bond shall be presented to the Receiver for appropriate endorsement or for cancellation if fully paid.

Restrictions on Actions by Individual Owners. No Owner shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Bond Ordinance or for any other remedy thereunder unless such Owner previously shall have given to the Receiver written notice of the event of default on account of which such suit, action or proceeding is to be taken, and unless the Owner of not less than twenty-five percent (25%) of the Bond Obligation shall have made written request of the Receiver after the right to exercise such powers or right of action, as the case may be, shall have accrued and shall have afforded the Receiver a reasonable opportunity either to proceed to exercise the powers granted in the Bond Ordinance or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Receiver reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, including the reasonable fees of its attorneys (including fees on appeal), and the Receiver shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Receiver, to be conditions precedent to the execution of the powers and trusts of the Bond Ordinance or for any other remedy under the Bond Ordinance. It is understood and intended that no one or more Owners of the Bonds secured by the Bond Ordinance shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Bond Ordinance, or to enforce any right thereunder, except in the manner provided in the Bond Ordinance, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all Owners, and that any individual rights of action or any other right given to one or more of such Owners by law are restricted by the Bond Ordinance to the rights and remedies provided in the Bond Ordinance.

Nothing contained herein, however, shall affect or impair the right of any Owner individually, to enforce the payment of the principal of and interest on his Bond or Bonds at and after the maturity thereof, at the time, place, from the source and in the manner provided in the Bond Ordinance.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

FORM OF OPINION OF BOND COUNSEL

December 1, 2004

Mayor and City Council
Lincoln, Nebraska

J.P. Morgan Securities, Inc.
New York, New York

Re: \$40,000,000 City of Lincoln, Nebraska Water Revenue Bonds, Series 2004

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Lincoln, Nebraska (the "City"), of the above-captioned bonds (the "Bonds"), pursuant to Ordinance No. 18088 duly adopted by the Council of the City on November 18, 2002 and approved by the Mayor of the City on November 19, 2004, as amended and supplemented from time to time including, but not limited to Ordinance No. 18464 adopted by the City on November 1, 2004 and approved by the Mayor on November 4, 2004 (collectively the "Bond Ordinance"). Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Bond Ordinance.

We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion. As to questions of fact material to our opinion we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

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

1. The Bonds have been duly authorized, executed and delivered by the City and are valid and legally binding special obligations of the City, payable solely from the net income and revenues derived by the City from the operation of the City water system, after providing for the costs of operation and maintenance thereof and on parity with any Additional Bonds issued or to be issued as provided in the Bond Ordinance. The Bonds do not constitute general obligations of the City nor do they constitute an indebtedness of the City within the meaning of any constitutional or statutory provision, limitation or restriction, and the taxing power of the City is not pledged to the payment of the Bonds.

2. The Bond Ordinance has been duly adopted by the City and constitutes a valid and legally binding obligation of the City enforceable against the City.

3. The interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal and Nebraska income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal and Nebraska income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal and Nebraska income tax purposes retroactive to the date of issuance of the Bonds. The Bonds have not been designated as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Code. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement) and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

The rights of the owners of the Bonds and the enforceability of the Bonds and the Bond Ordinance 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,

APPENDIX E

CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

This **CONTINUING DISCLOSURE CERTIFICATE**, dated December 1, 2004 (the "**Disclosure Certificate**"), is executed and delivered by the City of Lincoln, Nebraska (the "**City**")

RECITALS

1. This Disclosure Certificate is executed and delivered by the City in connection with the issuance of \$40,000,000 aggregate principal amount of its Water Revenue Bonds, Series 2004, dated the date of delivery thereof (the "**Bonds**"). The Bonds are being issued pursuant to Ordinance No. 18088 duly adopted by the Council of the City on November 18, 2002 and approved by the Mayor of the City on November 19, 2002 and Ordinance No. 18464 duly adopted by the Council of the City on November 1, 2004 and approved by the Mayor of the City on November 4, 2004 (collectively, the "**Bond Ordinance**").

2. The City is executing this Disclosure Certificate for the benefit of the Beneficial Owners (as defined below) of the Bonds and in order to assist the Participating Underwriter (as defined below) in complying with Rule 15c2-12 of the Securities and Exchange Commission (the "**Rule**"). The City is the only "obligated person" with responsibility for continuing disclosure under the Rule.

The City covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Bond Ordinance, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings:

"**Annual Report**" shall mean any annual report provided by the City pursuant to, and as described in, **Sections 2 and 3** of this Disclosure Certificate.

"**Beneficial Owner**" shall mean any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"**Central Post Office**" means DisclosureUSA, any successor thereto, or any other conduit entity recognized, authorized or approved by the Securities and Exchange Commission for the submission of Annual Reports and Material Events notices to the Repositories. The Central Post Office currently approved by the Securities and Exchange Commission is set forth on **Exhibit A**.

"**Material Events**" shall mean any of the events listed in **Section 4(a)** of this Disclosure Certificate.

"**National Repository**" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in **Exhibit A**.

"**Participating Underwriter**" shall mean the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"**Repository**" shall mean each National Repository and each State Repository.

“**Rule**” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“**State**” shall mean the State of Nebraska.

“**State Repository**” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

Section 2. Provision of Annual Reports.

(a) The City shall, not later than May 1 of each year, commencing May 1, 2005, provide to each Repository an Annual Report that is consistent with the requirements of **Section 3** of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a single package, and may include by reference other information as provided in **Section 3** of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Material Event under **Section 4(c)**.

(b) If the City is unable to verify that the Annual Report has been provided to each Repository by the date required in **subsection (a)**, the City shall send a notice to each Repository in substantially the form attached as **Exhibit B**.

(c) The City shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each Repository, and

(ii) file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing each Repository to which it was provided.

Section 3. Content of Annual Reports. The City’s Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the City for the prior fiscal year, 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. If the City’s audited financial statements are not available at the time the Annual Report is required to be filed pursuant to **Section 2(a)**, the Annual Report shall contain unaudited financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they shall become available.

(b) Such financial and operating data as the City customarily provides in its Comprehensive Annual Financial Report.

Section 4. Reporting of Significant Events.

(a) Pursuant to the provisions of this **Section 4**, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) modifications to rights of bondholders;
- (iv) optional, contingent or unscheduled certificate calls;
- (v) defeasances;
- (vi) rating changes;
- (vii) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
- (viii) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (ix) unscheduled draws on credit enhancements reflecting financial difficulties;
- (x) substitution of credit or liquidity providers, or their failure to perform;
- (xi) release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Material Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Material Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the Repository. Notwithstanding the foregoing, notice of Material Events described in **subsections (a)(iv) and (v)** of this **Section 4** need not be given under this subsection any earlier than notice (if any) of the underlying event is given to Beneficial Owners of affected Bonds pursuant to the Ordinance.

Section 5. Central Post Office. The City agrees to use the Central Post Office for the submission of Annual Reports and Material Events notices for so long as there is any Central Post Office recognized, authorized or approved by the Securities and Exchange Commission. Submission of an Annual Report or a Material Events notice by the City to the Central Post Office shall be deemed to satisfy the City's obligations under this Disclosure Certificate with respect to that Annual Report or Material Events Notice.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Material Event under **Section 4(c)**.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of **Sections 2(a), 3 or 4**, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the response to any future request for information, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Material Event described in **Section 4** above, and (ii) the audited financial statements for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in request for information or notice of occurrence of a Material Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any request for information or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future request for information or notice of occurrence of a Material Event.

Section 9. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Participating Underwriters and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 11. Counterparts. This Disclosure Certificate 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.

DATED: _____, 2004

CITY OF LINCOLN, NEBRASKA

By: _____
Don Herz, Finance Director

EXHIBIT A

Nationally Recognized Municipal Securities Information Repositories

Bloomberg Municipal Repository
Bloomberg Business Park
100 Business Park Drive
Skillman, New Jersey 08558-3629
Phone: (609) 279-3225
Fax: (609) 279-5962(3) or (800) 395-9403
E-Mail: [Munis@Bloomberg.com](mailto:munis@Bloomberg.com)

Standard & Poor's Securities Evaluations, Inc.
Repository Service
55 Water Street, 45th Floor
New York, New York 10041-0003
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

FT Interactive Data
Attn: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Phone: (212) 771-6999 or (800) 689-8466
Fax: (212) 771-7390 (Secondary Market
Information)
Fax: (212) 771-7391 (Primary Market
Information)
E-Mail: NRMSIR@ftid.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-Mail: nrmsir@dpcdata.com

Any notices to or filings with the National Repositories and the State Repository, if any, may be effected by sending the notice or filing to Disclosure USA, in accordance with its published procedures, for further submission by Disclosure USA to the Repositories, as follows:

For electronic submissions:

www.DisclosureUSA.org

For paper submissions
(permitted only through December 31, 2007):

Mailing Address:

Disclosure USA
P.O. Box 684667
Austin, Texas 78768-4667

Physical Address:

Disclosure USA
600 West 8th Street
Austin, Texas 78701

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: **City of Lincoln, Nebraska**
Name of Issue: **Water Revenue Bonds, Series 2004**
Date of Issuance: **December 1, 2004**

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by **Section 2** of the Continuing Disclosure Certificate dated December 1, 2004. The City anticipates that the Annual Report will be filed by _____, 200__.

DATED: _____

CITY OF LINCOLN, NEBRASKA

APPENDIX F

BOOK-ENTRY-ONLY SYSTEM

BOOK ENTRY ONLY SYSTEM

Generally

The Depository Trust Company, New York, New York (“**DTC**”) will act as securities depository for the Series 2004 Bonds. Initially, ownership of one fully registered Series 2004 Bond for each maturity of the Series 2004 Bonds, as set forth on the inside front cover hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. Ownership interests in the Series 2004 Bonds will be available to purchasers only through a book-entry system (the “**Book-Entry System**”) maintained by DTC. The following discussion will not apply to Series 2004 Bonds if issued in certificate form. See the caption “**Discontinuance of Book-Entry-Only System**” herein.

DTC and Its Participants

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

Purchase of Ownership Interests

Beneficial purchases of Series 2004 Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit with respect to the Series 2004 Bonds in the records of DTC. The ownership interest of each actual purchaser of each Series 2004 Bond (the “**Beneficial Owner**”) will be recorded in the records of the DTC Participant through which the purchase was made. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive a written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the DTC Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2004 Bonds are to be accomplished by entries made on the books of DTC Participants, acting on behalf of the Beneficial Owners. Beneficial Owners will not receive

certificates representing their ownership interest in the Series 2004 Bonds, except in the event the use of the book-entry system for the Series 2004 Bonds is discontinued as provided in the Bond Ordinance.

Each Beneficial Owner for whom a DTC Participant has an interest in the Series 2004 Bonds, as nominee, may desire to make arrangements with such DTC Participant to receive a credit balance in the records of such DTC Participant and may desire to make arrangements with such DTC Participant to have all notices of redemption and other communications with respect to the Series 2004 Bonds affecting such Beneficial Owner forwarded in writing by such DTC Participant and to be notified of all interest payments. THE CITY WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (B) THE PAYMENT BY ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT, REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2004 BONDS; (C) THE DELIVERY BY ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO SERIES 2004 BONDHOLDERS; (D) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2004 BONDS; OR (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS CERTIFICATE HOLDER.

Payments of Principal, Premium, if any, and Interest

So long as any Series 2004 Bond is registered in the name of DTC's nominee, all payments of principal of, redemption premium, if any, and interest on, the Series 2004 Bonds will be made to DTC. DTC's practice is to credit DTC Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Registrar, on the payable date in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC or the City, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of the principal of, redemption premium, if any, and interest on the Series 2004 Bonds to DTC is the responsibility of the City, disbursement of such payments to DTC Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of DTC Participants.

Notices

Any references in this Official Statement to notices or other communications to be provided to bondholders by the City will be given only to DTC. Conveyance of notices and other communications by DTC to DTC Participants, and DTC Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. The City will have no responsibility or obligation to assure that any such notice is forwarded by DTC to DTC Participants or by any DTC Participant to the Beneficial Owner of Series 2004 Bonds.

Redemption notices shall be sent to DTC. If less than all of the Series 2004 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant in the Series 2004 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2004 Bonds unless authorized by a DTC Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy to the City as soon as possible after each applicable record date.

The omnibus proxy will assign Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Series 2004 Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Transfers and Exchanges of Beneficial Ownership Interests

Transfers of beneficial ownership interests in the Series 2004 Bonds will be accomplished by book entries made by DTC and the DTC Participants who act on behalf of the Beneficial Owners. For every transfer and exchange of the Series 2004 Bonds, the Registrar, DTC and the DTC Participants may charge the Beneficial Owner a sum sufficient to cover any tax, fee or other governmental charge required to be paid with respect thereto and may charge a sum sufficient to pay the cost of preparing and authenticating each new Series 2004 Bond.

To facilitate subsequent transfers, all Series 2004 Bonds deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2004 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2004 Bonds; DTC's record reflect only the identity of the DTC Participants to whose accounts the Series 2004 Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Transfers of Series 2004 Bonds

Registered ownership of the Series 2004 Bonds, or any portions thereof, may not be transferred on the books of the Registrar except:

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

The City shall be entitled to treat the registered owner of the Series 2004 Bonds (initially, Cede & Co.) as the absolute owner thereof for all purposes of the Bond Ordinance and any applicable laws, notwithstanding any notice to the contrary received by any of them. The City will have no responsibility for transmitting payments to, communicating with, notifying or otherwise dealing with any Beneficial Owners of the Series 2004 Bonds. The City will have no responsibility or obligation, legal or otherwise, to the Beneficial Owners or to any other party including DTC or its successor (or substitute depository or successor), except to the owners of any Series 2004 Bond as shown on the registration books of the Registrar. So long as all Series 2004 Bonds are registered in the name of Cede & Co., the City is to cooperate with DTC or its nominee in effecting payment of the principal of, redemption premium, if any, and interest on, the Series 2004 Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made to DTC when due.

The Registrar shall not be required to transfer or exchange any Series 2004 Bonds from any applicable record date through and including the next succeeding interest or principal payment date for the Series 2004 Bonds,

or from the record date next preceding any selection of Series 2004 Bonds to be redeemed or thereafter, until after the first mailing of any notice of redemption; or to transfer or exchange any Series 2004 Bonds called for redemption.

Discontinuance of Book-Entry-Only System

DTC's services with respect to the Series 2004 Bonds may be discontinued or terminated at any time under the following circumstances:

(a) DTC may determine to discontinue providing its services with respect to the Series 2004 Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law.

(b) The City, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Series 2004 Bonds if the City determines that DTC is unable to discharge its responsibilities with respect to the Series 2004 Bonds or that a continuation of the requirement that all of the outstanding Series 2004 Bonds be registered in the registration books kept by the Registrar in the name of Cede & Co., or any other nominee of DTC, is not in the best interests of the Beneficial Owners of the Series 2004 Bonds.

In the event that DTC's services are so discontinued or terminated because it is unwilling or is determined to be unable to discharge its responsibilities, and no substitute securities depository willing to undertake the functions of DTC under the Bond Ordinance can be found which, in the opinion of the City, is willing and able to undertake such functions upon reasonable and customary terms, or in the event it is so determined that continuation of the system of book-entry transfers is not in the best interests of the Beneficial Owners, the City is obligated to deliver certificates for the Series 2004 Bonds, at the expense of the Beneficial Owners, as described in the Bond Ordinance.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement, it should be understood that while the Series 2004 Bonds are in book entry format, references in other sections of this Official Statement to owners should be read to include the person for whom the DTC Participant acquires an interest in the Series 2004 Bonds, but (a) all rights of ownership must be exercised through DTC and the book entry system and (b) notices that are to be given to owners by the City will be given only to DTC.

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

APPENDIX G

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations. Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

SPECIMEN

Attest: _____
Assistant Secretary

STD-R-6
4/95