

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.

REFUNDING ISSUE –FULL BOOK ENTRY
NOT BANK QUALIFIED

RATING: Moody's: "Aaa"
See "RATING" 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 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 Bonds have not been designated by the City as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code. See the caption "TAX MATTERS" herein.

OFFICIAL STATEMENT
\$6,555,000
CITY OF LINCOLN, NEBRASKA
GENERAL OBLIGATION STORM SEWER REFUNDING BONDS
SERIES 2005

Dated: date of delivery

Due: December 1, as shown below

The 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 Bonds. Purchases of the Bonds will be originally made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC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 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 Bonds. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of, redemption premium, if any, and interest on the Bonds will be made directly to DTC. Interest is payable on June 1 and December 1 of each year, beginning December 1, 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 the DTC participants. Union Bank & Trust Company is bond registrar and paying agent for the Bonds (the "Registrar"). For terms relating to principal and interest payments made to DTC or its nominee or in the event that the use of book-entry form is discontinued, see "THE BONDS - Book-Entry System" herein.

The Bonds are being issued to provide for the payment and redemption of \$6,390,000 outstanding aggregate principal amount of the City's General Obligation Storm Sewer and Drainage System Improvement Bonds, Series 1997, dated August 15, 1997, and to pay the costs of issuing the Bonds. See the caption "PURPOSE OF ISSUE AND PLAN OF REFUNDING" herein. The Bonds are payable from ad valorem taxes, unlimited as to rate and amount, levied by the City of Lincoln, Nebraska (the "City") against all taxable property in the City.

The full faith and credit of the City is pledged to the prompt payment of the principal of, redemption premium, if any, and interest on the Bonds. See the captions "SECURITY" and "NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION" herein.

The Bonds maturing on or after December 1, 2011 are subject to optional redemption prior to maturity at any time on or after June 1, 2011 as set forth herein. See "THE BONDS - Optional Redemption" herein.

MATURITY SCHEDULE

| <u>Maturity (December 1)</u> | <u>Principal Amount</u> | <u>Rate of Interest</u> | <u>Yield</u> | <u>Price</u> |
|----------------------------------|-----------------------------|-----------------------------|--------------|--------------|
| 2005 | \$375,000 | 2.500% | 2.50% | 100.000% |
| 2006 | 430,000 | 2.750 | 2.75 | 100.000 |
| 2007 | 440,000 | 2.850 | 2.85 | 100.000 |
| 2008 | 455,000 | 2.950 | 2.95 | 100.000 |
| 2009 | 470,000 | 3.050 | 3.05 | 100.000 |
| 2010 | 485,000 | 3.100 | 3.15 | 99.749 |
| 2011 | 500,000 | 3.250 | 3.32 | 99.593 |
| 2012 | 520,000 | 4.250 | 3.47* | 104.192 |
| 2013 | 540,000 | 4.250 | 3.60* | 103.479 |
| 2014 | 560,000 | 3.600 | 3.67 | 99.442 |
| 2015 | 585,000 | 3.700 | 3.78 | 99.311 |
| 2016 | 610,000 | 3.800 | 3.86 | 99.447 |
| 2017 | 630,000 | 4.375 | 3.90* | 102.519 |

*Yield to date of optional redemption.

AMERITAS INVESTMENT CORP.

The Bonds are offered when, as, and if issued, subject to the approval of legality by Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel. It is expected that the Bonds will be available for delivery through DTC on or about June 1, 2005.

The date of this Official Statement is May 4, 2005

**CITY OF LINCOLN, NEBRASKA
CITY OFFICIALS**

Coleen J. Seng, Mayor

City Council Members

Terry Werner (Chair)

Ken Svoboda (Vice Chair)

Jon Camp

Jonathan Cook

Glenn Friendt

Annette McRoy

Patte Newman

City Department Heads

Donald Herz Finance Director
Marvin Krout Planning Director
Lynn Johnson Parks and Recreation Director
Terry Bundy LES Administrator and CEO
Marc Wullschleger Urban Development Director
Carol Connor Library Director
Anne Harrell Acting Public Works and Utilities Director
Bruce Dart Health Director
Don Taute Personnel Director
Dana W. Roper City Attorney
Thomas Casady Police Chief
Mike Spadt Fire Chief
Mike Merwick Building and Safety Director

Peggy Watchorn, City Controller

Underwriter

Ameritas Investment Corp.
Lincoln, Nebraska

Bond Counsel

Gilmore & Bell, P.C.
Lincoln, Nebraska

Paying Agent And Registrar

Union Bank & Trust Company
Lincoln, Nebraska

Independent Auditors

BKD, LLP
Lincoln, Nebraska

No broker, dealer, salesman or other person has been authorized by the City or the Underwriter 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 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 Underwriter. 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.

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THIS OFFICIAL STATEMENT IS NOT, AND MAY NOT BE CONSTRUED AS, A CONTRACT WITH THE PURCHASERS OF THE BONDS. STATEMENTS CONTAINED IN THE OFFICIAL STATEMENT WHICH 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 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. IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET, AND SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT.

OFFICIAL STATEMENT

\$6,555,000

CITY OF LINCOLN, NEBRASKA GENERAL OBLIGATION STORM SEWER REFUNDING BONDS, SERIES 2005

INTRODUCTION

This Official Statement, including the preceding pages and appendices hereto, is furnished by the City of Lincoln, Nebraska (the “**City**”), a home rule city of the primary class and political subdivision of the State of Nebraska (the “**State**”), in connection with the offering of \$6,555,000 of its General Obligation Storm Sewer Refunding Bonds, Series 2005 (the “**Bonds**”), authorized for issuance by Sections 10-142 and 15-244, Reissue Revised Statutes of Nebraska, as amended, Article IX, Sections 39 to 43, inclusive, of the Home Rule Charter of the City, and Ordinance No. 18508 duly passed by the Council of the City on March 7, 2005 and approved by the Mayor of the City on March 9, 2005 (the “**Bond Ordinance**”). The proceeds of the Bonds, together with other legally available money of the City, will be used to provide for the payment and redemption of \$6,390,000 in aggregate principal amount of the City’s General Obligation Storm Sewer and Drainage System Improvement Bonds, Series 1997, dated August 15, 1997 (the “**1997 Bonds**”) and to pay the costs of issuing the Bonds. See the caption “**PURPOSE OF ISSUE AND PLAN OF REFUNDING.**” Union Bank & Trust Company is bond registrar and paying agent for the Bonds (the “**Registrar**”).

Descriptions of and references to the Bonds, the Bond Ordinance, related transaction documents and other matters do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the complete texts thereof. Copies of such documents are available for inspection at the office of Ameritas Investment Corp., Lincoln, Nebraska, as underwriter of the Bonds (the “**Underwriter**”).

SECURITY

The full faith and credit of the City has been pledged to the payment of the principal or redemption price of and interest on the Bonds. The City has the power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property subject to taxation by the City sufficient to pay the principal or redemption price of and interest on the Bonds, which taxes shall be in excess of and in addition to all other taxes now or hereafter authorized to be levied by the City. See the caption “**NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION.**”

Among other factors affecting an investment in the Bonds, potential investors should be aware that the United States Bankruptcy Code enables debtors (including municipalities such as the City) that are insolvent to obtain relief through a petition and plan that may result in the modification or delay of payments to creditors, including registered owners of the Bonds. In the event the City becomes insolvent, the registered owners of the Bonds would be treated as general creditors of the City along with all other unsecured claimants. The extent to which the exception from limitations upon overall tax rates provided for in existing legislation might entitle registered owners of the Bonds to be treated as a separate class or otherwise given priority over other unsecured claimants is a matter that would be subject to future

determinations of state and federal courts interpreting and applying both state law and the provisions of the United States Bankruptcy Code. Procedures under the United States Bankruptcy Code or other insolvency laws could result in delays in payment and modifications of payment rights. The State of Nebraska has authorized its political subdivisions to seek relief under the United States Bankruptcy Code.

NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION

The Nebraska Legislature has enacted legislation intended to reduce the level of expenditures and property taxes by political subdivisions in the State. Sections 13-518 to 13-522, inclusive, Reissue Revised Statutes of Nebraska, as amended, and related sections (collectively, the “**Budget Limitations**”), limit the increase of certain restricted funds that may be budgeted by governmental units such as the City. Such restricted funds include property taxes, sales taxes and other funding sources comprising approximately 75% of funding sources used to fund the City’s tax supported budget, but exclude restricted funds pledged to retire bonded indebtedness. The Budget Limitations currently provide for a base limitation of 2.5% upon increases plus the percentage increase in the property tax provided by new construction, improvements to existing property, annexations and new personal property added to the property tax base. The base limitation is subject to review by the Nebraska Legislature from year to year and may be exceeded by an additional 1% upon an affirmative vote of at least 75% of the governing body. The Budget Limitations are enforced through the office of the Auditor of Public Accounts of the State of Nebraska and state aid may be withheld from governmental units that fail to comply. The Budget Limitations do not apply to the revenues of proprietary funds except to the extent such revenues are used for general fund purposes.

The City’s tax base growth has exceeded the base limitation of 2.5% each year the Budget Limitations have been in effect. For the 2004-2005 fiscal year, the City was permitted to increase its appropriation of restricted funds under the Budget Limitations by 3.4%. Unused restricted fund authority from prior years can be carried over into future fiscal years to use in addition to the annual increases allowed. At August 31, 2004, the City had accumulated \$11,967,677 of unused restricted funds authority which would be available for future fiscal years.

The Legislature has also enacted Section 77-3442, Reissue Revised Statutes of Nebraska, as amended, and related sections (collectively, the “**Levy Limitations**”), to provide overall limitations on the property tax levies of political subdivisions, including the City. The Levy Limitations expressly exclude any property taxes levied for bonded indebtedness. The maximum levy for the City is presently set at 45¢ per \$100 of taxable valuation with an additional 5¢ per \$100 of taxable valuation available to provide for the City’s share of revenue required under any agreement executed by the City with another governmental unit pursuant to the Interlocal Cooperation Act or the Joint Public Agency Act. The City’s current levy (excluding its bond levy) is 25.27 cents (\$0.2527) per \$100 of taxable valuation on all the taxable property within the City.

Ad valorem taxes levied to pay the debt service on the Bonds are not subject to either the Budget Limitations or the Levy Limitations. The City is authorized to levy ad valorem taxes without limitation as to rate or amount upon all of the taxable property in the City sufficient to pay the principal or redemption price of and interest on the Bonds, which taxes may be in excess of and in addition to all other taxes now or hereafter authorized to be levied by the City. The authority of the City to levy such taxes with respect to the Bonds is not subject to any charter, statutory or constitutional limitations.

Future legislation, decisions of the Nebraska Supreme Court, or initiative petitions proposed and passed by qualified voters in the State of Nebraska may alter the Budget Limitations and the Levy Limitations, or may otherwise modify the sources of and limitations on the revenues used by governmental units in the State of Nebraska to finance their activities.

PURPOSE OF ISSUE AND PLAN OF REFUNDING

The Bonds are being issued to provide funds, which, together with certain other available funds, will be used to pay the principal of and interest on \$6,390,000 outstanding aggregate principal amount of the 1997 Bonds falling due through and including December 1, 2005 (the "Redemption Date") and to redeem on the Redemption Date all of the then outstanding 1997 Bonds at a redemption price equal to the principal amount thereof and the interest accrued thereon to the Redemption Date, plus a redemption premium equal to 1.00% of the principal amount of 1997 Bonds called for redemption on the Redemption Date. On the date of issuance, the City will deposit Bond proceeds and other available funds with U.S. Bank National Association, as escrow agent (the "**Escrow Agent**") under the Escrow Agreement, dated June 1, 2005 (the "**Escrow Agreement**"), between the City and the Escrow Agent. The funds will be used to purchase direct obligations of, or obligations which are unconditionally guaranteed by, the United States of America ("**Government Securities**") which will be held under the Escrow Agreement. The principal and interest on the Government Securities will be sufficient to pay, when due, the principal of (at maturity or upon redemption), the applicable redemption premium, and interest on the 1997 Bonds. Upon the issuance and sale of the Bonds and the deposit of the net proceeds of the Bonds with the Escrow Agent as provided in the Escrow Agreement, all of the 1997 Bonds will be deemed paid and will no longer be considered outstanding under the ordinance under which they were issued.

ESTIMATED SOURCES AND USES OF FUNDS

SOURCES OF FUNDS:

| | |
|---------------------------------|------------------------------|
| Principal Amount of Bonds | \$6,555,000.00 |
| Plus Net Original Issue Premium | <u>42,634.80</u> |
| TOTAL SOURCES: | <u>\$6,597,634.80</u> |

USES OF FUNDS:

| | |
|----------------------------------------------|------------------------------|
| Deposit to Escrow Fund | \$6,504,878.16 |
| Underwriter's Discount and Costs of Issuance | <u>92,756.64</u> |
| TOTAL USES: | <u>\$6,597,634.80</u> |

THE BONDS

General

The Bonds will be issued in fully registered, book-entry-only form, in denominations of \$5,000 or any integral multiple thereof, will have a date of original issue (the “**Date of Original Issue**”) of the date of delivery thereof, will bear interest from the Date of Original Issue payable semiannually on June 1 and December 1 of each year, commencing December 1, 2005, and will mature on December 1 in the years and the principal amounts, and will bear interest at the rates (calculated on the basis of a 30-day month and a 360 day year) as set forth on the cover page of this Official Statement. Each installment of interest (except the final interest installment) shall be payable by check or draft mailed by the Registrar on the due date thereof (or on the next business day if such due date falls on a Saturday, Sunday or bank holiday applicable to the Registrar) to the registered owner of a Bond as shown on the bond registration records of the City maintained by the Registrar as of the Record Date (as hereinafter defined) therefor. The principal of each Bond, and the final installment of interest thereon, shall be payable only upon the surrender of such Bond to the Registrar. The “**Record Date**” for each installment of interest shall be the fifteenth day (whether a business day or not) of the calendar month next preceding such interest payment date.

Book-Entry System

General. The Depository Trust Company (“**DTC**”), New York, New York, will act as securities depository for the Bonds. The ownership of one fully registered Bond for each maturity, as set forth on the 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 Bonds will be available to purchasers only through a book-entry system maintained by DTC (the “**Book-Entry System**”). A description of DTC, the Book-Entry System and definitions of initially capitalized terms used under this heading are in “**APPENDIX D - BOOK-ENTRY SYSTEM**” to this Official Statement.

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

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

Interchangeability and Transfer

The Bonds, upon surrender thereof to the Registrar with a written instrument of transfer satisfactory to the Registrar duly executed by the registered owner or its duly authorized attorney, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of Bonds in registered form of the same series, rate of interest, maturity and of any authorized denomination.

In all cases in which the privilege of exchanging or transferring the Bonds is exercised, the City shall execute and the Registrar shall deliver the Bonds in accordance with the Bond Ordinance. For every such transfer or exchange of Bonds, the Registrar shall require the payment by the registered owner

requesting such transfer or exchange of any tax or other governmental charges payable with respect thereto, and may charge a sum not exceeding the actual cost for each new Bond.

Neither the City nor the Registrar is required to make any such exchange or registration of transfer of Bonds during the period between a Record Date and the next succeeding interest payment date or, in the case of any proposed redemption of Bonds, after notice of the redemption of such Bonds or any portion thereof shall have been given pursuant to the Bond Ordinance.

The foregoing procedures do not apply to Beneficial Owners, whose transfer and exchange privileges will be governed by the procedures described under the caption "**THE BONDS - Book-Entry System**" herein so long as the Bonds are held in book-entry format.

Optional Redemption

Bonds maturing on or prior to December 1, 2010 are not subject to redemption prior to their stated maturities. Bonds maturing on or after December 1, 2011 are subject to redemption prior to maturity at the option of the City in whole or in part, at any time on or after June 1, 2011 in such principal amounts and from such maturity or maturities as the City shall specify and by lot in integral multiples of \$5,000 within a maturity at a redemption price equal to 100% the principal amount then being redeemed, together with accrued interest on such principal amount to the date fixed for redemption.

Notice of Redemption

At least 30 days before the redemption date of any Bonds or portions thereof to be redeemed, the Registrar shall give notice of any such redemption by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed. Each redemption notice shall state the distinguishing designation of the Bonds, the date of issue of such Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Registrar), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of 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 Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a 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 Bonds be then surrendered at the address or addresses of the Registrar specified in the redemption notice.

Failure to give notice to any particular registered owner or any defect in the notice given to such owner shall not affect the validity of the proceedings calling the Bonds or the redemption of any Bonds for which proper notice has been given. The City shall have the right to direct further notice of redemption for any Bond for which defective notice has been given. Notice of redemption may be waived in writing by the registered owner of any Bond.

RATING

Moody's Investors Service, Inc. ("**Moody's**") has given the Bonds a rating of "Aaa." Such rating reflects only the views of such organizations, and an explanation of the significance of such ratings may be obtained from Moody's Investors Service, 99 Church Street, New York, New York 10007, telephone (212) 553-0300.

The City furnished the rating agency with certain information and materials relating to the Bonds and the City that 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. The City has undertaken no responsibility either to bring to the attention of the registered owners of the Bonds any proposed revision or withdrawal of the rating of the Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the 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 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.

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 Bonds maturing in the years 2010, 2011, 2014, 2015 and 2016 (the “OID Bonds”), to the extent properly allocable to each owner of such a 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 a bond over the initial offering price to the public, excluding underwriters and intermediaries, at which price a substantial amount of such bonds were sold.

Under Sections 1272 and 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of an OID Bond during any accrual period generally equals (i) the issue price of such OID Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of 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 (iii) any qualified stated interest payable on such OID Bond during such accrual period. The amount of original issue discount 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 will be treated as gain from the sale or exchange of such 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 State 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.

Bonds Purchased at a Premium. Bonds maturing in the years 2012, 2013 and 2017 have an initial offering price that exceeds the stated redemption price of the Bond at maturity. The excess of the purchase price of a Bond over its stated redemption price at maturity constitutes premium on such Bond. A purchaser of a Bond must amortize any premium over such Bond's term using constant yield principles, based on 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 Bond are both 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 Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed.

Purchasers of any 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 Bonds.

Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Bonds.

Other Tax Consequences

Prospective purchasers of the Bonds should be aware that there may be tax consequences of purchasing the 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 Bonds, or in the case of a financial institution, that portion of such institution's interest expense allocable to interest on the 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 Bonds;
- (c) interest on the 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 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 Bonds.

Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of 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 Beneficial Owners of the 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 2004-2005 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 City 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 of the City is attached to this Official Statement as “**APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE**.” These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5) (the “**Rule**”).

A failure by the City to comply with the 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 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the 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 Bonds or questioning or affecting the validity of the 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 or other officers of the City to their respective offices is being contested or questioned.

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

LEGAL MATTERS

All legal matters incidental to the authorization, issuance, sale and validity of the Bonds are subject to the approval of Bond Counsel. Such attorneys have not participated in any independent verification of the information concerning the financial condition or capabilities of the City contained in this Official Statement.

INDEPENDENT AUDITORS

The financial statements and schedules of the City for the year ended August 31, 2004, included in “**APPENDIX B – FINANCIAL STATEMENTS**” to this Official Statement, have been audited by BKD LLP, independent auditors, as stated in their report appearing herein.

APPENDIX A

CITY OF LINCOLN

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 2004 population is 238,750.

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 5,891 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 21,792 students, Nebraska Wesleyan University, with approximately 1,500 students, Union College with approximately 937 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 32,270 is served by 6 senior high schools, 11 middle schools, and 36 elementary schools. There are also 32 private and parochial schools in the City with an enrollment of approximately 6,680 students.

Building Permits and Property Values

LAST TEN YEARS

| FISCAL YEAR | COMMERCIAL 1 CONSTRUCTION | | RESIDENTIAL 1 CONSTRUCTION | | PROPERTY VALUE 2 | | TOTALS |
|-------------|---------------------------|----------------|----------------------------|----------------|------------------|------------------|-------------------|
| | # PERMITS | VALUE | # PERMITS | VALUE | COMMERCIAL | RESIDENTIAL | |
| 2004 | 1,061 | \$ 258,670,339 | 3,846 | \$ 321,126,701 | \$ 3,694,097,147 | \$ 9,444,419,079 | \$ 13,138,516,226 |
| 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 | 206,063,342 | 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 |

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 2004-2005 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 LPU, CEA and NAGE contracts expire at the end of August, 2005; the ATU contract expires at the end of August, 2006; and the IAF contract expires at the end of August, 2008.

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, and Square D.

SELECTED ECONOMIC INDICATORS

LINCOLN SMSA (LANCASTER COUNTY) NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

| | JUNE 30, 2004 | | DECEMBER 31, 2004 | |
|-----------------------------------------------|--------------------|---------------------|--------------------|---------------------|
| | Number Employed | Percent of Total | Number Employed | Percent of Total |
| Industry Manufacturing: | | | | |
| Durable Goods | 7,515 | 4.6 | 7,425 | 4.5 |
| Nondurable Goods | 6,944 | 4.3 | 6,873 | 4.2 |
| Total Industry Manufacturing | 14,459 | 8.9 | 14,298 | 8.7 |
| Nonmanufacturing: | | | | |
| Natural Resource & Construction | 8,961 | 5.5 | 8,079 | 4.9 |
| Transportation, Communications & Utilities | 6,691 | 4.1 | 6,648 | 4.0 |
| Wholesale Trade | 4,033 | 2.5 | 3,780 | 2.3 |
| Retail Trade | 16,701 | 10.3 | 17,849 | 10.9 |
| Information | 3,832 | 2.6 | 4,038 | 2.7 |
| Finance, Insurance & Real Estate | 11,331 | 7.0 | 11,439 | 7.0 |
| Services (except domestic) | 60,789 | 37.5 | 61,293 | 37.3 |
| Government | 35,321 | 21.8 | 36,899 | 22.5 |
| Total Nonmanufacturing | 147,659 | 91.3 | 150,025 | 91.5 |
| TOTAL | 162,118 | 100.0 | 164,323 | 100.0 |

LINCOLN SMSA (LANCASTER COUNTY LABOR FORCE DATA 1995-2004) (For the Calendar Year Indicated)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Civilian Labor Force | 136,014 | 137,967 | 142,807 | 142,918 | 142,384 | 150,239 | 150,846 | 153,021 | 156,940 | 158,444 |
| Unemployment | 3,060 | 3,327 | 2,494 | 3,208 | 3,397 | 3,542 | 4,209 | 5,007 | 5,841 | 5,346 |
| Percent of Labor Force Unemployment | 2.2 | 2.4 | 1.7 | 2.2 | 2.4 | 2.4 | 2.8 | 3.3 | 3.7 | 3.4 |
| Employment | 132,954 | 134,640 | 140,313 | 139,710 | 138,987 | 146,697 | 146,636 | 148,013 | 151,100 | 153,098 |

STATE OF NEBRASKA

| | | | | | | | | | | |
|----------------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Percent of Labor Force Unemployment | 2.6 | 2.7 | 2.3 | 2.7 | 2.9 | 2.7 | 3.1 | 3.6 | 3.8 | 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> |
|-------------|---------------------|--------------------------------|--------------------------------|
| 2004 | 238,750 | \$ | 32,270 |
| 2003 | 235,565 | | 31,889 |
| 2002 | 231,800 | 30,192 | 31,867 |
| 2001 | 225,588 | 29,383 | 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 |

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 2003 and 2004 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> |
|-------------|----------------------------|--------------------------|----------------------------------|
| 2004 | 73,059 | 91,046 | 121,508 |
| 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 |

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 |
|-------------|--------------------|---------------|----------------------|------------------------|----------------------|--------------------|---------------------------|--------------|-------------|
| 2004 | \$ 30,884,544 | 55,272,920 | 13,633,902 | 22,298,283 | 14,728,510 | 17,068,105 | 10,525,090 | 7,914,521 | 172,325,875 |
| 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 |

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 |
|-------------------|------------------------------|--------------------|------------------|----------------------------|---------------------|------------|-------------|
| 2004 | \$ 107,138,062 | 58,198,328 | 15,593,326 | 6,322,870 | 2,092,341 | 8,812,613 | 198,157,540 |
| 2003 | 100,343,159 | 52,362,560 | 12,679,623 | 6,097,336 | 1,464,594 | 7,411,164 | 180,358,436 |
| 2002 ² | 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 |

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> |
|---------------------------------------------|----------------------------------------------------------------|
| 2004 | \$ 2,104,925 |
| 2003 | 1,814,191 |
| 2002 | 1,867,653 |
| 2001 | 1,796,924 |
| 2000 | 1,948,791 |
| 1999 | 2,359,812 |
| 1998 | 2,104,022 |
| 1997 | 2,390,085 |
| 1996 | 2,484,416 |
| 1995 | 2,337,275 |

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 2004 tax levy for the 2004-2005 fiscal year is \$56,077,695 below the legal limit, a tax rate per \$100 valuation of .29498. The assessed value upon which the 2004 levy is based is \$13,138,516,226. Only 90% of the property tax levy may be appropriated, by charter.

For the 2004-2005 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 2004-2005 the City can also use authority equal to the amount of real growth in the tax base of 3.1%. An additional 1% can be authorized by a 75% vote of the City Council but was not utilized for the 2004-2005 budget. The 2004-2005 budget is approximately \$12.0 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.

| Tax Year | Taxes Levied | Collected As Of August 31 After Levy | | Accumulated Collections As Of August 31, 2004 | |
|----------|---------------|--------------------------------------|---------|-----------------------------------------------|---------|
| | | Amount | Percent | Amount | Percent |
| 2003 | \$ 36,994,112 | \$ 35,726,509 | 96.57 % | \$ 35,726,509 | 96.57 % |
| 2002 | 35,007,926 | 33,676,453 | 96.20 | 34,989,546 | 99.95 |
| 2001 | 33,731,282 | 32,501,760 | 96.35 | 33,828,374 | 100.29 |
| 2000 | 31,159,364 | 29,936,079 | 96.07 | 31,144,936 | 99.95 |
| 1999 | 29,603,794 | 28,665,780 | 96.83 | 29,760,955 | 100.53 |
| 1998 | 27,597,664 | 26,411,546 | 95.70 | 27,510,509 | 99.68 |
| 1997 | 26,812,692 | 25,758,577 | 96.07 | 26,975,466 | 100.61 |
| 1996 | 27,022,949 | 25,894,971 | 95.83 | 26,962,580 | 99.78 |
| 1995 | 26,717,464 | 25,626,901 | 95.92 | 26,807,504 | 100.34 |
| 1994 | 26,289,058 | 25,209,483 | 95.89 | 26,295,625 | 100.02 |

The figures below do not include motor vehicle in lieu of ad valorem taxes.

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>2004 Assessed Valuations</u> | <u>Percentage Of Total Assessed Valuation</u> |
|------------------------------|--------------------------|---------------------------------|-----------------------------------------------|
| Alltel Communications | Telecommunications | \$ 75,992,780 | .58% |
| Kawasaki | Manufacturing | 72,057,508 | .55 |
| B & J Partnership Ltd. | Building Management | 59,575,597 | .45 |
| Ameritas Life Insurance Corp | Insurance | 51,123,462 | .39 |
| Chateau Van Dorn LLC | Real Estate Development | 46,094,352 | .35 |
| Pfizer | Animal Health | 44,443,827 | .34 |
| WEA Gateway LLC | Retail Management | 44,293,300 | .34 |
| Burlington Northern | Railroad | 43,686,201 | .33 |
| Necco | Construction/Development | 37,492,237 | .29 |
| Molex Inc. | Manufacturing | <u>37,414,408</u> | <u>.28</u> |
| | | <u>\$ 512,173,672</u> | <u>3.90%</u> |

CITY SALES TAX INFORMATION

The City had a one percent (1%) sales and use tax through June 30, 1985. Effective July 1, 1985 the sales and use tax was raised to one and one half percent (1.5%). These taxes are administered and collected for the City by the State of Nebraska. The State receives three percent (3%) for their service. The City has had a sales tax since 1969.

**SALES AND USE TAX COLLECTIONS
LAST TEN YEARS**

| <u>Year Ended August 31</u> | <u>Amount</u> |
|---------------------------------|---------------|
| 2004 | \$ 51,869,477 |
| 2003 | 48,657,268 |
| 2002 | 45,393,491 |
| 2001 | 44,486,127 |
| 2000 | 43,608,313 |
| 1999 | 41,642,771 |
| 1998 | 37,479,413 |
| 1997 | 36,549,194 |
| 1996 | 33,543,308 |
| 1995 | 31,420,946 |

**GENERAL FUND TAX COLLECTIONS
LAST TEN YEARS**

| <u>Fiscal Year</u> | <u>Property and Motor Vehicle Taxes</u> | <u>Sales and Use Taxes</u> | <u>Insurance Taxes</u> | <u>Sundry Taxes</u> | <u>Taxes In Lieu</u> | <u>Occupation Taxes</u> | <u>Total</u> |
|------------------------|-------------------------------------------------|--------------------------------|----------------------------|-------------------------|--------------------------|-----------------------------|--------------|
| 2004 | \$ 24,546,532 | 51,869,477 | | 9,263 | 1,144,747 | 9,037,781 | 86,607,800 |
| 2003 | 22,780,085 | 48,657,268 | | 10,876 | 1,199,507 | 8,831,712 | 81,479,448 |
| 2002 | 23,353,414 | 45,393,491 | | 8,403 | 1,163,468 | 9,097,442 | 79,016,218 |
| 2001 | 20,284,364 | 44,486,127 | | 8,497 | 1,107,183 | 5,889,097 | 71,775,268 |
| 2000 | 19,487,198 | 43,608,313 | | 8,522 | 1,043,287 | 5,651,371 | 69,798,691 |
| 1999 | 20,741,154 | 41,642,771 | | 17,516 | 1,080,495 | 5,721,321 | 69,203,257 |
| 1998 | 18,953,860 | 37,479,413 | 889,226 | 8,647 | 944,612 | 4,743,649 | 63,019,407 |
| 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 |

**TAXABLE ASSESSED VALUATION
LAST TEN YEARS ¹**

| Tax Year | Real Estate | All Other | Motor Vehicle | Total |
|----------|-------------------|-------------|---------------|----------------|
| 2004 | \$ 12,421,799,720 | 716,716,506 | - | 13,138,516,226 |
| 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 |

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 ***

| | Tax Year | | | | | | | | | |
|------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
| City Of Lincoln | 0.2950 | 0.2903 | 0.3145 | 0.3145 | 0.3239 | 0.3239 | 0.3239 | 0.3581 | 0.3837 | 0.3996 |
| School District No. 1 | 1.3141 | 1.3041 | 1.2830 | 1.2732 | 1.3684 | 1.3813 | 1.3050 | 1.6308 | 1.6260 | 1.5946 |
| Lancaster County | 0.2797 | 0.2683 | 0.2683 | 0.2583 | 0.2643 | 0.2584 | 0.2782 | 0.2966 | 0.3106 | 0.3169 |
| Educational Service Unit #18 | 0.0150 | 0.0150 | 0.0150 | 0.0150 | 0.0150 | 0.0150 | 0.0149 | 0.0089 | 0.0081 | 0.0082 |
| Community Technical College | 0.0655 | 0.0655 | 0.0655 | 0.0636 | 0.0295 | 0.0334 | 0.0696 | 0.0782 | 0.0840 | 0.0864 |
| Lower Platte South Natural Res. Dist. | 0.0323 | 0.0323 | 0.0359 | 0.0365 | 0.0367 | 0.0372 | 0.0389 | 0.0365 | 0.0346 | 0.0346 |
| Railroad Transportation Safety Dist. | 0.0260 | 0.0248 | 0.0220 | 0.0221 | 0.0260 | 0.0260 | 0.0260 | 0.0260 | 0.0091 | 0.0096 |
| Agricultural Society Of Lancaster County | 0.0020 | 0.0030 | 0.0012 | 0.0024 | 0.0073 | 0.0032 | 0.0013 | 0.0364 | 0.0364 | 0.0014 |
| Lancaster County Fairgrounds | 0.0042 | 0.0043 | 0.0050 | 0.0052 | - | - | - | - | - | - |
| Public Building Commission | 0.0170 | 0.0170 | 0.0170 | 0.0170 | 0.0170 | 0.0170 | 0.0170 | 0.0170 | 0.0169 | 0.0170 |
| | <u>2.0508</u> | <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>2.4883</u> | <u>2.5094</u> | <u>2.4683</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, 2004
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 | \$ 6,735 |
| 14,435 | 03/01/99 | Various Purpose Series A | 3.000 - 4.600 | Ser. '00 to '14 | 2009 | " | 10,555 |
| 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 | " | 4,530 |
| 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 | " | 14,255 |
| 3,710 | 06/24/03 | Various Purpose | 4.000 - 4.125 | Term '18 to '23 | 2013 | " | 3,710 |
| 35,000 | 03/03/04 | Highway Allocation Fund | 2.000 - 5.000 | Term '07 to '23 | 2014 | " | 35,000 |
| Total General Bonds | | | | | | | <u>\$ 89,650</u> |
| Municipal Infrastructure Redevelopment Bonds: | | | | | | | |
| 3,200 | 06/13/00 | Municipal Infrastructure Redevelopment | 4.750 - 5.100 | Ser. '01 to '09 | 2005 | Semiannually | \$ 2,090 |
| Tax Allocation Bonds: | | | | | | | |
| 1,310 | 11/15/92 | Tax Allocation Bonds | 3.250 - 6.200 | Ser. '93 to '06 | 1997 | Semiannually | \$ 225 |
| 105 | 11/15/92 | Tax Allocation Bonds | 6.350 | Term '93 to '06 | 1997 | " | 35 |
| 90 | 11/15/92 | Tax Allocation Bonds | 6.300 | Term '93 to '05 | 1997 | " | 25 |
| 303 | 10/18/94 | Tax Allocation Bonds | 8.000 | Term '95 to '05 | Anytime | " | 59 |
| 232 | 04/21/00 | Tax Allocation Bonds | 6.390 | Ser. '00 to '10 | 2000 | " | 156 |
| 42 | 06/01/03 | Tax Allocation Bonds | 4.060 | Ser. '04 to '11 | Anytime | " | 40 |
| 1,035 | 04/06/04 | Tax Allocation Bonds | 2.000 - 3.200 | Ser. '04 to '11 | 2008 | " | 1,035 |
| 5,500 | 04/07/04 | Tax Allocation Bonds | 3.000 - 4.800 | Ser. '04 to '15 | 2010 | " | 5,500 |
| Total Tax Allocation Bonds | | | | | | | <u>\$ 7,075</u> |
| Total General, MIRF, And Tax Allocation Bonds | | | | | | | <u>\$ 98,815</u> |
| Special Assessment Bonds: | | | | | | | |
| 3,860 | 11/15/89 | Special Assessment Revolving | 5.900 - 6.850 | Ser. '90 to '04 | 1996 | Semiannually | \$ 100 |
| TOTAL GENERAL OBLIGATION BONDS | | | | | | | <u>\$ 98,915</u> |
| Tax-Supported Revenue Bonds: | | | | | | | |
| 11,080 | 2/27/02 | Antelope Valley Project | 1.500 - 5.000 | Ser. '02 to '16 | 2012 | Semiannually | \$ 10,255 |
| 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 | - | " | 29,065 |
| Total Water Bonds | | | | | | | <u>\$ 47,575</u> |
| 15,765 | 08/01/03 | Wastewater Revenue | 2.000 - 5.000 | Ser. '04 to '23 | 2013 | Semiannually | \$ 14,015 |
| 39,235 | 08/01/03 | Wastewater Revenue | 4.625 - 5.000 | Ser. '04 to '28 | 2013 | Semiannually | 39,235 |
| Total Wastewater Bonds | | | | | | | <u>\$ 53,250</u> |
| 6,815 | 09/08/99 | Parking Revenue Series A | 4.000 - 5.000 | Ser. '00 to '09 | 2009 | Semiannually | \$ 5,055 |
| 6,695 | 09/08/99 | Parking Revenue Series A | 5.375 | Term '10 to '14 | 2009 | " | 6,695 |
| 6,000 | 12/05/01 | Parking Revenue | 3.750 - 5.125 | Ser. '02 to '21 | 2011 | " | 5,290 |
| Total Parking Bonds | | | | | | | <u>\$ 17,040</u> |
| 3,165 | 10/23/01 | Golf Course Revenue Refunding | 2.300 - 4.050 | Ser. '02 to '11 | 2008 | Semiannually | \$ 2,290 |
| 45,560 | 02/15/98 | Electric Revenue Bonds '98 Series A | 4.500 - 5.000 | Ser. '98 to '18 | 2008 | " | 36,555 |
| 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 |
| 93,045 | 10/01/03 | Electric Revenue Bonds '03 | 3.000 - 5.000 | Ser. '04 to '26 | 2014 | " | 93,045 |
| 33,265 | 10/01/03 | Electric Revenue Bonds '03 | 4.750 | Term '28 | 2014 | " | 33,265 |
| Total Electric Bonds | | | | | | | <u>\$ 452,205</u> |
| TOTAL REVENUE BONDS | | | | | | | <u>\$ 572,360</u> |

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 |
| 2005 | \$ 4,736 | 4,430 | 100 | 3 | 565 | 423 | 375 | 293 |
| 2006 | 4,809 | 3,971 | - | - | 580 | 409 | 543 | 285 |
| 2007 | 4,485 | 3,798 | - | - | 595 | 392 | 515 | 272 |
| 2008 | 4,737 | 3,632 | - | - | 615 | 372 | 537 | 259 |
| 2009 | 5,604 | 3,453 | - | - | 635 | 350 | 546 | 242 |
| 2010 - 2014 | 26,584 | 14,023 | - | - | 3,575 | 1,334 | 2,563 | 930 |
| 2015 - 2019 | 28,530 | 7,652 | - | - | 3,690 | 335 | 1,811 | 461 |
| 2020 - 2024 | 19,330 | 2,163 | - | - | - | - | 895 | 89 |
| | <u>\$ 98,815</u> | <u>43,122</u> | <u>100</u> | <u>3</u> | <u>10,255</u> | <u>3,615</u> | <u>7,785</u> | <u>2,831</u> |

| Fiscal Year Ended August 31 | Business-Type Activities | | | |
|-----------------------------------|--------------------------|----------------|----------------|------------|
| | Revenue Bonds | | Capital Leases | |
| | Principal | Interest | Principal | Interest |
| 2005 | \$ 19,915 | 27,188 | 418 | 60 |
| 2006 | 17,730 | 26,840 | 432 | 44 |
| 2007 | 18,515 | 26,106 | 323 | 26 |
| 2008 | 22,200 | 25,258 | 333 | 12 |
| 2009 | 23,175 | 24,271 | 23 | 3 |
| 2010 - 2014 | 121,265 | 104,229 | 25 | 1 |
| 2015 - 2019 | 144,935 | 72,831 | - | - |
| 2020 - 2024 | 114,195 | 36,381 | - | - |
| 2025 - 2029 | 90,430 | 13,240 | - | - |
| | <u>\$ 572,360</u> | <u>356,344</u> | <u>1,554</u> | <u>146</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 \$6,910,648, \$3,187,150, \$5,233,865, and \$7,344,884 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 | 6,350,750 | - |
| Machinery and Equipment | 206,597 | 2,297,420 |
| Less Accumulated Depreciation, (where applicable) | <u>(707,413)</u> | <u>(779,171)</u> |
| Total | <u>\$ 5,891,934</u> | <u>\$ 1,728,249</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, 2003, 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, 2003, was 1.1 percent. The annual requirement to pay interest on this outstanding debt is approximately \$992,000. 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, 2004, is summarized below (unaudited):

| Units | Net Debt Outstanding | Percentage Applicable To The City | Direct And Overlapping Debt To The City |
|-----------------------------|-------------------------|-----------------------------------------|-----------------------------------------------|
| Direct: | | | |
| City | \$ 78,406,000 | 100.0 % | \$ 78,406,000 |
| Overlapping: | | | |
| School District #1 | 110,610,000 | 97.2 | 107,513,000 |
| Airport Authority | 5,358,000 | 100.0 | 5,358,000 |
| Lancaster County | 11,481,000 | 84.6 | 9,713,000 |
| Public Building Commission | 37,815,000 | 84.6 | 31,991,000 |
| Southeast Community College | None | 35.9 | None |
| | <u>165,264,000</u> | | <u>154,575,000</u> |
| Total | \$ <u>243,670,000</u> | | \$ <u>232,981,000</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 \$328.40; a per capita direct and overlapping debt of \$975.84; a ratio of direct City debt to 2004 actual valuation of .60 percent; and a ratio of direct and overlapping debt to 2004 actual valuation of 1.77 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 |
|----------------|--------------|-----------------------|--------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------|
| 2004 | \$ 4,934,224 | \$ 2,893,437 | \$ 7,827,661 | \$ 172,325,875 | 4.54 % |
| 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 |

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 ² | Ratio Of Net Debt To Estimated Valuation Of Taxable Real Property |
|-------------|--------------------------------|---------------|------------------------------------|-------------------------|---------------------------------|---------------------------------------------------|---------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------------------|
| | | | | | | | | | |
| 2004 | \$ 98,915,000 | \$ 20,509,000 | \$ 78,406,000 | 238,750 | \$ 328.40 | \$ 13,138,516,226 | 0.60 % | \$ 12,421,799,720 | 0.63 % |
| 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 | 11,130,588,167 | 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 |

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> | | | | | | | |
| 2004 | \$ 19,071,798 | 10,042,919 | 9,028,879 | 2,832,500 | 2,348,176 | 5,180,676 | 1.74 |
| 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 | 14,978,232 | 6,785,101 | 8,193,131 | 1,020,000 | 728,840 | 1,748,840 | 4.68 |
| <u>Water System</u> | | | | | | | |
| 2004 | \$ 22,940,862 | 12,477,486 | 10,463,376 | 6,270,000 | 4,236,493 | 10,506,493 | 1.00 |
| 2003 | 21,533,965 | 11,631,496 | 9,902,469 | 3,010,000 | 2,898,489 | 5,908,489 | 1.68 |
| 2002 | 22,687,789 | 11,474,433 | 11,213,356 | 2,880,000 | 2,110,590 | 4,990,590 | 2.25 |
| 2001 | 22,287,139 | 10,960,315 | 11,326,824 | 2,755,000 | 2,240,075 | 4,995,075 | 2.27 |
| 2000 | 23,823,957 | 9,812,147 | 14,011,810 | 2,640,000 | 2,361,515 | 5,001,515 | 2.80 |
| 1999 | 20,787,797 | 9,067,262 | 11,720,535 | 2,530,000 | 2,514,373 | 5,044,373 | 2.32 |
| 1998 | 21,009,615 | 8,894,295 | 12,115,320 | 2,435,000 | 2,621,365 | 5,056,365 | 2.40 |
| 1997 | 20,426,318 | 8,161,529 | 12,264,789 | 2,345,000 | 2,730,407 | 5,075,407 | 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 |
| <u>Parking Facilities</u> ^{1, 2} | | | | | | | |
| 2004 | \$ 6,271,131 | 2,733,492 | 3,537,639 | 1,145,000 | 908,456 | 2,053,456 | 1.72 |
| 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 |

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. 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> | <u>F.Y. 2004</u> |
|--------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Cash & Investment Balance - September 1 of Year Indicated | 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 | 26,784,845 |
| Receipts: | | | | | | | | | | |
| Property Tax | 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 | 24,546,532 |
| City Sales & Use Tax | 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 | 51,869,477 |
| Other Income | <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>24,933,838</u> | <u>23,615,320</u> |
| Total Receipts | <u>70,443,552</u> | <u>73,654,033</u> | <u>74,900,764</u> | <u>75,806,677</u> | <u>82,375,147</u> | <u>84,434,604</u> | <u>86,556,507</u> | <u>95,089,320</u> | <u>96,371,191</u> | <u>100,031,329</u> |
| Less Disbursements | <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>96,176,339</u> | <u>103,295,044</u> |
| Cash & Investment Balance - August 31 of Year Indicated | <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> | <u>23,521,130</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. 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> | <u>F.Y. 2004</u> |
|-------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|------------------|
| Cash Balance - September 1 of Year Indicated | 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 | 2,935,997 |
| Receipts: | | | | | | | | | | |
| Property Tax | 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 | 5,387,468 |
| Interest Income | 67,073 | 151,746 | 166,270 | 236,658 | 145,534 | 174,146 | 107,693 | 53,873 | 32,298 | 48,595 |
| Bond Proceeds | | | | | 189,482 | | | | 9,436,083 | |
| Other Income | <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> | <u>691,340</u> |
| Total Receipts | <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> | <u>6,127,403</u> |
| Disbursements: | | | | | | | | | | |
| Bonds Paid | 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 | 3,215,000 |
| Bonds Defeased | | | | | | | | | 9,609,774 | |
| Interest Paid | 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 | 2,271,548 |
| Transfer to Trustee | | | | | 164,400 | | | | | |
| Other Disbursements | <u>13,281</u> | <u>13,765</u> | <u>5,965</u> | <u>12,161</u> | <u>164,990</u> | <u>13,878</u> | <u>10,255</u> | <u>3,905</u> | | <u>6,295</u> |
| Total Disbursements | <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> | <u>5,492,843</u> |
| Equity Transfer | <u>353,388</u> | | | | | | | | | |
| Cash Balance - August 31 of Year Indicated | <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> | <u>3,570,557</u> |

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

| | <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> | <u>F.Y. 2004</u> |
|--------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Cash & Investment Balance - September 1 of Year Indicated | 6,746,441 | 6,053,742 | 4,855,959 | 5,150,392 | 5,357,118 | 5,003,362 | 4,964,458 | 3,778,207 | 6,586,633 | 6,910,967 |
| Receipts: | | | | | | | | | | |
| Special Assessment Collections | 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 | 1,654,695 |
| Interest on Special Assessments | 453,933 | 403,880 | 418,003 | 285,279 | 367,309 | 310,558 | 257,157 | 294,839 | 346,725 | 267,298 |
| City's Share of Costs | 1,608,296 | 203,943 | 161,620 | | 2,038,202 | 895,961 | 2,516,175 | 2,145,574 | 97,107 | 116,009 |
| Developers' Share of Costs | | 14,163 | 40,508 | 685,754 | 75,572 | | 473,445 | 4,617 | | |
| Bond Proceeds | | | | | | | | | | |
| Interest on Investments | 259,639 | 312,003 | 233,112 | 341,381 | 241,768 | 286,460 | 219,536 | 137,143 | 130,555 | 140,289 |
| Miscellaneous | 67,011 | 583 | 4,134 | | 244,724 | 993,245 | 144,005 | 474,438 | 195,535 | 288,482 |
| Total Receipts | <u>4,272,221</u> | <u>3,015,108</u> | <u>2,849,459</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> | <u>2,466,773</u> |
| Disbursements: | | | | | | | | | | |
| Construction Costs | 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 | 1,399,323 |
| Bonds Paid | 1,105,000 | 1,170,000 | 1,115,000 | 1,105,000 | 785,000 | 770,000 | 270,000 | 110,000 | 105,000 | 105,000 |
| SID Warrants | | | | | | | | | | |
| Interest Paid on Bonds & Notes | 342,607 | 285,745 | 225,544 | 167,055 | 110,155 | 67,293 | 39,438 | 24,762 | 17,534 | 10,420 |
| Other Refunds & Expenses | 498,554 | 348,886 | 511,312 | 14,589 | 2,085,246 | 987,069 | 2,370,458 | 383,336 | 34,173 | 32,495 |
| Total Disbursements | <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> | <u>1,547,238</u> |
| Cash & Investment Balance - August 31 of Year Indicated | <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> | <u>7,830,502</u> |

APPENDIX B

FINANCIAL STATEMENTS

.



CITY OF LINCOLN NEBRASKA

MAYOR COLEEN J. SENG

lincoln.ne.gov

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 20, 2005

Dear Citizens and Public Officials:

I am pleased to provide the City of Lincoln's Comprehensive Annual Financial Report for the fiscal year ended August 31, 2004.

Discipline is the rule for the City of Lincoln finances. We enforce fiscal responsibility to stay within the operating budget. Our stable city government is an asset to Lincoln's overall economy.

Lincoln residents are proud of our City which continues to grow and prosper. The City's financial condition is good as reflected by the City's excellent bond ratings.

City Departments do an excellent good job of meeting the high demand for city services with limited resources. The City government is prudent in its use of taxpayers funds, as evidenced by the significant reduction in the city property tax rate during the past ten years.

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. I am proud to report that the 2003 report submitted to the Government Finance Officers Association was recognized with the prestigious Certificate of Achievement for Excellence in Financial Reporting for the twenty-first consecutive year. This is a complement to the City Finance Department staff for dealing with these complex accounting issues. We express thanks to the Finance Department staff and to all the city departments for their cooperation in preparing this document.

Sincerely,

Coleen J. Seng
Mayor of Lincoln

January 19, 2005

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

Both the City Charter and State law require an annual audit of the City's funds and accounts be made by a recognized independent and qualified accountant covering all financial transactions, affairs, and financial condition of the City, with the audit report published within six months after the close of the fiscal year. Pursuant to this requirement, the Comprehensive Annual Financial Report (CAFR) of the City of Lincoln, Nebraska for the fiscal year ended August 31, 2004, is hereby submitted.

Responsibility for both the accuracy of the data found in this report, and the completeness and fairness of the presentation, including all disclosures, rests with management. In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss, theft, or misuse, and to ensure the reliability of financial records for preparing financial statements in accordance with generally accepted accounting principles (GAAP) and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state and local financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. The federal government, under the revised OMB Circular A-133, requires local governments that expend \$500,000 or more in federal funds in any fiscal year to have a financial and compliance audit performed. As part of the City's Single Audit, tests were made of the City's internal control structure over compliance and its compliance with applicable laws and regulations, including those related to major federal financial assistance programs. The Single Audit for the year ended August 31, 2004, disclosed no material internal control weaknesses. The independent accountants' reports are included in the Single Audit section found at the end of the CAFR.

To the best of management's knowledge and belief, the enclosed data are accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the government's financial activities as specified by all currently effective statements of the Governmental Accounting Standards Board have been included.

A firm of licensed certified public accountants has audited the City's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City are free of material misstatement. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent accountants' concluded, based upon the audit, that there was a reasonable basis for rendering unqualified opinions that the City's financial statements for the fiscal year ended August 31, 2004, are fairly presented in conformity with GAAP.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found in the Financial Section immediately following the report of the independent accountants.

The City of Lincoln, capital city of Nebraska, was originally incorporated on April 7, 1869. Lincoln is located in the southeastern corner of the state, is midway between Chicago and Denver, and is currently one of the fastest growing metro areas in the Midwest. It occupies a land area of approximately 80 square miles, serves a population of over 238,000, and in its growth and development has annexed five other municipalities so that the City includes most of the urban area of Lancaster County. It enjoys a unique position in Nebraska as the center of the state's governmental and educational activities.

The City operates under a Home Rule Charter and has a Mayor-Council form of government with an elected full-time chief executive, the Mayor, and an elected legislative body, the Council, composed of seven members. Three Council members are elected at large and four by district on a nonpartisan basis for a term of four years. All legislative powers of the City are exclusively vested in the Council, as well as the power to adopt the budget, set the tax levy, and equalize taxes and assessments. The Mayor is responsible for the proper conduct of the affairs of the City, with the administration of City government performed under the direction of the Mayor through administrative departments.

The City of Lincoln provides a full range of services, including public safety (police and fire); the construction and maintenance of highways, streets, and other infrastructure; health; planning and zoning; golf courses, parks and recreation; urban development; mass transportation; ambulance transport; electric, water, and wastewater utilities, sanitary landfill; 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.

The annual budget serves as the basis for the City of Lincoln's financial planning and control. Following public hearings and not later than five days prior to the beginning of the fiscal year, the budget is legally adopted by resolution of the City Council. Appropriation controls are required at the department level, however, as a matter of policy and practice, appropriations generally are controlled at the next level of organization (division) or by fund within a department. The Mayor has the authority to transfer balances within a department as well as lower appropriations in any fund where actual revenues are less than appropriated in order to avoid incurring a budget deficit for the year. Appropriation transfers between departments may only be authorized by resolution of the City Council. The Council may not make any appropriations in addition to those authorized in the annual budget, except in the event of an emergency threatening serious loss of life, health, or property in the community.

Economic Condition And Outlook

Population growth is one of the best indicators of a community's economic well being. As such, the Lincoln metropolitan area's population growth during the past several years reflects a community that is economically viable and is strongly positioned to meet future challenges.

The Lincoln metropolitan area population base (Lancaster County) continues to demonstrate a pattern of sustained growth. According to the U. S. Census figures, the Lincoln metropolitan area population grew over 17% between 1990 and 2000, adding over 3,350 people to the community each year. The 1990 population of 213,641 reached 230,291 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.

Despite a slow national and regional economy, Lincoln's growth has continued. Lincoln's unemployment rate at August 31, 2004 was 3.7%, well below the national average of 5.6%, with employment strongest in the categories

of government, services, and wholesale and retail trade. Lincoln's construction activity continues to demonstrate sustained growth as permits for all forms of new construction have risen 12% over the past 5 years with an increase in the value of construction permits of over \$187 million.

To more aggressively pursue economic opportunities, the City, Lancaster County, and LES have partnered to hire an economic development coordinator to facilitate job creation in the private sector. In addition, the Mayors Technology Council completed its technology audit, which led to a new strategic plan for economic development. Developing an identity and slogan for Lincoln is a vital part of that plan.

Current net sales and use tax revenue increased 6% over the previous fiscal year. Tax collections have been positively impacted by an improving local economy and an expansion of the sales tax base to include additional services.

Long-Term Planning And Major Initiatives

Urban Development

The City anticipates approximately \$35 million of public expenditures funded through various urban development projects and programs over the next three years. These projects are varied in type and size and are located in the Downtown and Haymarket areas, North 27th Street area, Havelock and University Place business areas, Focus Area neighborhoods, the Antelope Valley project area, and in low - moderate income areas throughout the City.

Financing will be provided by a variety of sources, including CDBG, HOME, 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:
 - 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 park and streetscape improvement projects.
 - 6) Lincoln Mall streetscape project.
 - 7) Redevelopment of Douglas III and Cinema Twin theaters.
 - 8) Redevelopment of Salvation Army Building.
 - 9) Implementation of Haymarket 8th Street Corridor.
 - 10) Assist the Planning Department and Downtown Lincoln Association with the Downtown Master Plan and implementation of catalyst projects.
 - 11) Antelope Valley East Downtown hotel project.
 - 12) Haymarket Housing project at 7th and R Streets.
- ◆ 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 west side of 27th Street between S and T Streets.
 - 3) Construction of the pedestrian trail bridge at X Street.
 - 4) Infrastructure improvements around the Salvation Army Building on 27th and Potter Streets; including construction of a parking lot and pedestrian walking improvements to Pentzer Park.
 - 5) Redevelopment of the Carpenter's Union building at 1010 North 27th Street.
 - 6) Paving of alleys between 27th and 28th, Potter to Fair and between 28th and 29th, Clinton to Potter.
 - 7) Planting and irrigation of the North 27th Street medians.
- ◆ Implementation of selected Antelope Valley community revitalization catalyst projects as identified in the Antelope Valley Redevelopment Plan.
- ◆ Havelock Redevelopment on-going projects include streetscape improvements, pedestrian walkway and public parking lot redevelopment and beautification, alley resurfacing and/or repair.

- ◆ University Place Redevelopment includes streetscape improvements, the North 48th/University Place Concept Plan implementation, and redevelopment of the former Northeast Printers building.
- ◆ Housing rehabilitation and development programs:
 - 1) Continuation of First-time Homebuyer, Housing Development, and Owner-Occupied housing rehabilitation loan programs.
 - 2) Development of residential housing in Antelope Valley with the neighborhood “champion” 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 and plan the development of the next affordable housing project.
 - 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 and 14th and Warlick intersection improvements. ✓ Yankee Hill widening, 27th – 40th and South 27th, Yankee Hill to Whispering Wind. ✓ O Street widening, 84th to 46th Streets. ✓ South 84th Street Widening (3 phases). ✓ Vine Street widening, 22nd – 27th. ✓ Antelope Valley, 19th Street, K – Q, Big T project and North/South roadway. ✓ Antelope Valley 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"> ✓ South 56th Street, Old Cheney to Yankee Hill Road and Old Cheney Road, South 70th to 84th Streets. ✓ Pioneers Boulevard widening, 70th – 84th. ✓ Paving District 2626. ✓ Special assessment, executive order, and arterial rehab 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. ✓ Antelope Valley Community Revitalization projects and concepts. |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
 - 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, South Salt Creek and Hartley 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 that was approved by the State of Nebraska.

WIA has provided nearly \$1.2 million over the past year to the workforce investment area of Lancaster and Saunders Counties. WIA services are provided from the One Stop Career Center, located in downtown Lincoln. During the year, over 26,000 customer visits were made to the Center. A computer lab was opened in the center during the year, serving both job seekers and businesses. Efforts are underway to further align WIA services with local economic development plans and to increase the level of services to businesses in the workforce area.

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 south 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 has been completed on two projects that are part of the overall Antelope Valley Project. The Northeast Community Park (Fleming Field) project, located near 32nd and Leighton Streets, began in July 2003. This park, which was ready for play in the Spring of 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 and was substantially completed in August 2004 on the Military Bridge and Roadway Project. This project provides a single intersection at 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. This project will be completed in the Spring of 2005.

Work began in March 2004 on the Vine Street Bridge and Roadway Project. This project provides a new bridge over the Antelope Creek on Vine Street as well as a new roadway between 17th and 22nd Streets. The project connects to a new City rehabilitation project between 22nd and 27th Streets. Work on Vine Street is scheduled for completion by August 2005.

In October 2004, work began on the Big T Project. This project will provide a new north-south overpass of the BNSF Railway south of the Devaney Center and the west leg of the new east-west overpass. Work is scheduled to be completed by December 2006.

Wastewater System

The Lincoln Wastewater System is projecting a capital improvements program in the amount of approximately \$115,996,000 over the 6-year period of fiscal year 2004-05 through fiscal year 2009-10. Of that total, approximately \$40,000 will be financed by developer contributions, approximately \$94,374,000 will be financed by revenue bonds, approximately \$2,470,000 will be financed by impact fees, approximately \$1,677,000 is to be funded with grant funds, with the remaining \$17,435,000 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 \$108,939,000 over the 6-year period of fiscal year 2004-05 through 2009-10. Of these dollars, approximately \$92,351,000 will be financed through revenue bonds, approximately \$444,000 will be financed through developer contributions, approximately \$5,000,000 will be financed through impact fees, with the balance of \$11,144,000 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 2005-2010 Streets and Highways capital improvements program and Transportation improvement program identify average annual expenditures of over \$51.5 million for the next six years. Funding for these projects includes \$144 million in City revenues, \$41 million in federal aid, and \$124 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.

Property Tax Collections

As of August 31, 2004, current tax collections by the County Treasurer were 96.57% of the tax levy, an increase of .37% from last year. Allocations of property tax levy by purpose are as follows:

| <u>City Tax Levy By Purpose</u> | <u>2003-2004</u> | <u>2002-2003</u> | <u>2001-2002</u> |
|---------------------------------|------------------|------------------|------------------|
| General Fund | .16962 | .17570 | .17798 |
| Library | .04866 | .05345 | .05219 |
| Social Security | .01431 | .01616 | .01527 |
| Police and Fire Pension | .01491 | .01492 | .01261 |
| General Obligation Debt | .04350 | .05429 | .05647 |

Parking Facilities

The City of Lincoln operates the following parking garages:

| | <u>Number of Stalls</u> | <u>Date Opened</u> |
|-------------------|-------------------------|--------------------|
| Center Park | 1,048 | November, 1978 |
| Cornhusker Square | 405 | December, 1983 |
| University Square | 436 | April, 1990 |
| Que Place | 773 | October, 1994 |
| Carriage Park | 710 | February, 1995 |
| Market Place | 433 | August, 2000 |
| Haymarket | 420 | August, 2002 |

The City's parking garages have been built to promote downtown redevelopment efforts by working with private industry in providing necessary parking to various businesses in the downtown area.

Revenue generated by the parking facilities and on-street parking meters, as well as unappropriated street construction funds, are pledged for debt service of both the 2001 Parking Revenue Bonds and the 1999 Parking Revenue and Refunding Bonds. Comparative data for the past two fiscal years are presented in the following table:

| | <u>2003-2004</u> | <u>2002-2003</u> |
|--------------------------------------|------------------|------------------|
| Operating Revenue | \$ 5,325,668 | 5,035,564 |
| Operating Income Before Depreciation | 2,592,176 | 2,730,932 |
| On-Street Parking Meter Revenue | 835,000 | 835,000 |
| Revenue Available For Debt Service | 3,427,176 | 3,565,932 |
| Debt Service | 2,160,650 | 2,160,650 |
| Debt Service Coverage Ratio | 1.59 | 1.65 |

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, 2004, the City estimates that it will incur costs approximating \$15 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 an increase in operating revenue and an increase in operating income. Comparative data for the past two fiscal years is presented in the following table:

| <u>Water System</u> | <u>2003-2004</u> | <u>2002-2003</u> |
|------------------------------------|------------------|------------------|
| Operating Revenue | \$22,168,258 | 20,883,159 |
| Operating Income | 3,901,083 | 3,855,663 |
| Revenue Available For Debt Service | 10,463,376 | 9,902,469 |
| Debt Service | 5,526,632 | 5,908,489 |
| Debt Service Coverage Ratio | 1.89 | 1.68 |

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

| <u>Wastewater System</u> | <u>2003-2004</u> | <u>2002-2003</u> |
|------------------------------------|------------------|------------------|
| Operating Revenue | \$16,011,984 | 14,691,905 |
| Operating Income | 1,537,738 | 1,486,755 |
| Revenue Available For Debt Service | 9,028,879 | 6,699,374 |
| Debt Service | 3,883,704 | 1,299,222 |
| Debt Service Coverage Ratio | 2.32 | 5.16 |

Lincoln Electric System (LES)

The City owns and operates its own electric utility system that is managed by an administrative board. Actions of the board with regard to rates, budgets, and long-term financing are subject to final review and approval by the City Council. In accordance with Section 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, 2003, is included in the City's August 31, 2004, financial statements.

Certificate Of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lincoln, Nebraska, for its comprehensive annual financial report for the fiscal year ended August 31, 2003. This was the twenty-first 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, 2003

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.



Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

FINANCIAL SECTION



**Independent Accountants' Report on Financial Statements
and Supplementary Information**

The Honorable Mayor
and Members of the 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, 2004, 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 58%, 33% and 74%, 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, 2003, and in our report dated January 5, 2004, we 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.

In our opinion, based on our audit and the report of the other accountants, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Nebraska as of August 31, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2005 on our consideration of the City of Lincoln's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

The accompanying management's discussion and analysis as listed in the table of contents 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lincoln's basic financial statements. The accompanying supplementary information, including the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other accountants in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other accountants, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The accompanying introductory section and statistical section as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BKD, LLP

January 19, 2005

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, 2004. 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, 2004, by \$1,199,927,797 (net assets). Of this amount, \$178,669,732 (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 \$62,199,660. Of this amount \$40,934,924, or 66 percent, was an increase in governmental activities and \$21,264,736, or 34 percent, related to business-type activities.
- As of August 31, 2004, the City's governmental funds reported combined ending fund balances of \$187,197,133, an increase of \$25,255,860 in comparison with the prior year. Over half of this total amount, \$98,306,038, is available for spending at the City's discretion (unreserved fund balance).
- As of August 31, 2004, unreserved fund balance for the general fund was \$32,552,543, or 38 percent of total general fund expenditures.
- The City's total bonded debt increased by \$109,641,000 (19 percent) during the current fiscal year. Key factors in this increase were the issuance of \$126,310,000 in revenue bonds by Lincoln Electric System, and the issuance of \$35,000,000 in general obligation highway allocation fund bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

The statement of activities presents information showing how the City's net assets changed during the year ended August 31, 2004. 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 thirty-eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, the Street Construction fund, the Federal Grants fund, and the Community Health Permanent Endowment fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

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

The basic proprietary fund financial statements can be found on pages 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 \$1,199,927,797 at August 31, 2004.

By far the largest portion of the City's net assets (71 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, 2004 and 2003**

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------------------------------|----------------------------|--------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Current and Other Assets | \$ 293,558,771 | 239,136,689 | 282,564,460 | 297,306,590 | 576,123,231 | 536,443,279 |
| Capital Assets | <u>438,680,200</u> | <u>403,421,755</u> | <u>1,058,409,793</u> | <u>953,099,888</u> | <u>1,497,089,993</u> | <u>1,356,521,643</u> |
| Total Assets | <u>732,238,971</u> | <u>642,558,444</u> | <u>1,340,974,253</u> | <u>1,250,406,478</u> | <u>2,073,213,224</u> | <u>1,892,964,922</u> |
| Long-Term Liabilities Outstanding | 133,570,216 | 87,165,314 | 666,274,803 | 591,870,462 | 799,845,019 | 679,035,776 |
| Other Liabilities | <u>25,791,557</u> | <u>23,450,856</u> | <u>47,648,851</u> | <u>52,750,153</u> | <u>73,440,408</u> | <u>76,201,009</u> |
| Total Liabilities | <u>159,361,773</u> | <u>110,616,170</u> | <u>713,923,654</u> | <u>644,620,615</u> | <u>873,285,427</u> | <u>755,236,785</u> |
| Net Assets: | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 361,516,579 | 353,228,671 | 496,144,600 | 513,682,743 | 857,661,179 | 866,911,414 |
| Restricted | 147,333,934 | 111,928,216 | 16,262,952 | 32,461,433 | 163,596,886 | 144,389,649 |
| Unrestricted | <u>64,026,685</u> | <u>66,785,387</u> | <u>114,643,047</u> | <u>59,641,687</u> | <u>178,669,732</u> | <u>126,427,074</u> |
| Total Net Assets | <u>\$ 572,877,198</u> | <u>531,942,274</u> | <u>627,050,599</u> | <u>605,785,863</u> | <u>1,199,927,797</u> | <u>1,137,728,137</u> |

An additional portion of the City's net assets (14 percent) represents resources that are subject to external restrictions on their use. The remaining balance of unrestricted net assets (15 percent) may be used to meet the government's ongoing obligations to citizens and creditors.

At August 31, 2004, 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, 2004 and 2003

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------------------|----------------------------|--------------------|-----------------------------|--------------------|----------------------|----------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 36,926,551 | 32,413,754 | 224,808,683 | 219,247,308 | 261,735,234 | 251,661,062 |
| Operating Grants and Contributions | 59,074,592 | 43,864,363 | 1,316,900 | 294,915 | 60,391,492 | 44,159,278 |
| Capital Grants and Contributions | 18,375,380 | 32,549,986 | 8,707,137 | 7,538,876 | 27,082,517 | 40,088,862 |
| General Revenues: | | | | | | |
| Property Tax | 39,138,647 | 36,389,326 | - | - | 39,138,647 | 36,389,326 |
| Sales and Use Tax | 51,978,978 | 49,010,546 | - | - | 51,978,978 | 49,010,546 |
| Other Taxes | 22,018,572 | 20,190,242 | 2,234,490 | 565,790 | 24,253,062 | 20,756,032 |
| Unrestricted Grants and Contributions | 1,597,551 | 2,970,754 | - | - | 1,597,551 | 2,970,754 |
| Unrestricted Investment Earnings | 3,163,454 | 2,157,467 | 4,387,629 | 5,045,047 | 7,531,083 | 7,202,514 |
| Other | 895,935 | 1,478,257 | 373,759 | 164,763 | 1,269,694 | 1,643,020 |
| Total Revenues | 233,169,660 | 221,024,695 | 241,828,598 | 232,856,699 | 474,998,258 | 453,881,394 |
| Expenses: | | | | | | |
| General Government | 28,475,396 | 26,781,326 | - | - | 28,475,396 | 26,781,326 |
| Public Safety | 66,461,665 | 60,312,147 | - | - | 66,461,665 | 60,312,147 |
| Streets and Highways | 24,066,450 | 21,627,658 | - | - | 24,066,450 | 21,627,658 |
| Culture and Recreation | 23,699,396 | 23,183,517 | - | - | 23,699,396 | 23,183,517 |
| Economic Opportunity | 16,778,622 | 18,803,783 | - | - | 16,778,622 | 18,803,783 |
| Health and Welfare | 18,122,416 | 17,232,211 | - | - | 18,122,416 | 17,232,211 |
| Mass Transit | 8,928,193 | 8,526,212 | - | - | 8,928,193 | 8,526,212 |
| Equipment Management | 1,017,244 | 580,423 | - | - | 1,017,244 | 580,423 |
| Engineering Services | 2,139,853 | 2,517,342 | - | - | 2,139,853 | 2,517,342 |
| Interest on Long-Term Debt | 3,701,385 | 3,510,748 | - | - | 3,701,385 | 3,510,748 |
| Parking | - | - | 4,962,873 | 4,512,610 | 4,962,873 | 4,512,610 |
| Golf Courses | - | - | 3,230,108 | 3,064,867 | 3,230,108 | 3,064,867 |
| Auditorium | - | - | 2,374,730 | 2,341,886 | 2,374,730 | 2,341,886 |
| Sanitary Landfill | - | - | 6,446,310 | 4,390,601 | 6,446,310 | 4,390,601 |
| Ambulance Transport | - | - | 3,684,221 | 3,905,011 | 3,684,221 | 3,905,011 |
| Wastewater | - | - | 15,461,420 | 13,205,150 | 15,461,420 | 13,205,150 |
| Water | - | - | 20,169,981 | 19,144,465 | 20,169,981 | 19,144,465 |
| Electric | - | - | 163,078,000 | 155,489,000 | 163,078,000 | 155,489,000 |
| Total Expenses | 193,390,620 | 183,075,367 | 219,407,643 | 206,053,590 | 412,798,263 | 389,128,957 |
| Increase in Net Assets Before Transfers | 39,779,040 | 37,949,328 | 22,420,955 | 26,803,109 | 62,199,995 | 64,752,437 |
| Transfers | 1,155,884 | 224,128 | (1,156,219) | (224,517) | (335) | (389) |
| Increase in Net Assets | 40,934,924 | 38,173,456 | 21,264,736 | 26,578,592 | 62,199,660 | 64,752,048 |
| Net Assets - Beginning | 531,942,274 | 493,768,818 | 605,785,863 | 579,207,271 | 1,137,728,137 | 1,072,976,089 |
| Net Assets - Ending | \$ 572,877,198 | 531,942,274 | 627,050,599 | 605,785,863 | 1,199,927,797 | 1,137,728,137 |

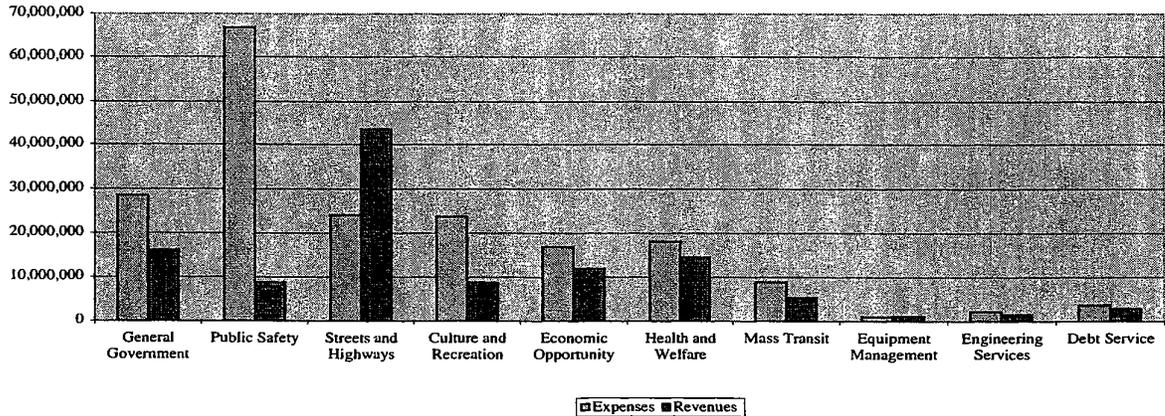
GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net assets by \$40,934,924, accounting for 66 percent of the total growth in the net assets of the City of Lincoln. Key elements of this increase are as follows:

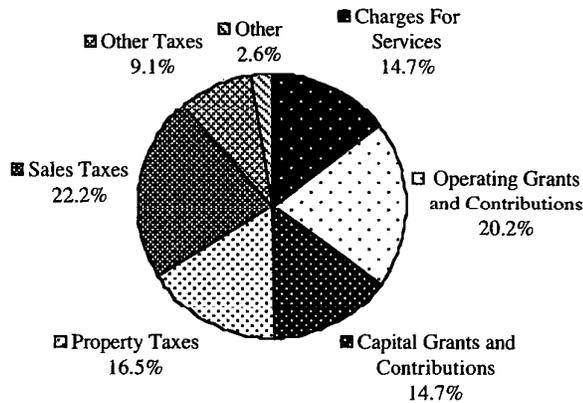
- The City's current year contribution to the Joint Antelope Valley Authority amounted to \$21,128,556.
- Property taxes increased by approximately \$2.7 million (7.5 percent) during 2004. The value created by new growth (improvements, new construction, additions of new property, and annexations) in the tax base was 4.5% over the prior tax base. Total growth in the tax base, which includes revaluations, annexations and other adjustments, was 14.5%. As a result of the percentage increase in property tax revenue in the budget being less than the percentage increase in the tax base, the tax rate per \$100 valuation decreased from \$.31452 to \$.29028 – a decrease of 7.7%.
- Net sales and use tax increased by approximately \$3 million (6 percent) during 2004. Legislation passed in 2002 and 2003 by the Nebraska Legislature expanded the sales tax base to include more services. This expansion generated additional collections beginning in December of 2003 due to implementation in October with a two month lag for the City to receive it.
- Other taxes increased by approximately \$1.8 million (9 percent). Wheel taxes increased effective January 1, 2004 and occupation taxes increased due to telecommunications collections, largely related to cell phone usage.

- Unrestricted investment earnings increased by approximately \$1 million (47%) during 2004. The City's implementation of an internal investment pool has provided for investing in more long-term securities at higher interest rates.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



BUSINESS-TYPE ACTIVITIES

Business-type activities increased the city's net assets by \$21,264,736, accounting for 34 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

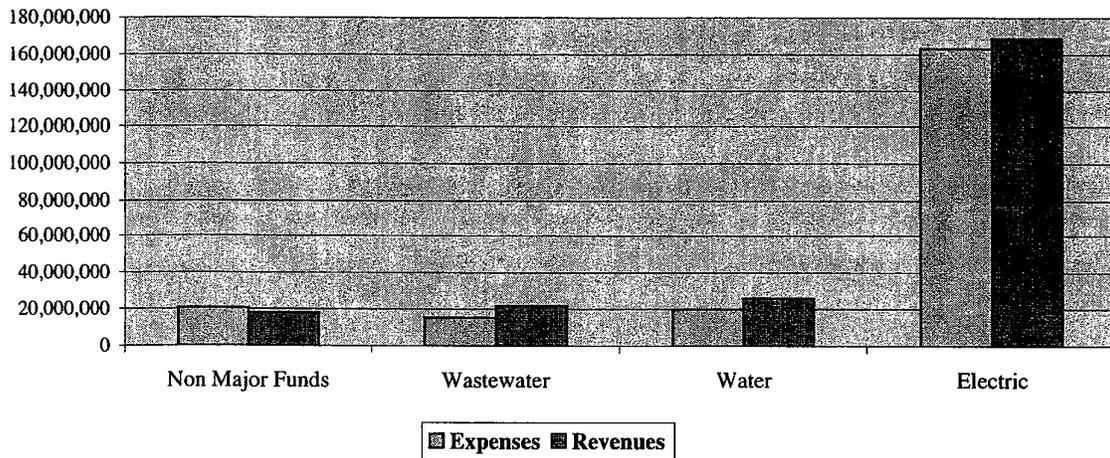
- Charges for services increased by approximately \$5.5 million, or 2.5 percent. The Water System revenues increased by \$1,285,099 (6.15%) due to a user fee increase of 7% implemented with the water billings beginning in February of 2003 and a 3% increase implemented with the water billings beginning in February 2004. Water usage for 2004 reflects an average year usage during normal weather conditions.

Wastewater revenues are also based on water usage. Even though total water pumpage for fiscal year 2004 was 868,483,750 gallons less than the prior year, an increase of 7% in user fees implemented in February 2004 resulted in an operating revenue increase of \$1,320,079 (9%).

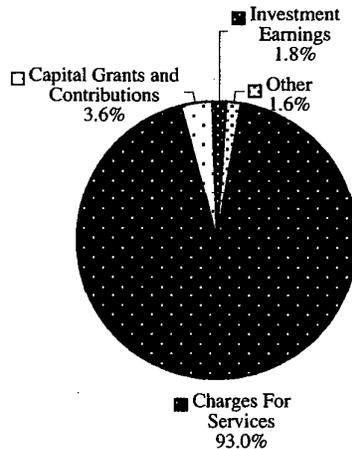
Revenues increased 2.4 percent for the Electric System with a rate increase put in place on April 1, 2003 producing most of the change. Cooling and heating degree days were below the prior year. Growth in the City remains constant with 2.2% more customers in 2003, now totaling nearly 119,000 customers.

- Lincoln Electric System (LES) operating expenses for 2003 were \$144,880,000, 7.4% above 2002 with power costs (replacement power from resource outages) and depreciation 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 \$4.9 million after the settlement and represents most of 2002 power costs reduction. Depreciation expense was above 2002 because of Salt Valley Generating Station starting partial commercial operation in 2003.

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, 2004, the City's governmental funds reported combined ending fund balances of \$187,197,133, an increase of \$25,255,860 in comparison with the prior year. Of this total amount, 53 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 (\$31,197,144),
- pay debt service (\$15,331,663),
- 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 (\$5,362,288).

The General Fund is the chief operating fund of the City. At August 31, 2004, the unreserved fund balance of the General Fund was \$32,552,543, while total fund balance reached \$35,973,419. 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 38 percent of total general fund expenditures, while total fund balance represents 42 percent of that same amount.

The fund balance of the City's General Fund decreased by \$1,143,371 during 2004. 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 \$38,732,945, which is to be used in the construction and maintenance of street and highways. The net increase in fund balance during 2004 in the Street Construction Fund was \$23,935,322. This increase was a result of proceeds received from the issue of \$35,000,000 of general obligation highway allocation bonds. Offsetting decreases were 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 \$(328,692). Expenditures in the fund increased by \$2,091,260 (9 percent) over 2003, while revenues increased by \$5,006,265 (26 percent). These increases were primarily due to the City's Holmes Lake restoration projects, access Medicaid programs, and FEMA programs.

The fund balance of the Community Health Permanent Endowment Fund increased by \$1,027,195 during 2004. This increase can be attributed to a 30 percent decrease in the allocation of grant funds in the current year. The level of grant funding issued by the fund is relative to the amount of earnings realized on investments in the prior years, which has been impacted by consistently low interest rates.

PROPRIETARY FUNDS

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

Unrestricted net assets of the Wastewater System, Water System, Electric System, and other enterprise funds amounted to \$23,650,451, \$20,161,662, \$66,414,000 and \$4,416,934, respectively, at August 31, 2004. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were relatively minor (decrease of \$33,135 in appropriations) and can be briefly summarized as follows:

- \$(91,122) in miscellaneous decreases in general government activities.
- \$(142,681) in decreases allocated to police and fire activities.
- \$(28,351) in decreases allocated to street maintenance.
- \$3,840 in increases allocated to parks and recreation.
- \$225,179 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:

- \$1,161,583 positive variance in property taxes. Actual property tax collections were 96.5% for the 2003 levy, while estimated tax revenue is based on 90% collections as provided by the City Charter.
- \$1,480,342 positive variance in general government/miscellaneous function expenditures. This variance was the result of better than anticipated insurance and contractual services costs, and contingency funds left unspent.
- \$1,611,536 positive variance in public safety function expenditures. This variance was the result of better than anticipated salary costs and the delay of certain capital improvement projects and purchases of capital equipment.

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, 2004, amounts to \$1,497,089,993 (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 2004 was 10 percent (a 9 percent increase for governmental activities and an 11 percent increase for business-type activities).

Major capital asset events during 2004 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, 2004, reached \$81,218,760.
- Purchase of ten buses for the StarTran transportation system at a cost of \$2,608,870.
- Addition of the City's share of the Public Building Commission's parking garage at a value of \$4,165,000.
- Construction of the Salt Valley Generating Station (SVGS) provided \$63 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 intermediate-load and peaking generation utilizing natural gas as the primary fuel in a simple cycle and combined cycle operation. The construction in simple-cycle mode was substantially completed in 2003 and combined-cycle operation was completed in mid 2004.

- Although the costs in 2003 and 2002 were insignificant to the balance sheet, an agreement with MidAmerican Energy Company was signed for a 100-mega-watt share of the 790 megawatt Council Bluffs #4 Unit slated to begin construction in 2003 and start commercial operation in 2007.
- Wastewater System capital assets increased by \$24,971,310 due to major project additions such as:
 - ✓ Northeast treatment plant - \$2,385,000
 - ✓ Theresa Street treatment plant - \$10,704,000
 - ✓ Trunk sewer improvements - \$7,184,000
- Water System capital assets increased by \$9,430,704 due to major project additions such as:
 - ✓ Pumping stations - \$1,123,000
 - ✓ Water distribution mains - \$1,625,000
 - ✓ Water transmission pump station and mains - \$2,745,000
 - ✓ Selected main replacements - \$785,000
 - ✓ Wellfield and water treatment plant - \$853,000
 - ✓ General system improvements - \$1,117,000

**City Of Lincoln
Capital Assets (net of depreciation)
August 31, 2004 and 2003**

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------------|----------------------------|-------------|-----------------------------|-------------|---------------|---------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Land | \$ 44,757,798 | 40,506,899 | 14,652,983 | 14,371,950 | 59,410,781 | 54,878,849 |
| Buildings | 44,713,299 | 41,084,650 | 136,123,119 | 126,330,190 | 180,836,418 | 167,414,840 |
| Improvements Other Than Buildings | 31,350,298 | 31,285,551 | 256,349,615 | 231,820,817 | 287,699,913 | 263,106,368 |
| Machinery and Equipment | 30,937,792 | 28,980,115 | 10,726,204 | 10,462,767 | 41,663,996 | 39,442,882 |
| Utility Plant | - | - | 501,468,000 | 405,775,000 | 501,468,000 | 405,775,000 |
| Infrastructure | 201,785,086 | 191,786,564 | - | - | 201,785,086 | 191,786,564 |
| Construction-in-progress | 85,135,927 | 69,777,976 | 139,089,872 | 164,339,164 | 224,225,799 | 234,117,140 |
| Total | \$ 438,680,200 | 403,421,755 | 1,058,409,793 | 953,099,888 | 1,497,089,993 | 1,356,521,643 |

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, 2004, the City of Lincoln had total bonded debt outstanding of \$681,530,000. Of this amount, \$98,815,000 comprises debt backed by the full faith and credit of the City and \$100,000 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, 2004 and 2003**

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------------------------------------|----------------------------|--------|-----------------------------|---------|---------|---------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| General Obligation Bonds | \$ 98,815 | 61,554 | - | - | 98,815 | 61,554 |
| Special Assessment Debt With Governmental Commitment | 100 | 205 | - | - | 100 | 205 |
| Tax-supported Revenue Bonds | 10,255 | 10,810 | - | - | 10,255 | 10,810 |
| Revenue Bonds | - | - | 572,360 | 499,320 | 572,360 | 499,320 |
| Total | \$ 109,170 | 72,569 | 572,360 | 499,320 | 681,530 | 571,889 |

The City's total bonded debt increased by \$109,641,000 (19 percent) during 2004. The key factor in this increase was the issuance of \$126,300,000 in revenue bonds by Lincoln Electric System to refund \$45.3 million of 1993 revenue bonds and provide construction funds to complete the SVGS and maintain the construction schedule of Council Bluffs #4 Unit.

The City also issued \$35,000,000 in general obligation bonds to finance items in its 2004-2009 street capital improvements program including (1) rehabilitation of arterial and residential streets, (2) studies, design,

easements and right-of-way acquisitions, (3) miscellaneous emergency and safety projects and operating improvements, (4) portions of the South Beltway project, and (5) improvements to South 14th Street, West Fletcher, and portions of the Antelope Valley Project.

The City maintains the following credit ratings:

| | Moody's Investors <u>Service</u> | Standard And <u>Poor's</u> | Fitch Investors <u>Service</u> |
|-------------------------------|----------------------------------------|----------------------------------|--------------------------------------|
| General Obligation Bonds | Aaa | AAA | |
| Municipal Infrastructure | | | |
| Redevelopment Fund Bonds | Aa2 | AAA | |
| Antelope Valley Project Bonds | Aa2 | AA | |
| Water Revenue Bonds | Aa2 | AA+ | |
| Wastewater Revenue Bonds | | | |
| MBIA insured | Aaa | AAA | |
| Underlying | Aa2 | AA+ | |
| Parking Revenue Bonds | A2 | A | |
| Electric Revenue | | | |
| 1998 Bonds | Aa2 | AA | AA |
| 2001 Bonds | Aa2 | AA | AA |
| 2002 Bonds | Aa2 | AA | AA |
| 2003 Bonds | Aa2 | AA | AA |
| Commercial Paper – tax exempt | | A1+ | F1+ |

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Property tax revenue required to fund the 2005 budget increased \$1,585,694 or 4.8% over the prior year. Total growth in the tax base is 3.1%. The estimated impact on the property tax rate in order to fund services and debt service is expected to be an increase of 1.6%.
- Sales tax collections for 2004 were below projections. The expansion of the sales tax base affected sales tax collection for only nine months of that year. During 2005 the City will receive the benefit of the sales tax base expansion for all twelve months, estimated to provide an additional \$360,000 in revenues. 2005 projections reflect a 5.1% increase over 2004 projections.
- Occupation tax revenues are expected to decrease by 4.8% in relation to telecommunications taxes. In addition, projections for 2004 included estimates of a one-time payment from the City's cable television provider over amounts owed the City that were in dispute.
- Recreation receipts are expected to increase by \$116,797 (6.2%) due to routine increases in fees for various programs and expanded recreation services, some of which are at new sites and generate new revenue.
- An increase of 911 Surcharge on phone lines from \$.75 to \$1.00 per month became effective January 1, 2005. Revenue is used for operations as well as capital improvements.
- A 5% water rate increase and a 7% wastewater rate increase were adopted by the City Council and become effective January of 2005.

All of these factors were considered in preparing the City's budget for the 2005 fiscal year.

At August 31, 2004, unreserved fund balance in the general fund amounted to \$32,552,543. The City of Lincoln has appropriated \$5,085,200 of this amount for spending in the 2005 fiscal year budget. The use of available fund balance aids the City in avoiding the need to raise additional property taxes during 2005.

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

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CITY OF LINCOLN, NEBRASKA
STATEMENT OF NET ASSETS
AUGUST 31, 2004

With Summarized Financial Information as of August 31, 2003

| | Governmental Activities | Business Activities | Totals | |
|----------------------------------------------------|----------------------------|------------------------|----------------------|----------------------|
| | | | 2004 | 2003 |
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 32,658,105 | 16,933,589 | 49,591,694 | 40,039,462 |
| Investments | 125,036,946 | 60,108,260 | 185,145,206 | 138,133,923 |
| Invested Securities Lending Collateral | 7,158,131 | - | 7,158,131 | 7,414,973 |
| Receivables. (Net of Allowance for Uncollectibles) | 11,701,063 | 27,475,761 | 39,176,824 | 41,263,543 |
| Internal Balances | (46,831) | 46,831 | - | - |
| Due from Other Governments | 29,247,591 | 6,334 | 29,253,925 | 20,653,313 |
| Inventories | 1,568,349 | 8,057,187 | 9,625,536 | 8,493,070 |
| Plant Operation Assets | - | 4,095,000 | 4,095,000 | 3,784,000 |
| Prepaid Items | 417,787 | 943,301 | 1,361,088 | 1,119,350 |
| Deferred Charges and Other Assets | 815,458 | 14,715,189 | 15,530,647 | 21,226,751 |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents | - | 829,896 | 829,896 | 744,847 |
| Investments | 37,160,000 | 148,896,475 | 186,056,475 | 226,556,829 |
| Receivables | - | 456,637 | 456,637 | 299,602 |
| Investment in Joint Venture | 47,842,172 | - | 47,842,172 | 26,713,616 |
| Capital Assets: | | | | |
| Non-depreciable | 129,893,725 | 153,742,855 | 283,636,580 | 288,995,989 |
| Depreciable (Net) | 308,786,475 | 904,666,938 | 1,213,453,413 | 1,067,525,654 |
| Total Assets | 732,238,971 | 1,340,974,253 | 2,073,213,224 | 1,892,964,922 |
| LIABILITIES | | | | |
| Accounts Payable | 9,853,179 | 18,197,201 | 28,050,380 | 26,003,046 |
| Accrued Liabilities | 5,663,573 | 9,059,392 | 14,722,965 | 13,315,434 |
| Due to Other Governments | 384,684 | 172,871 | 557,555 | 1,255,334 |
| Unearned Revenue | 1,222,292 | 158,288 | 1,380,580 | 1,093,528 |
| Obligations under Securities Lending | 7,158,131 | - | 7,158,131 | 7,414,973 |
| Other Liabilities | 1,405,448 | 6,689,547 | 8,094,995 | 6,480,187 |
| Matured Bonds and Interest Payable | 104,250 | - | 104,250 | 104,250 |
| Liabilities Payable from Restricted Assets | - | 13,371,552 | 13,371,552 | 20,534,257 |
| Noncurrent Liabilities: | | | | |
| Compensated Absences: | | | | |
| Payable within One Year | 5,594,820 | 770,044 | 6,364,864 | 5,863,144 |
| Payable in More Than One Year | 2,321,025 | 326,394 | 2,647,419 | 2,392,853 |
| Claims and Judgements: | | | | |
| Payable within One Year | 2,335,986 | - | 2,335,986 | 2,429,395 |
| Payable in More Than One Year | 2,659,135 | - | 2,659,135 | 2,714,445 |
| Bonds, Notes and Leases Payable: | | | | |
| Due within One Year | 5,775,790 | 20,332,962 | 26,108,752 | 23,988,841 |
| Due in More Than One Year | 113,453,077 | 637,487,403 | 750,940,480 | 635,154,098 |
| Deferred Credits and Other | - | 120,000 | 120,000 | 119,000 |
| Net Pension Obligation | 1,430,383 | - | 1,430,383 | 130,000 |
| Accrued Landfill Closure/Postclosure Care Costs | - | 7,238,000 | 7,238,000 | 6,244,000 |
| Total Liabilities | 159,361,773 | 713,923,654 | 873,285,427 | 755,236,785 |
| NET ASSETS | | | | |
| Invested in Capital Assets, Net of Related Debt | 361,516,579 | 496,144,600 | 857,661,179 | 866,911,414 |
| Restricted for: | | | | |
| Debt Service, Net of Related Debt | 16,468,120 | 15,008,907 | 31,477,027 | 18,882,599 |
| Capital Projects | 83,998,941 | 1,241,845 | 85,240,786 | 79,055,307 |
| Other | 88,000 | 12,200 | 100,200 | 820,475 |
| Trust Donations: | | | | |
| Expendable | 1,593,129 | - | 1,593,129 | 1,472,719 |
| Nonexpendable | 160,000 | - | 160,000 | 160,000 |
| Health Care: | | | | |
| Expendable | 8,025,744 | - | 8,025,744 | 6,998,549 |
| Nonexpendable | 37,000,000 | - | 37,000,000 | 37,000,000 |
| Unrestricted | 64,026,685 | 114,643,047 | 178,669,732 | 126,427,074 |
| Total Net Assets | \$ 572,877,198 | 627,050,599 | 1,199,927,797 | 1,137,728,137 |

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, 2004
 With Summarized Financial Information for the Year Ended August 31, 2003

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|---------------------------------------------|-------------------------|-------------------------|------------------------------------------|----------------------------------------|----------------------------------------------------|-----------------------------|----------------------|----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Totals | |
| | | | | | | | 2004 | 2003 |
| Functions/Programs | | | | | | | | |
| Governmental Activities: | | | | | | | | |
| General Government | \$ (28,475,396) | 14,507,882 | 1,355,675 | 288,935 | (12,322,904) | - | (12,322,904) | (11,226,732) |
| Public Safety | (66,461,665) | 6,136,393 | 2,648,236 | 7,499 | (57,669,537) | - | (57,669,537) | (52,521,499) |
| Streets and Highways | (24,066,450) | 4,191,241 | 25,705,025 | 13,612,739 | 19,442,555 | - | 19,442,555 | 23,383,475 |
| Culture and Recreation | (23,699,396) | 2,792,436 | 3,039,045 | 2,980,904 | (14,887,011) | - | (14,887,011) | (17,487,165) |
| Economic Opportunity | (16,778,622) | 2,573,607 | 9,406,861 | 17,963 | (4,780,191) | - | (4,780,191) | (5,225,814) |
| Health and Welfare | (18,122,416) | 2,979,036 | 11,521,123 | - | (3,622,257) | - | (3,622,257) | (4,845,941) |
| Mass Transit | (8,928,193) | 1,463,224 | 3,827,318 | - | (3,637,651) | - | (3,637,651) | (5,757,335) |
| Equipment Management | (1,017,244) | 1,044,293 | - | - | 27,049 | - | 27,049 | 357,001 |
| Engineering Services | (2,139,853) | 1,006,874 | 51,309 | 376,565 | (705,105) | - | (705,105) | (851,859) |
| Utility Services | - | - | - | - | - | - | - | 77,575 |
| Interest on Long-Term Debt | (3,701,385) | 231,565 | 1,520,000 | 1,090,775 | (859,045) | - | (859,045) | (348,970) |
| Total Governmental Activities | (193,390,620) | 36,926,551 | 59,074,592 | 18,375,380 | (79,014,097) | - | (79,014,097) | (74,247,264) |
| Business-Type Activities: | | | | | | | | |
| Parking Lots | (231,572) | 202,123 | - | - | - | (29,449) | (29,449) | 24,070 |
| Golf | (3,230,108) | 2,895,132 | - | 12,716 | - | (322,260) | (322,260) | (290,421) |
| Parking Facilities | (4,731,301) | 5,320,210 | - | - | - | 588,909 | 588,909 | 704,769 |
| Municipal Auditorium | (2,374,730) | 1,601,341 | - | 32,350 | - | (741,039) | (741,039) | (629,772) |
| Sanitary Landfill | (6,446,310) | 4,299,079 | - | 42,510 | - | (2,104,721) | (2,104,721) | 1,015,021 |
| Emergency Medical Services | (3,684,221) | 3,578,560 | - | - | - | (105,661) | (105,661) | 18,257 |
| Wastewater System | (15,461,420) | 15,980,045 | 1,316,900 | 4,501,573 | - | 6,337,098 | 6,337,098 | 5,824,487 |
| Water System | (20,169,981) | 22,064,193 | - | 4,117,988 | - | 6,012,200 | 6,012,200 | 4,876,098 |
| Electric System | (163,078,000) | 168,868,000 | - | - | - | 5,790,000 | 5,790,000 | 9,485,000 |
| Total Business-Type Activities | (219,407,643) | 224,808,683 | 1,316,900 | 8,707,137 | - | 15,425,077 | 15,425,077 | 21,027,509 |
| Total Primary Government | \$ (412,798,263) | 261,735,234 | 60,391,492 | 27,082,517 | (79,014,097) | 15,425,077 | (63,589,020) | (53,219,755) |
| General Revenues: | | | | | | | | |
| Property Tax | | | | | 39,138,647 | - | 39,138,647 | 36,389,326 |
| Motor Vehicle Tax | | | | | 4,055,313 | - | 4,055,313 | 3,823,011 |
| Wheel Tax | | | | | 8,634,929 | - | 8,634,929 | 7,767,169 |
| Sales and Use Tax | | | | | 51,978,978 | - | 51,978,978 | 49,010,546 |
| Sundry and In Lieu Tax | | | | | 36,735 | - | 36,735 | 44,810 |
| Occupation Tax | | | | | 9,291,595 | 2,234,490 | 11,526,085 | 9,121,042 |
| Unrestricted Grants and Contributions | | | | | 1,597,551 | - | 1,597,551 | 2,970,754 |
| Unrestricted Investment Earnings | | | | | 3,163,454 | 4,387,629 | 7,551,083 | 7,202,514 |
| Miscellaneous General Revenues | | | | | 590,961 | 80,033 | 670,994 | 497,324 |
| Gain on Sale of Capital Assets | | | | | 304,974 | 293,726 | 598,700 | 1,145,696 |
| Transfers | | | | | 1,155,884 | (1,156,219) | (335) | (389) |
| Total General Revenues and Transfers | | | | | 119,949,021 | 5,839,659 | 125,788,680 | 117,971,803 |
| Change in Net Assets | | | | | 40,934,924 | 21,264,736 | 62,199,660 | 64,752,048 |
| Net Assets - Beginning | | | | | 531,942,274 | 605,785,863 | 1,137,728,137 | 1,072,976,089 |
| Net Assets - Ending | | | | | \$ 572,877,198 | 627,050,599 | 1,199,927,797 | 1,137,728,137 |

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

CITY OF LINCOLN, NEBRASKA
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2004

| | General Fund | Street Construction Fund | Federal Grants Fund | Community Health Permanent Endowment Fund | Other Governmental Funds | Total |
|----------------------------------------------------|-----------------------------|--------------------------------|---------------------------|-------------------------------------------------------|--------------------------------|--------------------|
| ASSETS | | | | | | |
| Cash and Cash Equivalents | \$ 6,632,851 | 7,415,970 | 2,026 | 1,774,886 | 13,589,573 | 29,415,306 |
| Investments | 18,544,417 | 30,061,944 | - | 43,079,904 | 57,363,770 | 149,050,035 |
| Invested Securities Lending Collateral | - | - | - | 7,158,131 | - | 7,158,131 |
| Receivables, (Net of Allowance for Uncollectibles) | 4,870,139 | 350,657 | 12,086 | 196,585 | 5,864,184 | 11,293,651 |
| Due from Other Funds | 1,765,073 | 2,158,362 | 3,000 | - | 559,515 | 4,485,950 |
| Due from Other Governments | 9,736,917 | 14,797,552 | 2,155,983 | - | 2,015,582 | 28,706,034 |
| Assets Held for Resale | - | - | - | - | 88,000 | 88,000 |
| Inventories | 307,603 | 56,305 | - | - | 752,669 | 1,116,577 |
| Prepaid Items | 243,272 | - | - | - | - | 243,272 |
| Total Assets | <u>42,100,272</u> | <u>54,840,790</u> | <u>2,173,095</u> | <u>52,209,506</u> | <u>80,233,293</u> | <u>231,556,956</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts Payable | 1,169,818 | 3,344,671 | 765,960 | 23,080 | 1,988,024 | 7,291,553 |
| Contracts Payable | - | 1,368,045 | - | - | 645,730 | 2,013,775 |
| Accrued Liabilities | 2,880,416 | 137,504 | 386,589 | 2,468 | 1,702,782 | 5,109,759 |
| Due to Other Funds | 684,868 | 74,316 | 248,946 | 83 | 4,254,345 | 5,262,558 |
| Due to Other Governments | 52,153 | 7,122 | 254,305 | - | 66,741 | 380,321 |
| Unearned Revenue | - | - | - | - | 275,696 | 275,696 |
| Obligations under Securities Lending | - | - | - | 7,158,131 | - | 7,158,131 |
| Deferred Revenue | 1,339,598 | 11,176,187 | 845,987 | - | 3,402,008 | 16,763,780 |
| Matured Bonds and Interest Payable | - | - | - | - | 104,250 | 104,250 |
| Total Liabilities | <u>6,126,853</u> | <u>16,107,845</u> | <u>2,501,787</u> | <u>7,183,762</u> | <u>12,439,576</u> | <u>44,359,823</u> |
| Fund Balances (Deficits): | | | | | | |
| Reserved for: | | | | | | |
| Encumbrances | 967,203 | 21,098,139 | 2,087,844 | - | 7,043,958 | 31,197,144 |
| Inventories | 307,603 | 56,305 | - | - | 752,669 | 1,116,577 |
| Prepaid Items | 243,272 | - | - | - | - | 243,272 |
| Improvements | 1,902,798 | - | - | - | 258,512 | 2,161,310 |
| Debt Service | - | - | - | - | 15,331,663 | 15,331,663 |
| Trust Donations | - | - | - | - | 1,753,129 | 1,753,129 |
| Resale Assets | - | - | - | - | 88,000 | 88,000 |
| Health Care (non-expendable) | - | - | - | 37,000,000 | - | 37,000,000 |
| Unreserved, Reported in: | | | | | | |
| General Fund: | | | | | | |
| Designated for Debt Service | 378,822 | - | - | - | - | 378,822 |
| Designated for Subsequent Years Expenditures | 7,233,409 | - | - | - | - | 7,233,409 |
| Undesignated | 24,940,312 | - | - | - | - | 24,940,312 |
| Special Revenue Funds: | | | | | | |
| Designated for Subsequent Years Expenditures | - | 552,012 | - | - | 1,496,837 | 2,048,849 |
| Undesignated | - | 17,026,489 | (2,416,536) | - | 15,104,528 | 29,714,481 |
| Debt Service Funds | - | - | - | - | 7,344,884 | 7,344,884 |
| Capital Projects Funds | - | - | - | - | 18,619,537 | 18,619,537 |
| Permanent Fund | - | - | - | 8,025,744 | - | 8,025,744 |
| Total Fund Balances (Deficits) | <u>35,973,419</u> | <u>38,732,945</u> | <u>(328,692)</u> | <u>45,025,744</u> | <u>67,793,717</u> | <u>187,197,133</u> |
| Total Liabilities and Fund Balances | \$ <u>42,100,272</u> | <u>54,840,790</u> | <u>2,173,095</u> | <u>52,209,506</u> | <u>80,233,293</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. | 429,895,369 |
| Investment in joint venture is not a financial resource and, therefore, not reported in the funds. | 47,842,172 |
| Other long-term assets are not available to pay for current-period expenditures and, therefore, deferred in the funds. | 16,763,780 |
| 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. | 19,741,077 |
| Accrued pension contribution liability requires the use of unavailable financial resources and, therefore, is not reported in the funds. | (61,035) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds. | (128,501,298) |
| Net assets of governmental activities | <u>\$ 572,877,198</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, 2004

| | General Fund | Street Construction Fund | Federal Grants Fund | Community Health Permanent Endowment Fund | Other Governmental Funds | Total |
|--------------------------------------------------------------|---------------------|--------------------------------|---------------------------|-------------------------------------------------------|--------------------------------|--------------------|
| REVENUES | | | | | | |
| Taxes: | | | | | | |
| Property | \$ 22,068,142 | - | - | - | 16,757,138 | 38,825,280 |
| Motor Vehicle | 4,055,313 | - | - | - | - | 4,055,313 |
| Wheel | - | - | - | - | 8,634,929 | 8,634,929 |
| Sales and Use | 51,978,978 | - | - | - | - | 51,978,978 |
| Sundry and In Lieu | 20,210 | - | - | - | 10,984 | 31,194 |
| Occupation | 9,265,448 | - | - | - | - | 9,265,448 |
| Special Assessment | - | - | - | - | 1,965,820 | 1,965,820 |
| Intergovernmental | 2,889,708 | 24,313,752 | 21,466,761 | 2,500 | 9,946,978 | 58,619,699 |
| Permits and Fees | 3,016,632 | 2,412,301 | 553,920 | - | 9,610,473 | 15,593,326 |
| Reimbursement for Services | 5,140,327 | 28,629 | 527,977 | - | 625,937 | 6,322,870 |
| Program Income | - | - | 1,808,012 | - | - | 1,808,012 |
| Investment Earnings | 655,726 | 613,767 | 16,961 | 2,408,742 | 1,512,515 | 5,207,711 |
| Donations | 740,441 | - | 100,798 | 11,050 | 917,488 | 1,769,777 |
| Keno Proceeds | - | - | - | - | 3,331,968 | 3,331,968 |
| Miscellaneous | 493,389 | 1,661,260 | 5,959 | 81,465 | 1,036,690 | 3,278,763 |
| Total Revenues | 100,324,314 | 29,029,709 | 24,480,388 | 2,503,757 | 54,350,920 | 210,689,088 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General Government | 24,385,100 | - | 529,899 | - | 5,969,545 | 30,884,544 |
| Public Safety | 44,757,993 | - | 2,781,687 | - | 7,733,240 | 55,272,920 |
| Streets and Highways | 5,554,330 | 5,053,543 | 42,510 | - | 2,983,519 | 13,633,902 |
| Culture and Recreation | 10,531,483 | - | 3,823,324 | - | 7,954,133 | 22,308,940 |
| Economic Opportunity | 326,158 | - | 9,906,518 | - | 4,495,834 | 14,728,510 |
| Health and Welfare | 536,337 | - | 7,254,446 | 1,476,562 | 9,277,322 | 18,544,667 |
| Mass Transit | - | - | 123,337 | - | 10,401,753 | 10,525,090 |
| Debt Service | - | - | - | - | 7,914,521 | 7,914,521 |
| Capital Outlay | - | 42,505,523 | - | - | 15,672,410 | 58,177,933 |
| Total Expenditures | 86,091,401 | 47,559,066 | 24,461,721 | 1,476,562 | 72,402,277 | 231,991,027 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 14,232,913 | (18,529,357) | 18,667 | 1,027,195 | (18,051,357) | (21,301,939) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers In | 1,488,099 | 7,502,643 | 767,195 | - | 22,613,661 | 32,371,598 |
| Transfers Out | (18,830,731) | (1,949,786) | (63,250) | - | (10,819,934) | (31,663,701) |
| Issuance of Debt | 1,930,000 | 35,000,000 | - | - | 6,869,999 | 43,799,999 |
| Premiums / Discounts on Debt Issued | (4,976) | 1,911,822 | - | - | 6,088 | 1,912,934 |
| Sale of Capital Assets | 41,324 | - | - | - | 95,645 | 136,969 |
| Total Other Financing Sources (Uses) | (15,376,284) | 42,464,679 | 703,945 | - | 18,765,459 | 46,557,799 |
| Net Change in Fund Balances | (1,143,371) | 23,935,322 | 722,612 | 1,027,195 | 714,102 | 25,255,860 |
| Fund Balances (Deficits) - Beginning | 37,116,790 | 14,797,623 | (1,051,304) | 43,998,549 | 67,079,615 | 161,941,273 |
| Fund Balances (Deficits) - Ending | \$ 35,973,419 | 38,732,945 | (328,692) | 45,025,744 | 67,793,717 | 187,197,133 |

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, 2004

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

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Net change in fund balances - total governmental funds | \$ 25,255,860 |
| 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. | 22,828,271 |
| The net effect of various miscellaneous transactions involving capital contributions is to increase net assets. | 8,200,637 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 6,215,960 |
| 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. | (40,143,143) |
| 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. | (1,476,716) |
| Changes in the net pension asset/obligation do not represent financial activity in governmental funds. | (1,300,383) |
| Changes in the interest in the underlying capital assets of the joint venture do not represent financial activity in governmental funds. | 21,128,556 |
| Some pension contribution expenses require the use of unavailable financial resources and, therefore, are not reported as expenditures in governmental funds. | (18,514) |
| Internal service funds are used by management to charge the costs of certain services to individual funds. | 244,396 |
| Change in net assets of governmental activities | <u>\$ 40,934,924</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, 2004

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with Final Budget |
|----------------------------------------|-------------------------|---------------------|---------------------------|-------------------------------|
| | <u>Original</u> | <u>Final</u> | | Positive (Negative) |
| Revenues: | | | | |
| Real Estate and Personal Property Tax | \$ 24,244,358 | 24,244,358 | 25,405,941 | 1,161,583 |
| Taxes Collected by Others | 51,996,219 | 51,996,219 | 51,869,477 | (126,742) |
| Sundry Taxes and In Lieu | 31,621 | 31,621 | 25,345 | (6,276) |
| Occupation Taxes | 9,651,923 | 9,651,923 | 9,257,597 | (394,326) |
| Special Assessment | 6,900 | 6,900 | 1,091 | (5,809) |
| Intergovernmental | 2,940,884 | 2,940,884 | 2,790,690 | (150,194) |
| Permits and Fees | 2,578,300 | 2,578,300 | 2,482,349 | (95,951) |
| Reimbursement for Services | 2,285,248 | 2,285,248 | 2,101,822 | (183,426) |
| Court Fees | 668,500 | 668,500 | 521,252 | (147,248) |
| Recreation Receipts | 1,882,956 | 1,882,956 | 1,687,283 | (195,673) |
| Investment Earnings | 424,139 | 424,139 | 603,092 | 178,953 |
| Donations | 758,580 | 758,580 | 758,580 | - |
| Rental Income | 368,938 | 368,938 | 448,213 | 79,275 |
| Parking Revenue | 835,000 | 835,000 | 835,000 | - |
| Miscellaneous | 303,328 | 303,328 | 775,557 | 472,229 |
| Total Revenues | <u>98,976,894</u> | <u>98,976,894</u> | <u>99,563,289</u> | <u>586,395</u> |
| Expenditures: | | | | |
| General Government: | | | | |
| Legislative | 284,345 | 284,345 | 220,477 | 63,868 |
| Executive | 1,280,271 | 1,280,271 | 1,219,942 | 60,329 |
| Financial Administration | 2,235,608 | 2,270,608 | 2,082,124 | 188,484 |
| Law | 1,939,879 | 1,939,879 | 1,861,402 | 78,477 |
| Personnel Administration | 788,194 | 793,194 | 790,806 | 2,388 |
| Planning and Zoning | 1,687,925 | 1,687,925 | 1,434,819 | 253,106 |
| Urban Development | 742,608 | 750,517 | 1,103,143 | (352,626) |
| Miscellaneous | 17,165,021 | 17,025,990 | 15,545,648 | 1,480,342 |
| Total General Government | <u>26,123,851</u> | <u>26,032,729</u> | <u>24,258,361</u> | <u>1,774,368</u> |
| Public Safety: | | | | |
| Police | 26,514,697 | 26,437,326 | 25,825,239 | 612,087 |
| Fire | 17,980,398 | 17,915,088 | 16,959,886 | 955,202 |
| Traffic Engineering | 1,568,510 | 1,568,510 | 1,524,263 | 44,247 |
| Total Public Safety | <u>46,063,605</u> | <u>45,920,924</u> | <u>44,309,388</u> | <u>1,611,536</u> |
| Streets and Highways: | | | | |
| Street Maintenance | 2,591,682 | 2,563,331 | 2,303,074 | 260,257 |
| Street Lighting | 3,482,600 | 3,482,600 | 3,495,360 | (12,760) |
| Total Streets and Highways | <u>6,074,282</u> | <u>6,045,931</u> | <u>5,798,434</u> | <u>247,497</u> |
| Culture and Recreation: | | | | |
| Parks and Recreation | 10,501,678 | 10,505,518 | 10,366,285 | 139,233 |
| Libraries | 75,140 | 75,140 | 75,140 | - |
| Total Culture and Recreation | <u>10,576,818</u> | <u>10,580,658</u> | <u>10,441,425</u> | <u>139,233</u> |
| Economic Opportunity: | | | | |
| Lincoln Area Agency on Aging | 330,344 | 330,344 | 330,344 | - |
| Health and Welfare: | | | | |
| Lincoln/Lancaster County Health | 520,774 | 520,774 | 520,774 | - |
| Total Expenditures | <u>89,689,674</u> | <u>89,431,360</u> | <u>85,658,726</u> | <u>3,772,634</u> |
| Excess of Revenues Over Expenditures | <u>9,287,220</u> | <u>9,545,534</u> | <u>13,904,563</u> | <u>4,359,029</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers In | 1,566,885 | 1,566,885 | 1,484,305 | (82,580) |
| Transfers Out | (22,633,406) | (22,858,585) | (19,401,649) | 3,456,936 |
| Proceeds from Issuance of Debt | 1,930,000 | 1,930,000 | 1,930,000 | - |
| Premiums / Discounts on Debt Issued | - | - | (4,976) | (4,976) |
| Sale of Capital Assets | 38,543 | 38,543 | 41,324 | 2,781 |
| Total Other Financing Sources (Uses) | <u>(19,097,978)</u> | <u>(19,323,157)</u> | <u>(15,950,996)</u> | <u>3,372,161</u> |
| Net Change in Fund Balances | <u>(9,810,758)</u> | <u>(9,777,623)</u> | <u>(2,046,433)</u> | <u>7,731,190</u> |
| Fund Balances - Beginning | <u>29,511,816</u> | <u>29,511,816</u> | <u>29,511,816</u> | <u>-</u> |
| Fund Balances - Ending | <u>\$ 19,701,058</u> | <u>19,734,193</u> | <u>27,465,383</u> | <u>7,731,190</u> |

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

CITY OF LINCOLN, NEBRASKA
STREET CONSTRUCTION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2004

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with Final Budget Positive (Negative) |
|----------------------------------------------|-------------------------|-------------------|---------------------------|---------------------------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Intergovernmental | \$ 15,000,000 | 15,000,000 | 15,179,200 | 179,200 |
| Permits and Fees | - | - | 2,417,587 | 2,417,587 |
| Reimbursement for Services | 225,000 | 225,000 | 18,025 | (206,975) |
| Investment Earnings | 300,000 | 300,000 | 251,995 | (48,005) |
| Miscellaneous | - | - | 1,034 | 1,034 |
| Total Revenues | <u>15,525,000</u> | <u>15,525,000</u> | <u>17,867,841</u> | <u>2,342,841</u> |
| Expenditures -- Streets and Highways: | | | | |
| Personal Services | 2,920,800 | 2,920,800 | 2,889,559 | 31,241 |
| Materials and Supplies | 426,200 | 426,200 | 441,117 | (14,917) |
| Other Services and Charges | 1,794,457 | 1,794,457 | 1,655,677 | 138,780 |
| Capital Outlay | 113,050 | 113,050 | 94,350 | 18,700 |
| Total Expenditures | <u>5,254,507</u> | <u>5,254,507</u> | <u>5,080,703</u> | <u>173,804</u> |
| Excess of Revenues Over Expenditures | <u>10,270,493</u> | <u>10,270,493</u> | <u>12,787,138</u> | <u>2,516,645</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers In | 7,502,643 | 7,502,643 | 7,502,643 | - |
| Transfers Out | (1,949,786) | (1,949,786) | (1,949,786) | - |
| Issuance of Debt | 35,000,000 | 35,000,000 | 35,000,000 | - |
| Premiums / Discounts on Debt Issued | - | - | 1,911,822 | 1,911,822 |
| Total Other Financing Sources (Uses) | <u>40,552,857</u> | <u>40,552,857</u> | <u>42,464,679</u> | <u>1,911,822</u> |
| Net Change in Fund Balances | 50,823,350 | 50,823,350 | 55,251,817 | 4,428,467 |
| Amount Not Required to be Budgeted | (29,747,782) | (29,747,782) | (29,747,782) | - |
| Fund Balances - Beginning | <u>10,304,752</u> | <u>10,304,752</u> | <u>10,304,752</u> | <u>-</u> |
| Fund Balances - Ending | <u>\$ 31,380,320</u> | <u>31,380,320</u> | <u>35,808,787</u> | <u>4,428,467</u> |

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

CITY OF LINCOLN, NEBRASKA
FEDERAL GRANTS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2004

| | <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | Variance with |
|-------------------------------------|-------------------------|-------------------|---------------------------------|----------------------------------------|
| | <u>Original</u> | <u>Final</u> | | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Intergovernmental | \$ 21,626,671 | 21,626,671 | 21,501,669 | (125,002) |
| Permits and Fees | 552,584 | 552,584 | 552,584 | - |
| Reimbursement for Services | 204,044 | 204,044 | 204,044 | - |
| Client Contributions | 1,064 | 1,064 | 1,064 | - |
| Program Income | 1,219,849 | 1,219,849 | 1,808,012 | 588,163 |
| Recreation Receipts | 216,764 | 216,764 | 216,764 | - |
| Investment Earnings | 14,524 | 14,524 | 15,570 | 1,046 |
| Donations | 100,798 | 100,798 | 100,798 | - |
| Rental Income | 75,000 | 75,000 | 100,551 | 25,551 |
| Miscellaneous | 5,851 | 5,851 | 5,949 | 98 |
| Total Revenues | <u>24,017,149</u> | <u>24,017,149</u> | <u>24,507,005</u> | <u>489,856</u> |
| Expenditures: | | | | |
| General Government: | | | | |
| Materials and Supplies | 938 | 938 | 938 | - |
| Other Services and Charges | 508,573 | 508,573 | 508,573 | - |
| Capital Outlay | 36,771 | 36,771 | 36,771 | - |
| Total General Government | <u>546,282</u> | <u>546,282</u> | <u>546,282</u> | <u>-</u> |
| Public Safety: | | | | |
| Personal Services | 878,389 | 878,389 | 878,389 | - |
| Materials and Supplies | 109,207 | 109,207 | 109,207 | - |
| Other Services and Charges | 654,551 | 654,551 | 654,551 | - |
| Capital Outlay | 1,067,970 | 1,067,970 | 1,067,970 | - |
| Total Public Safety | <u>2,710,117</u> | <u>2,710,117</u> | <u>2,710,117</u> | <u>-</u> |
| Culture and Recreation: | | | | |
| Personal Services | 395,471 | 395,471 | 395,471 | - |
| Materials and Supplies | 38,728 | 38,728 | 38,728 | - |
| Other Services and Charges | 222,951 | 222,951 | 222,951 | - |
| Capital Outlay | 3,503,769 | 3,503,769 | 3,503,769 | - |
| Total Culture and Recreation | <u>4,160,919</u> | <u>4,160,919</u> | <u>4,160,919</u> | <u>-</u> |
| Economic Opportunity: | | | | |
| Personal Services | 3,524,736 | 3,516,467 | 3,525,345 | (8,878) |
| Materials and Supplies | 133,070 | 133,070 | 133,886 | (816) |
| Other Services and Charges | 1,919,576 | 1,949,023 | 2,106,762 | (157,739) |
| Capital Outlay | 476,527 | 1,037,449 | 253,898 | 783,551 |
| Loans and Grants | 3,970,084 | 5,259,410 | 4,039,685 | 1,219,725 |
| Total Economic Opportunity | <u>10,023,993</u> | <u>11,895,419</u> | <u>10,059,576</u> | <u>1,835,843</u> |

(Continued)

(Federal Grants Fund, Continued)

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|----------------------------------------------|-----------------------|--------------------|--------------------|---------------------------------------------------------|
| | Original | Final | | |
| Health and Welfare: | | | | |
| Personal Services | 3,521,898 | 3,521,898 | 3,521,898 | - |
| Materials and Supplies | 197,032 | 197,032 | 197,032 | - |
| Other Services and Charges | 3,264,167 | 3,264,167 | 3,264,167 | - |
| Capital Outlay | 448,440 | 448,440 | 448,440 | - |
| Loans and Grants | 86,827 | 86,827 | 86,827 | - |
| Total Health and Welfare | <u>7,518,364</u> | <u>7,518,364</u> | <u>7,518,364</u> | <u>-</u> |
| Mass Transit: | | | | |
| Personal Services | 116,649 | 116,649 | 116,649 | - |
| Other Services and Charges | 4,732 | 4,732 | 4,732 | - |
| Capital Outlay | 477 | 477 | 477 | - |
| Total Mass Transit | <u>121,858</u> | <u>121,858</u> | <u>121,858</u> | <u>-</u> |
| Total Expenditures | <u>25,081,533</u> | <u>26,952,959</u> | <u>25,117,116</u> | <u>1,835,843</u> |
| Deficiency of Revenues Under Expenditures | <u>(1,064,384)</u> | <u>(2,935,810)</u> | <u>(610,111)</u> | <u>2,325,699</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers In | 585,215 | 585,215 | 767,195 | 181,980 |
| Transfers Out | <u>(6,515)</u> | <u>(6,515)</u> | <u>(59,515)</u> | <u>(53,000)</u> |
| Total Other Financing Sources (Uses) | <u>578,700</u> | <u>578,700</u> | <u>707,680</u> | <u>128,980</u> |
| Net Change in Fund Balances | (485,684) | (2,357,110) | 97,569 | 2,454,679 |
| Fund Deficits - Beginning | <u>(1,313,919)</u> | <u>(1,313,919)</u> | <u>(1,313,919)</u> | <u>-</u> |
| Fund Deficits - Ending | <u>\$ (1,799,603)</u> | <u>(3,671,029)</u> | <u>(1,216,350)</u> | <u>2,454,679</u> |

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

CITY OF LINCOLN, NEBRASKA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2004

| | Business-Type Activities -- Enterprise Funds | | | | Total | Governmental Activities -- Internal Service Funds |
|-----------------------------------------------------------------------|----------------------------------------------|----------------------------|-------------------------------|------------------------------|----------------------|---------------------------------------------------------------|
| | Lincoln Wastewater System | Lincoln Water System | Lincoln Electric System | Other Enterprise Funds | | |
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 10,553,449 | 3,320,310 | 587,000 | 2,472,830 | 16,933,589 | 3,242,799 |
| Investments | - | - | 50,373,000 | 9,735,260 | 60,108,260 | 13,146,911 |
| Accounts Receivable, (Net of Allowance for Uncollectibles) | 1,952,321 | 2,190,211 | 7,247,000 | 2,517,872 | 13,907,404 | 325,360 |
| Accrued Interest Receivable | - | - | 669,000 | 64,458 | 733,458 | 82,052 |
| Unbilled Revenues | 1,621,092 | 3,108,807 | 8,105,000 | - | 12,834,899 | - |
| Due from Other Funds | 337,721 | 873,440 | - | 34,510 | 1,245,671 | 766,128 |
| Due from Other Governments | - | - | - | 6,334 | 6,334 | 541,557 |
| Inventories | 107,225 | 785,446 | 6,982,000 | 182,516 | 8,057,187 | 451,772 |
| Plant Operation Assets | - | - | 4,095,000 | - | 4,095,000 | - |
| Prepaid Expenses | - | - | 866,000 | 77,301 | 943,301 | 174,515 |
| Total Current Assets | 14,571,808 | 10,278,214 | 78,924,000 | 15,091,081 | 118,865,103 | 18,731,094 |
| Noncurrent Assets: | | | | | | |
| Restricted Assets: | | | | | | |
| Cash and Cash Equivalents | - | - | 6,000 | 823,896 | 829,896 | - |
| Investments | 48,042,522 | 16,698,144 | 81,828,000 | 2,327,809 | 148,836,475 | - |
| Accounts Receivable | - | - | - | 3,556 | 3,556 | - |
| Accrued Interest Receivable | 304,840 | 118,730 | - | 29,511 | 453,081 | - |
| Total Restricted Assets | 48,347,362 | 16,816,874 | 81,834,000 | 3,184,772 | 150,183,008 | - |
| Deferred Charges | 594,824 | 532,589 | 13,029,000 | 558,776 | 14,715,189 | - |
| Capital Assets: | | | | | | |
| Land | 2,280,164 | 4,712,695 | - | 7,660,124 | 14,652,983 | 48,250 |
| Buildings | 49,588,684 | 94,376,266 | - | 49,008,455 | 192,973,405 | 373,146 |
| Improvements Other Than Buildings | 179,447,070 | 197,952,935 | - | 23,821,838 | 351,221,793 | 1,163,159 |
| Machinery and Equipment | 9,265,158 | 7,122,264 | - | 9,565,112 | 25,952,534 | 20,192,208 |
| Utility Plant | - | - | 768,971,000 | - | 768,971,000 | - |
| Construction in Progress | 32,311,329 | 1,994,124 | 102,833,000 | 1,951,419 | 139,089,872 | - |
| Less Accumulated Depreciation | (62,337,873) | (74,794,641) | (267,503,000) | (29,816,280) | (434,451,794) | (12,991,932) |
| Total Capital Assets, Net | 160,554,482 | 231,363,643 | 604,301,000 | 62,190,668 | 1,058,409,793 | 8,784,831 |
| Total Assets | 224,068,476 | 258,991,320 | 778,088,000 | 81,025,297 | 1,342,173,093 | 27,515,925 |
| LIABILITIES | | | | | | |
| Current Liabilities (Payable from Current Assets): | | | | | | |
| Accounts Payable | 479,632 | 875,792 | 8,991,000 | 1,097,746 | 11,444,170 | 547,851 |
| Construction Contracts | 5,130,202 | 1,622,829 | - | - | 6,753,031 | - |
| Accrued Liabilities | 424,976 | 692,699 | 7,674,000 | 267,717 | 9,059,392 | 492,779 |
| Accrued Compensated Absences | 255,736 | 288,304 | - | 226,004 | 770,044 | 559,532 |
| Due to Other Funds | - | - | - | 421,950 | 421,950 | 36,351 |
| Due to Other Governments | - | - | - | 172,871 | 172,871 | 4,363 |
| Unearned Revenue | - | - | - | 158,288 | 158,288 | 946,596 |
| Claims | - | - | - | - | - | 2,335,986 |
| Accrued Interest | 502,038 | 95,736 | - | 7,773 | 605,547 | - |
| Current Portion of Capital Lease | - | - | - | 417,962 | 417,962 | - |
| Current Portion of Long-Term Debt | 1,500,000 | 4,000,000 | - | - | 5,500,000 | - |
| Other | - | - | 6,084,000 | - | 6,084,000 | - |
| Total Current Liabilities (Payable from Current Assets) | 8,292,584 | 7,575,360 | 22,749,000 | 2,770,311 | 41,387,255 | 4,923,458 |
| Current Liabilities (Payable from Restricted Assets): | | | | | | |
| Accounts Payable | - | - | - | 972 | 972 | - |
| Construction Contracts | - | - | 6,327,000 | - | 6,327,000 | - |
| Arbitrage Rebate | - | - | - | 40,666 | 40,666 | - |
| Accrued Interest | - | - | 6,964,000 | 38,914 | 7,002,914 | - |
| Current Portion of Long-Term Debt | - | - | 12,980,000 | 1,435,000 | 14,415,000 | - |
| Total Current Liabilities (Payable from Restricted Assets) | - | - | 26,271,000 | 1,515,552 | 27,786,552 | - |
| Noncurrent Liabilities: | | | | | | |
| Due to Other Funds | - | - | - | 776,890 | 776,890 | - |
| Accrued Compensated Absences | 114,999 | 186,386 | - | 25,009 | 326,394 | 192,255 |
| Claims | - | - | - | - | - | 2,659,135 |
| Long-Term Debt, Net | 53,678,302 | 44,681,079 | 429,960,000 | 17,859,076 | 546,178,457 | - |
| Capital Lease Payable | - | - | - | 1,135,946 | 1,135,946 | - |
| Commercial Paper Notes Payable | - | - | 90,173,000 | - | 90,173,000 | - |
| Deferred Credits and Other | - | - | 120,000 | - | 120,000 | - |
| Accrued Landfill Closure/Postclosure Care Costs | - | - | - | 7,238,000 | 7,238,000 | - |
| Total Noncurrent Liabilities | 53,793,301 | 44,867,465 | 520,253,000 | 27,034,921 | 645,948,687 | 2,851,390 |
| Total Liabilities | 62,085,885 | 52,442,825 | 569,273,000 | 31,320,784 | 715,122,494 | 7,774,848 |
| NET ASSETS | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 137,800,614 | 186,301,527 | 130,141,000 | 41,901,459 | 496,144,600 | 8,784,831 |
| Restricted for: | | | | | | |
| Debt Service, Net of Related Debt | 531,526 | 85,306 | 12,260,000 | 2,132,075 | 15,008,907 | - |
| Capital Projects | - | - | - | 1,241,845 | 1,241,845 | - |
| Other | - | - | - | 12,200 | 12,200 | - |
| Unrestricted | 23,650,451 | 20,161,662 | 66,414,000 | 4,416,934 | 114,643,047 | 10,956,246 |
| Total Net Assets | \$ 161,982,591 | 206,548,495 | 208,815,000 | 49,704,513 | 627,050,599 | 19,741,077 |

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, 2004

| | 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 | \$ 16,011,984 | 22,168,258 | 168,868,000 | 3,578,560 | 210,626,802 | 26,715,547 |
| Fees | - | - | - | 6,945,370 | 6,945,370 | - |
| Parking Facility Revenue Pledged as Security for Revenue Bonds | - | - | - | 2,731,106 | 2,731,106 | - |
| Parking Facility Revenue - Unpledged | - | - | - | 2,679,754 | 2,679,754 | - |
| Performance Revenue | - | - | - | 1,524,142 | 1,524,142 | - |
| Other Operating Revenue | - | - | - | 448,300 | 448,300 | - |
| Total Operating Revenues | <u>16,011,984</u> | <u>22,168,258</u> | <u>168,868,000</u> | <u>17,907,232</u> | <u>224,955,474</u> | <u>26,715,547</u> |
| Operating Expenses | | | | | | |
| Personal Services | - | - | - | 6,472,949 | 6,472,949 | 11,441,079 |
| Contractual Services | - | - | - | 4,724,504 | 4,724,504 | - |
| Operation and Maintenance | 8,589,050 | 10,527,801 | 11,213,000 | 4,991,853 | 35,321,704 | 13,981,356 |
| Purchased Power | - | - | 83,259,000 | - | 83,259,000 | - |
| Depreciation | 4,431,327 | 5,789,689 | 22,409,000 | 3,267,361 | 35,897,377 | 2,128,105 |
| Payments in Lieu of Taxes | - | - | 6,320,000 | - | 6,320,000 | - |
| Administrative Costs | 1,453,869 | 1,949,685 | 21,679,000 | - | 25,082,554 | - |
| Total Operating Expenses | <u>14,474,246</u> | <u>18,267,175</u> | <u>144,880,000</u> | <u>19,456,667</u> | <u>197,078,088</u> | <u>27,550,540</u> |
| Operating Income (Loss) | <u>1,537,738</u> | <u>3,901,083</u> | <u>23,988,000</u> | <u>(1,549,435)</u> | <u>27,877,386</u> | <u>(834,993)</u> |
| Nonoperating Revenues (Expenses) | | | | | | |
| Investment Earnings | 1,742,914 | 772,604 | 1,542,000 | 330,111 | 4,387,629 | 375,958 |
| Gain on Disposal of Capital Assets | - | - | - | 139,854 | 139,854 | 39,732 |
| Occupation Tax | - | - | - | 2,234,490 | 2,234,490 | - |
| Grants | 1,316,900 | - | - | - | 1,316,900 | - |
| Amortization of Deferred Charges | (23,602) | (51,410) | (2,962,000) | (49,114) | (3,086,126) | - |
| Interest Expense and Fiscal Charges | (963,572) | (1,851,396) | (15,236,000) | (1,105,347) | (19,156,315) | - |
| Total Nonoperating Revenues (Expenses) | <u>2,072,640</u> | <u>(1,130,202)</u> | <u>(16,656,000)</u> | <u>1,549,994</u> | <u>(14,163,568)</u> | <u>415,690</u> |
| Income (Loss) Before Contributions and Transfers | 3,610,378 | 2,770,881 | 7,332,000 | 559 | 13,713,818 | (419,303) |
| Capital Contributions | 4,501,573 | 4,117,988 | - | 87,576 | 8,707,137 | 215,712 |
| Transfers In | - | - | - | 593,368 | 593,368 | 453,837 |
| Transfers Out | - | - | (1,129,000) | (620,587) | (1,749,587) | (5,850) |
| Change in Net Assets | <u>8,111,951</u> | <u>6,888,869</u> | <u>6,203,000</u> | <u>60,916</u> | <u>21,264,736</u> | <u>244,396</u> |
| Net Assets - Beginning | 153,870,640 | 199,659,626 | 202,612,000 | 49,643,597 | 605,785,863 | 19,496,681 |
| Net Assets - Ending | <u>\$ 161,982,591</u> | <u>206,548,495</u> | <u>208,815,000</u> | <u>49,704,513</u> | <u>627,050,599</u> | <u>19,741,077</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, 2004

| | 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 | \$ 14,623,967 | 21,328,554 | 178,617,000 | 16,979,845 | 231,549,366 | 5,911,914 |
| Receipts from Interfund Services Provided | 161,974 | 557,555 | 7,402,000 | 435,671 | 8,557,200 | 21,053,481 |
| Payments to Suppliers for Goods and Services | (4,565,807) | (7,478,225) | (122,439,000) | (6,911,002) | (141,394,034) | (12,684,130) |
| Payments to Employees | (5,836,645) | (6,463,008) | (17,442,000) | (6,410,962) | (36,152,615) | (11,280,809) |
| Payments for Interfund Services Provided | (1,321,938) | (2,173,307) | (1,294,000) | (1,730,022) | (6,519,267) | (1,608,047) |
| Payments in Lieu of Taxes | - | - | (6,126,000) | - | (6,126,000) | - |
| Other Receipts | - | - | - | 448,300 | 448,300 | - |
| Net Cash Provided by Operating Activities | <u>3,061,551</u> | <u>5,771,569</u> | <u>38,718,000</u> | <u>2,811,830</u> | <u>50,362,950</u> | <u>1,392,409</u> |
| Cash Flows from Noncapital Financing Activities | | | | | | |
| Occupation Tax | - | - | - | 1,912,975 | 1,912,975 | - |
| Transfers from Other Funds | - | - | - | 450,000 | 450,000 | 453,837 |
| Transfers to Other Funds | - | - | (1,129,000) | (620,587) | (1,749,587) | (5,850) |
| Advances from General Fund | - | - | - | 573,863 | 573,863 | - |
| Repayment of Advances from General Fund | - | - | - | (293,184) | (293,184) | - |
| Interest Paid to General Fund | - | - | - | (24,082) | (24,082) | - |
| Federal Grant Revenue | 1,316,900 | - | - | - | 1,316,900 | - |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>1,316,900</u> | <u>-</u> | <u>(1,129,000)</u> | <u>1,998,985</u> | <u>2,186,885</u> | <u>447,987</u> |
| Cash Flows from Capital and Related Financing Activities | | | | | | |
| Additions to Capital Assets | (19,956,558) | (9,479,576) | (87,925,000) | (3,757,860) | (121,118,994) | (2,117,290) |
| Proceeds from Sale of Capital Assets | - | - | - | 226,968 | 226,968 | 168,006 |
| Proceeds from Long-Term Debt | - | - | 127,690,000 | 612,341 | 128,302,341 | - |
| Net Cost of Retiring Plant | - | - | (249,000) | - | (249,000) | - |
| Principal Payments of Capital Lease | - | - | - | (242,527) | (242,527) | - |
| Principal Payments of Bonded Debt | (1,750,000) | (3,115,000) | (46,970,000) | (1,600,000) | (53,435,000) | - |
| Interest and Fiscal Charges Paid | (987,174) | (1,902,806) | (18,857,000) | (1,079,745) | (22,826,725) | - |
| Net Cash Used by Capital and Related Financing Activities | <u>(22,693,732)</u> | <u>(14,497,382)</u> | <u>(26,311,000)</u> | <u>(5,840,823)</u> | <u>(69,342,937)</u> | <u>(1,949,284)</u> |
| Cash Flows from Investing Activities | | | | | | |
| Proceeds from Sale and Maturities of Investments | 63,245,476 | 21,119,245 | 518,193,000 | 12,417,904 | 614,975,625 | 14,181,005 |
| Purchases of Investments | (45,983,519) | (14,412,995) | (531,388,000) | (11,496,132) | (603,280,646) | (14,110,424) |
| Interest and Other Receipts | 1,613,993 | 620,482 | 1,765,000 | 329,451 | 4,328,926 | 339,803 |
| Net Cash Provided (Used) by Investing Activities | <u>18,875,950</u> | <u>7,326,732</u> | <u>(11,430,000)</u> | <u>1,251,223</u> | <u>16,023,905</u> | <u>410,384</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 560,669 | (1,399,081) | (152,000) | 221,215 | (769,197) | 301,496 |
| Cash and Cash Equivalents - Beginning | 9,992,780 | 4,719,391 | 745,000 | 3,075,511 | 18,532,682 | 2,941,303 |
| Cash and Cash Equivalents - Ending | <u>\$ 10,553,449</u> | <u>3,320,310</u> | <u>593,000</u> | <u>3,296,726</u> | <u>17,763,485</u> | <u>3,242,799</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities | | | | | | |
| Operating Income (Loss) | \$ 1,537,738 | 3,901,083 | 23,988,000 | (1,549,435) | 27,877,386 | (834,993) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: | | | | | | |
| Depreciation and Amortization | 4,431,327 | 5,718,136 | 24,032,000 | 3,267,361 | 37,448,824 | 2,128,105 |
| Changes in Assets and Liabilities: | | | | | | |
| Accounts Receivable and Unbilled Revenues | (1,226,043) | (282,149) | 508,000 | (47,266) | (1,047,458) | 415,554 |
| Due from Other Funds | - | - | - | (24,089) | (24,089) | (309,502) |
| Due from Other Governments | - | - | - | (2,270) | (2,270) | (254,298) |
| Inventories | (24,655) | 68,514 | (1,119,000) | (27,300) | (1,102,441) | (4,389) |
| Plant Operation Assets | - | - | (311,000) | - | (311,000) | - |
| Prepaid Expenses | - | - | (197,000) | (30,742) | (227,742) | 20,623 |
| Other Assets | - | - | (1,322,000) | - | (1,322,000) | - |
| Accounts Payable | 367,997 | (3,689,410) | (7,586,000) | 69,931 | (10,837,482) | (183,537) |
| Accrued Liabilities | (2,064,631) | 11,156 | - | 48,681 | (2,004,794) | 84,051 |
| Accrued Compensated Absences | 39,818 | 44,239 | - | 13,306 | 97,363 | 76,219 |
| Due to Other Funds | - | - | - | (5,140) | (5,140) | 6,891 |
| Due to Other Governments | - | - | - | 74,181 | 74,181 | (1,690) |
| Unearned Revenue | - | - | - | 30,612 | 30,612 | 398,094 |
| Claims | - | - | - | - | - | (148,719) |
| In Lieu of Taxes | - | - | 194,000 | - | 194,000 | - |
| Other Current Liabilities | - | - | 530,000 | - | 530,000 | - |
| Deferred Credits and Other Liabilities | - | - | 1,000 | - | 1,000 | - |
| Accrued Landfill Closure/Postclosure Care Costs | - | - | - | 994,000 | 994,000 | - |
| Total Adjustments | <u>1,523,813</u> | <u>1,870,486</u> | <u>14,730,000</u> | <u>4,361,265</u> | <u>22,485,564</u> | <u>2,227,402</u> |
| Net Cash Provided by Operating Activities | <u>\$ 3,061,551</u> | <u>5,771,569</u> | <u>38,718,000</u> | <u>2,811,830</u> | <u>50,362,950</u> | <u>1,392,409</u> |
| Supplemental Disclosure of Noncash Investing, Capital, and Financing Activities: | | | | | | |
| Contribution of Capital Assets | \$ 4,163,852 | 2,500,932 | - | 87,576 | 6,752,360 | 215,712 |
| Purchase of Capital Assets on Account | 4,059,638 | 1,622,829 | - | 329,075 | 6,011,542 | 90,306 |
| Change in Fair Value of Investments | (32,581) | 141,872 | - | (1,578) | 107,713 | 18,833 |

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, 2004

| | <u>Police And Fire Pension Trust Fund</u> | <u>Agency Funds</u> |
|------------------------------------|---------------------------------------------------|-------------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 665,331 | 3,731,970 |
| Investments | 147,057,670 | 1,786,952 |
| Receivables: | | |
| Contributions | 300,112 | - |
| Accrued Interest | 466,073 | 3,060 |
| Other | - | 36,645 |
| Due from Other Governments | 186 | - |
| Contractor Retainage | - | 1,004,899 |
| | <hr/> | <hr/> |
| Total Assets | 148,489,372 | 6,563,526 |
| LIABILITIES | | |
| Warrants Payable | - | 2,067,380 |
| Accounts Payable | 516 | 481,138 |
| Accrued Liabilities | 4,306 | - |
| Accrued Compensated Absences | 8,072 | - |
| Due to Other Governments | - | 1,111,013 |
| Due to Contractors | - | 1,684,637 |
| Due to Joint Venture | - | 1,206,985 |
| Due to Bondholders | - | 12,373 |
| | <hr/> | <hr/> |
| Total Liabilities | 12,894 | 6,563,526 |
| NET ASSETS | | |
| Held in Trust for Pension Benefits | \$ <u>148,476,478</u> | <u>-</u> |

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

CITY OF LINCOLN, NEBRASKA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED AUGUST 31, 2004

| | Police And Fire Pension Trust Fund |
|--------------------------------------------------------------|------------------------------------------|
| Additions: | |
| Contributions: | |
| Employer | \$ 2,081,941 |
| Employee | 1,819,655 |
| Total Contributions | 3,901,596 |
| Investment Earnings: | |
| Interest | 1,398,496 |
| Dividends | 2,000,390 |
| Net Increase in Fair Value of Investments | 10,563,779 |
| Net Investment Earnings | 13,962,665 |
| Total Additions | 17,864,261 |
| Deductions: | |
| Benefit Payments | 7,214,834 |
| Refunds of Contributions | 258,465 |
| Administrative Costs | 246,220 |
| Total Deductions | 7,719,519 |
| Change in Net Assets | 10,144,742 |
| Net Assets Held in Trust for Pension Benefits - Beginning | 138,331,736 |
| Net Assets Held in Trust for Pension Benefits - Ending | \$ 148,476,478 |

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, 2004

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The accompanying financial statements present the government of the City of Lincoln, Nebraska (City). Based upon the criteria identified in Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, and Statement 39, *Determining Whether Certain Organizations are Component Units*, none of the City's significant potential component units are required to be included as part of the reporting entity. Regarding related organizations, the City's Mayor appoints and the City Council approves all of the board appointments of the Housing Authority of the City of Lincoln. However, the City has no further accountability for this organization.

FISCAL YEAR-END

All fund types of the City, with the exception of Lincoln Electric System (LES), are reported as of and for the year ended August 31, 2004. 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, 2003. The amounts included in the City's 2004 financial statements for LES are figures as of and for the year ended December 31, 2003.

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.

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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, including interest on long-term debt, as well as expenditures related to compensated absences and claims and judgements are recorded only when payment is due.

Property taxes, sales taxes, highway user fees, interdepartmental charges, 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.

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.

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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; funds deposited by Gateway Shopping Center in fulfillment of a condition of the use permit for expansion; and reserve funds held for the Public Building Commission 2004 Bonds.

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

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

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

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

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

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments

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

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

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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.

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.

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A recap of restrictions and related balances at August 31, 2004 are as follows:

| Fund Account | Golf | Parking Facilities | Pershing Municipal Auditorium | Lincoln Wastewater System | Lincoln Water System | Lincoln Electric System | Totals |
|------------------------------|------------|-----------------------|-------------------------------------|---------------------------------|----------------------------|-------------------------------|-------------|
| Principal and Interest | \$ - | 236,021 | - | - | - | 11,051,000 | 11,287,021 |
| Reserve | 316,500 | 2,073,886 | - | 3,876,201 | 3,264,607 | 14,303,000 | 23,834,194 |
| Surplus | - | - | - | 1,388,242 | - | - | 1,388,242 |
| Depreciation and Replacement | 100,000 | 246,176 | - | - | - | - | 346,176 |
| Construction | - | 8,972 | - | 43,082,919 | 13,552,267 | 56,283,000 | 112,927,158 |
| Capital Improvements | 10,463 | - | 180,554 | - | - | 6,000 | 197,017 |
| Marketing | - | - | 12,200 | - | - | - | 12,200 |
| Communications Escrow | - | - | - | - | - | 118,000 | 118,000 |
| Payments in Lieu of Taxes | - | - | - | - | - | 73,000 | 73,000 |
| | \$ 426,963 | 2,565,055 | 192,754 | 48,347,362 | 16,816,874 | 81,834,000 | 150,183,008 |

Resources of the permanent funds totaling \$37,160,000 are legally restricted to the extent that only earnings and not principal may be used to support the City's programs.

Investment in Joint Venture

Investment in joint venture consists of the City's capital interest in the Joint Antelope Valley Authority (see Note 19), a joint administrative entity carried on the equity method of accounting.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, drainage systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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:

| <u>Assets</u> | <u>Years</u> |
|----------------|--------------|
| 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.

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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 an other financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of unrestricted fund balance represent tentative management plans that are subject to change.

The City has established a policy providing for an unreserved fund balance in the City's General Fund. To meet excess cash flow needs, no less than twenty percent of the ensuing year's General Fund budget is to be set aside as an unrestricted reserve. Currently \$21,414,839 of the General Fund's unreserved fund balance of \$32,552,543 meets the requirements of this policy, leaving an additional unreserved balance of \$11,137,704.

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

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

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

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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, 2003, 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 \$128,501,298 difference are as follows:

| | |
|-----------------------------------------|-----------------------|
| Bonds Payable | \$ 109,170,013 |
| Less deferred charge for issuance costs | (727,458) |
| Less issuance discounts | (8,921) |
| Plus issuance premiums | 2,282,260 |
| Capital Leases Payable | 7,785,515 |
| Accrued Interest Payable | 1,405,448 |
| Net Pension Obligation | 1,430,383 |
| Compensated Absences | 7,164,058 |
| Net difference | <u>\$ 128,501,298</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, 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 \$22,828,271 difference are as follows:

| | |
|----------------------|----------------------|
| Capital outlay | \$ 38,883,003 |
| Depreciation expense | <u>(16,054,732)</u> |
| Net difference | <u>\$ 22,828,271</u> |

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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 \$(40,143,143) difference are as follows:

Debt issued or incurred:

| | |
|---------------------------------------------------------|------------------------|
| Issuance of general obligation highway allocation bonds | \$ (35,000,000) |
| Issuance of tax allocation bonds | (6,535,000) |
| Issuance of certificates of participation | (2,265,000) |
| Deferred charge for issuance costs | 308,964 |
| Issuance discounts | 5,855 |
| Issuance premiums | (1,918,788) |
| Amortization of deferred items | 1,597 |
| Principal repayments | <u>5,259,229</u> |
| Net difference | <u>\$ (40,143,143)</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 \$(1,476,716) difference are as follows:

| | |
|------------------------------------|-----------------------|
| Loss on disposal of capital assets | \$ (102,392) |
| Accrued interest | (791,622) |
| Compensated absences | <u>(582,702)</u> |
| Net difference | <u>\$ (1,476,716)</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, 2004, which discloses the nature and amount of the adjustments necessary to convert the actual GAAP data to the budgetary basis, is presented below:

| | General <u>Fund</u> | Street Construction <u>Fund</u> | Federal Grants <u>Fund</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|---------------------------------------|----------------------------------|
| Net Change in Fund Balances: | | | |
| Balance on a GAAP basis | \$(1,143,371) | 23,935,322 | 722,612 |
| 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. | (903,062) | 1,568,713 | (625,043) |
| Entity differences occur when the budget excludes programs or entities that fall within the financial reporting entity as defined by GAAP. | <u>-</u> | <u>29,747,782</u> | <u>-</u> |
| Balance on a budget basis | <u>\$(2,046,433)</u> | <u>55,251,817</u> | <u>97,569</u> |

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(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, 2004, 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, 2004, the book balances of the City's deposits approximate 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, 2004, the Pension Trust fund had investments as follows:

| | Category <u>3</u> | Reported <u>Amount</u> |
|----------------------------------------------------|----------------------|---------------------------|
| Mortgage-backed Securities | \$ 10,422,605 | 10,422,605 |
| Government Agencies | 2,429,894 | 2,429,894 |
| Corporate Bonds | <u>3,922,380</u> | <u>3,922,380</u> |
| | \$ <u>16,774,879</u> | 16,774,879 |
| Mutual Funds | | 92,619,667 |
| Mutual Funds – Fixed Income | | 7,216,215 |
| Mutual Funds – Foreign Obligation Bonds | | 7,443,403 |
| Real Estate Limited Partnerships | | 18,549,897 |
| Mutual Funds - Hedge Funds | | 4,417,738 |
| Pooled Investment Funds (internal and external) | | <u>272,916</u> |
| | | <u>\$147,294,715</u> |

Lincoln Electric System (LES)

At December 31, 2003 LES had investments as follows:

| | Category <u>1</u> | Reported <u>Amount</u> |
|--------------------------|----------------------|---------------------------|
| Government Securities | \$ <u>80,130,000</u> | 80,130,000 |
| Government Money Markets | | <u>52,071,000</u> |
| | | <u>\$ 132,201,000</u> |

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Lincoln Wastewater System

At August 31, 2004, Lincoln Wastewater System had investments as shown below:

| | <u>Category</u> 3 | <u>Reported</u> <u>Amount</u> |
|----------------------------------------------------|----------------------|----------------------------------|
| Government Agencies | \$ 46,031,799 | 46,031,799 |
| Government Securities | <u>1,388,242</u> | <u>1,388,242</u> |
| | <u>\$ 47,420,041</u> | 47,420,041 |
| Pooled Investment Funds (internal and external) | | <u>4,734,582</u> |
| | | <u>\$ 52,154,623</u> |

Lincoln Water System

At August 31, 2004, Lincoln Water System had investments as follows:

| | <u>Category</u> 3 | <u>Reported</u> <u>Amount</u> |
|----------------------------------------------------|----------------------|----------------------------------|
| Government Agencies | \$ 13,238,062 | 13,238,062 |
| Government Securities | <u>3,264,607</u> | <u>3,264,607</u> |
| | <u>\$ 16,502,669</u> | 16,502,669 |
| Pooled Investment Funds (internal and external) | | <u>1,486,795</u> |
| | | <u>\$ 17,989,464</u> |

Community Health Permanent Endowment

At August 31, 2004, Community Health Permanent Endowment had investments as follows:

| | <u>Category</u> 3 | <u>Reported</u> <u>Amount</u> |
|----------------------------------------------------|----------------------|----------------------------------|
| Government Agencies | \$ 8,080,064 | 8,080,064 |
| Government Securities | 4,723,182 | 4,723,182 |
| Corporate Bonds | 11,577,697 | 11,577,697 |
| Foreign Obligations | 683,675 | 683,675 |
| Equity Securities | <u>192,369</u> | <u>192,369</u> |
| | <u>\$ 25,256,987</u> | 25,256,987 |
| Securities Lending Short-term Investment Pool | | 7,158,131 |
| Pooled Investment Funds (internal and external) | | <u>17,877,094</u> |
| | | <u>\$ 50,292,212</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, 2004, were as follows:

| | <u>Category</u> | | <u>Reported</u> <u>Amount</u> |
|----------------------------------------------------|---------------------|--------------------|----------------------------------|
| | 2 | 3 | |
| Government Agencies | \$ 1,792,451 | 128,314,754 | 130,107,205 |
| Government Securities | 92,153 | - | 92,153 |
| Corporate Bonds | <u>94,389</u> | - | <u>94,389</u> |
| | <u>\$ 1,978,993</u> | <u>128,314,754</u> | 130,293,747 |
| Equity Securities | | | 328,089 |
| Pooled Investment Funds (internal and external) | | | 14,967,214 |
| Interfund Investments | | | <u>195,695</u> |
| | | | <u>\$ 145,784,745</u> |

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Summary of Deposit and Investment Balances

Following is a reconciliation of the City's deposit and investment balances as of August 31, 2004:

| | <u>Totals</u> | | |
|--------------------------------|------------------------|------------------------|--------------------|
| Investments | \$ 545,716,759 | | |
| Certificates of Deposit | 13,000,000 | | |
| Money Market Accounts | 17,629,360 | | |
| Bank Accounts and Cash on Hand | <u>5,677,206</u> | | |
| | <u>\$ 582,023,325</u> | | |
| | <u>Government-wide</u> | <u>Fiduciary Funds</u> | |
| | <u>Statement of</u> | <u>Statement of</u> | |
| | <u>Net Assets</u> | <u>Net Assets</u> | <u>Totals</u> |
| Cash and Cash Equivalents | \$ 49,591,694 | 4,397,301 | 53,988,995 |
| Investments | 185,145,206 | 148,844,622 | 333,989,828 |
| Invested Securities Lending | 7,158,131 | - | 7,158,131 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | 829,896 | - | 829,896 |
| Investments | <u>186,056,475</u> | <u>-</u> | <u>186,056,475</u> |
| | <u>\$ 428,781,402</u> | <u>153,241,923</u> | <u>582,023,325</u> |

There were no investments that resulted in significantly greater custodial credit risk held during the fiscal year ended August 31, 2004, 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 81 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, 2004

(5) RECEIVABLES

Receivables at August 31, 2004, consist of the following (in thousands):

| Fund | Taxes | Accounts | Contributions | Special Assessment | | Accrued Interest | Gross Receivables | Allowance For Uncollectibles | Net |
|---------------------|-----------------|---------------|---------------|--------------------|--------------|------------------|-------------------|------------------------------|---------------|
| | | | | Current | Deferred | | | | |
| General | \$ 3,635 | 1,114 | - | - | - | 121 | 4,870 | - | 4,870 |
| Street Construction | - | 133 | - | - | - | 218 | 351 | - | 351 |
| Federal Grants | - | 9 | - | - | - | 3 | 12 | - | 12 |
| Community Health | | | | | | | | | |
| Endowment | - | - | - | - | - | 197 | 197 | - | 197 |
| Wastewater System | - | 3,573 | - | - | - | 305 | 3,878 | - | 3,878 |
| Water System | - | 5,299 | - | - | - | 119 | 5,418 | - | 5,418 |
| Electric System | - | 15,352 | - | - | - | 669 | 16,021 | - | 16,021 |
| Nonmajor - | | | | | | | | | |
| Special Revenue | 1,590 | 458 | - | - | - | 108 | 2,156 | - | 2,156 |
| Debt Service | 906 | - | - | 419 | 2,338 | 99 | 3,762 | 206 | 3,556 |
| Capital Projects | - | - | - | - | - | 152 | 152 | - | 152 |
| Enterprise | - | 3,504 | - | - | - | 94 | 3,598 | 983 | 2,615 |
| Internal Service | - | 325 | - | - | - | 82 | 407 | - | 407 |
| Fiduciary | - | 37 | 300 | - | - | 469 | 806 | - | 806 |
| | <u>\$ 6,131</u> | <u>29,804</u> | <u>300</u> | <u>419</u> | <u>2,338</u> | <u>2,636</u> | <u>41,628</u> | <u>1,189</u> | <u>40,439</u> |

Enterprise funds customer accounts receivable include unbilled charges for services.

Delinquent special assessment receivables at August 31, 2004, were \$211,840.

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

(6) DUE FROM OTHER GOVERNMENTS

The total of Due From Other Governments of \$29,253,925 includes the following significant items:

| Fund/Fund Type | Amount | Service |
|--------------------------------------------------|----------------------|---------------------------------------------------------------------------|
| General/General | \$ 9,087,351 | State of Nebraska, July/August Sales and Use Tax |
| | 386,033 | August Motor Vehicle Taxes Collected by Lancaster County |
| | 134,233 | Federal Government, Cost Reimbursements |
| | 88,547 | Lancaster County, Cost Reimbursements |
| Street Construction/Special Revenue | 2,639,822 | State of Nebraska, July/August Highway User Fees |
| | 12,146,813 | Federal Government, Cost Reimbursements |
| Federal Grants/Special Revenue | 2,155,983 | Federal Government, Cost Reimbursements |
| Lincoln Area Agency on Aging/Special Revenue | 182,599 | Federal Government, Cost Reimbursements |
| Lincoln/Lancaster Co. Health/Special Revenue | 376,493 | Lancaster County, Cost Reimbursements |
| Snow Removal/Special Revenue | 94,739 | August Motor Vehicle Taxes Collected by Lancaster County |
| MIRF/ Tax Supported Bonds/Debt Service | 260,000 | State of Nebraska, Redevelopment Fund Disbursements |
| Antelope Valley/Tax Supported Bonds/Debt Service | 166,167 | State of Nebraska, July/August Development Fund Disbursements |
| Storm Sewer Construction/Capital Projects | 185,400 | Lower Platte South Natural Resource District, Project Cost Reimbursements |
| Vehicle Tax/Capital Projects | 739,230 | August Motor Vehicle Taxes Collected by Lancaster County |
| Information Services/Internal Service | <u>432,462</u> | Lancaster County Billings |
| Subtotal | 29,075,872 | |
| All other | <u>178,053</u> | |
| Total Due From Other Governments | <u>\$ 29,253,925</u> | |

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

(7) CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2004, was as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|----------------------------------------------|-----------------------|--------------------|--------------------|----------------------|
| Governmental Activities: | | | | |
| Capital Assets, not being Depreciated: | | | | |
| Land | \$ 40,506,899 | 4,250,899 | - | 44,757,798 |
| Construction in Progress | 69,777,976 | 24,642,473 | 9,284,522 | 85,135,927 |
| Total Capital Assets, not being Depreciated | <u>110,284,875</u> | <u>28,893,372</u> | <u>9,284,522</u> | <u>129,893,725</u> |
| Capital Assets, being Depreciated: | | | | |
| Buildings | 61,694,276 | 5,333,727 | 152,735 | 66,875,268 |
| Improvements Other Than Buildings | 47,350,852 | 1,527,709 | 191,993 | 48,686,568 |
| Machinery and Equipment | 63,038,374 | 7,799,991 | 5,322,883 | 65,515,482 |
| Infrastructure | 282,849,786 | 19,541,062 | - | 302,390,848 |
| Total Capital Assets, being Depreciated | <u>454,933,288</u> | <u>34,202,489</u> | <u>5,667,611</u> | <u>483,468,166</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 20,609,626 | 1,629,285 | 76,942 | 22,161,969 |
| Improvements Other Than Buildings | 16,065,301 | 1,438,647 | 167,678 | 17,336,270 |
| Machinery and Equipment | 34,058,259 | 5,572,365 | 5,052,934 | 34,577,690 |
| Infrastructure | 91,063,222 | 9,542,540 | - | 100,605,762 |
| Total Accumulated Depreciation | <u>161,796,408</u> | <u>18,182,837</u> | <u>5,297,554</u> | <u>174,681,691</u> |
| Total Capital Assets, being Depreciated, Net | <u>293,136,880</u> | <u>16,019,652</u> | <u>370,057</u> | <u>308,786,475</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 403,421,755</u> | <u>44,913,024</u> | <u>9,654,579</u> | <u>438,680,200</u> |
| | | | | |
| | Beginning Balances | Increases | Decreases | Ending Balances |
| Business-type Activities: | | | | |
| Capital Assets, not being Depreciated: | | | | |
| Land | \$ 14,371,950 | 309,111 | 28,078 | 14,652,983 |
| Construction in Progress | 164,339,164 | 131,492,288 | 156,741,580 | 139,089,872 |
| Total Capital Assets, not being Depreciated | <u>178,711,114</u> | <u>131,801,399</u> | <u>156,769,658</u> | <u>153,742,855</u> |
| Capital Assets, being Depreciated: | | | | |
| Buildings | 179,618,337 | 14,635,628 | 1,280,560 | 192,973,405 |
| Improvements Other Than Buildings | 319,123,250 | 32,098,543 | - | 351,221,793 |
| Machinery and Equipment | 25,078,757 | 2,282,438 | 1,408,661 | 25,952,534 |
| Utility Plant | 654,127,000 | 116,932,000 | 2,088,000 | 768,971,000 |
| Total Capital Assets, being Depreciated | <u>1,177,947,344</u> | <u>165,948,609</u> | <u>4,777,221</u> | <u>1,339,118,732</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 53,288,147 | 4,090,295 | 528,156 | 56,850,286 |
| Improvements Other Than Buildings | 87,302,433 | 7,569,745 | - | 94,872,178 |
| Machinery and Equipment | 14,615,990 | 1,828,337 | 1,217,997 | 15,226,330 |
| Utility Plant | 248,352,000 | 22,409,000 | 3,258,000 | 267,503,000 |
| Total Accumulated Depreciation | <u>403,558,570</u> | <u>35,897,377</u> | <u>5,004,153</u> | <u>434,451,794</u> |
| Total Capital Assets, being Depreciated, Net | <u>774,388,774</u> | <u>130,051,232</u> | <u>(226,932)</u> | <u>904,666,938</u> |
| Business-type Activities Capital Assets, Net | <u>\$ 953,099,888</u> | <u>261,852,631</u> | <u>156,542,726</u> | <u>1,058,409,793</u> |

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
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Depreciation expense was charged to functions/programs as follows:

| | |
|--------------------------------------------------------------------------------|----------------------|
| Governmental Activities: | |
| General Government | \$ 777,074 |
| Public Safety | 1,423,013 |
| Streets and Highways, including Infrastructure | 9,209,444 |
| Culture and Recreation | 3,321,871 |
| Economic Opportunity | 61,444 |
| Health and Welfare | 144,227 |
| Mass Transit | 1,117,659 |
| Internal Service Funds Capital Assets | |
| Depreciation is charged to the various functions based on usage of the assets. | 2,128,105 |
| Total Depreciation Expense - Governmental | \$ 18,182,837 |

| | |
|---------------------------------------------------|----------------------|
| Business-type Activities: | |
| Parking Lots | \$ 24,905 |
| Golf | 593,452 |
| Parking Facilities | 1,022,072 |
| Pershing Municipal Auditorium | 171,943 |
| Sanitary Landfill | 1,291,297 |
| Emergency Medical Services | 163,692 |
| Wastewater System | 4,431,327 |
| Water System | 5,789,689 |
| Lincoln Electric System | 22,409,000 |
| Total Depreciation Expense - Business-type | \$ 35,897,377 |

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

| | Beginning Balances | Increases | Decreases | Ending Balances |
|-----------------------------------------------------|-----------------------|-------------------|-------------------|--------------------|
| Lincoln Wastewater System: | | | | |
| Capital Assets, not being Depreciated: | | | | |
| Land | \$ 2,280,164 | - | - | 2,280,164 |
| Construction in Progress | 24,590,688 | 24,723,917 | 17,003,276 | 32,311,329 |
| Total Capital Assets, not being Depreciated | 26,870,852 | 24,723,917 | 17,003,276 | 34,591,493 |
| Capital Assets, being Depreciated: | | | | |
| Buildings | 37,600,319 | 11,988,365 | - | 49,588,684 |
| Improvements Other Than Buildings | 120,424,069 | 9,022,951 | - | 129,447,020 |
| Machinery and Equipment | 8,638,706 | 684,817 | 58,365 | 9,265,158 |
| Total Capital Assets, being Depreciated | 166,663,094 | 21,696,133 | 58,365 | 188,300,862 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 16,820,989 | 1,149,608 | - | 17,970,597 |
| Improvements Other Than Buildings | 36,273,310 | 2,829,977 | - | 39,103,287 |
| Machinery and Equipment | 4,856,475 | 451,742 | 44,228 | 5,263,989 |
| Total Accumulated Depreciation | 57,950,774 | 4,431,327 | 44,228 | 62,337,873 |
| Total Capital Assets, being Depreciated, Net | 108,712,320 | 17,264,806 | 14,137 | 125,962,989 |
| Wastewater System Capital Assets, Net | \$ 135,583,172 | 41,988,723 | 17,017,413 | 160,554,482 |

CITY OF LINCOLN, NEBRASKA
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August 31, 2004

| | Beginning Balances | Increases | Decreases | Ending Balances |
|-----------------------------------------------------|-----------------------|-------------------|-------------------|--------------------|
| Lincoln Water System: | | | | |
| Capital Assets, not being Depreciated: | | | | |
| Land | \$ 4,431,662 | 309,111 | 28,078 | 4,712,695 |
| Construction in Progress | 10,701,532 | 12,014,542 | 20,721,950 | 1,994,124 |
| Total Capital Assets, not being Depreciated | 15,133,194 | 12,323,653 | 20,750,028 | 6,706,819 |
| Capital Assets, being Depreciated: | | | | |
| Buildings | 92,937,642 | 2,602,880 | 1,164,256 | 94,376,266 |
| Improvements Other Than Buildings | 176,454,070 | 21,498,865 | - | 197,952,935 |
| Machinery and Equipment | 6,911,765 | 303,849 | 93,350 | 7,122,264 |
| Total Capital Assets, being Depreciated | 276,303,477 | 24,405,594 | 1,257,606 | 299,451,465 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 21,883,601 | 1,759,411 | 420,517 | 23,222,495 |
| Improvements Other Than Buildings | 42,904,903 | 3,648,132 | - | 46,553,035 |
| Machinery and Equipment | 4,715,228 | 382,146 | 78,263 | 5,019,111 |
| Total Accumulated Depreciation | 69,503,732 | 5,789,689 | 498,780 | 74,794,641 |
| Total Capital Assets, being Depreciated, Net | 206,799,745 | 18,615,905 | 758,826 | 224,656,824 |
| Water System Capital Assets, Net | \$ 221,932,939 | 30,939,558 | 21,508,854 | 231,363,643 |

| | Beginning Balances | Increases | Decreases | Ending Balances |
|-----------------------------------------------------|-----------------------|--------------------|--------------------|--------------------|
| Lincoln Electric System: | | | | |
| Capital Assets, not being Depreciated: | | | | |
| Construction in Progress | \$ 127,068,000 | 93,243,000 | 117,478,000 | 102,833,000 |
| Capital Assets, being Depreciated: | | | | |
| Utility Plant | 654,127,000 | 116,932,000 | 2,088,000 | 768,971,000 |
| Less Accumulated Depreciation | 248,352,000 | 22,409,000 | 3,258,000 | 267,503,000 |
| Total Capital Assets, being Depreciated, Net | 405,775,000 | 94,523,000 | (1,170,000) | 501,468,000 |
| Electric System Capital Assets, Net | \$ 532,843,000 | 187,766,000 | 116,308,000 | 604,301,000 |

During 2004, Lincoln Wastewater System incurred \$2,350,601 of interest cost, of which \$1,387,029 was capitalized into construction in progress. Lincoln Water System incurred \$2,284,384 of interest cost, of which \$432,988 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 2003 was 4.9%.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

(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 2003 tax levy, for the 2003-2004 fiscal year, was \$51,549,744 below the legal limit, with a tax rate per \$100 valuation of \$0.29100. The assessed value upon which the 2003 levy was based was \$12,744,105,392.

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 2003-2004 are recorded as revenue when expected to be collected within 60 days after August 31, 2004. 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 \$6,910,648, \$3,187,150, \$5,233,865, and \$7,344,884 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:

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

| | Governmental Activities | Business-Type Activities |
|------------------------------------------------------|----------------------------|-----------------------------|
| Land | \$ 42,000 | \$ 210,000 |
| Buildings | 6,350,750 | - |
| Machinery and Equipment | 206,597 | 2,297,420 |
| Less Accumulated Depreciation, (where applicable) | (707,413) | (779,171) |
| Total | \$ 5,891,934 | \$ 1,728,249 |

Bonds of \$8,330,000 have been issued by the Public Building Commission (see Note 18) to construct a parking facility adjacent to the County-City complex. The City's proportionate share of the garage and the corresponding debt have been reflected as capital leases in the City's financial statements. No proceeds have been recorded and 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.

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, 2003, LES issued \$126.3 million in serial and term electric revenue and refunding bonds with interest rates ranging from 3% to 5% and annual maturities of \$2.9 million to \$33.3 million due from 2004 to 2028. These bonds were issued to refund \$45.3 million in outstanding 1993 Series bonds with an average interest rate of 5.2% and to pay the costs of capital improvements to LES's system. LES refunded the remaining portion of the 1993 bonds to restructure its debt and to provide for flexible covenants and business operations. The refunding resulted in an economic gain of \$2.7 million, and an accounting loss of approximately \$6.5 million, which is deferred and is being amortized through 2015, the period over which LES expects to recover the costs. The net proceeds of \$37.3 million plus an additional \$2.7 million of the 1993 series reserve fund were used to repay the 1993 bonds.

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, 2004, the following bonds outstanding are considered defeased:

| | | |
|----------------|--------------------|----------|
| Revenue Bonds: | | |
| 08/15/80 | Lincoln Wastewater | \$ 5,000 |

Established by City Ordinance, LES may borrow up to \$125 million under a commercial paper note program. At December 31, 2003, 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, 2003, was 1.1 percent. The annual requirement to pay interest on this outstanding debt is approximately \$992,000. 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.

Subsequent to August 31, 2004, Lincoln Water System issued \$40,000,000 of Water Revenue Bonds to provide funds necessary to pay costs for improvements to the Water System. The interest rates on the 2004 bonds range from 3% to 5% and the final maturity is on August 15, 2025. Debt service payments are scheduled annually at amounts that range from \$2,157,000 to \$3,392,000.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

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: | | | | | | | |
| 8,250 | 08/15/97 | Storm Sewer and Drainage | 4.500 - 5.125 | Ser. '99 to '17 | 2005 | Semiannually | \$ 6,735 |
| 14,435 | 03/01/99 | Various Purpose Series A | 3.000 - 4.600 | Ser. '00 to '14 | 2009 | " | 10,555 |
| 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 | " | 4,530 |
| 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 | " | 14,255 |
| 3,710 | 06/24/03 | Various Purpose | 4.000 - 4.125 | Term '18 to '23 | 2013 | " | 3,710 |
| 35,000 | 03/03/04 | Highway Allocation Fund | 2.000 - 5.000 | Term '07 to '23 | 2014 | " | 35,000 |
| Total General Bonds | | | | | | | <u>\$ 89,650</u> |
| Municipal Infrastructure Redevelopment Bonds: | | | | | | | |
| 3,200 | 06/13/00 | Municipal Infrastructure Redevelopment | 4.750 - 5.100 | Ser. '01 to '09 | 2005 | Semiannually | \$ 2,090 |
| Tax Allocation Bonds: | | | | | | | |
| 1,310 | 11/15/92 | Tax Allocation Bonds | 3.250 - 6.200 | Ser. '93 to '06 | 1997 | Semiannually | \$ 225 |
| 105 | 11/15/92 | Tax Allocation Bonds | 6.350 | Term '93 to '06 | 1997 | " | 35 |
| 90 | 11/15/92 | Tax Allocation Bonds | 6.300 | Term '93 to '05 | 1997 | " | 25 |
| 303 | 10/18/94 | Tax Allocation Bonds | 8.000 | Term '95 to '05 | Anytime | " | 59 |
| 232 | 04/21/00 | Tax Allocation Bonds | 6.390 | Ser. '00 to '10 | 2000 | " | 156 |
| 42 | 06/01/03 | Tax Allocation Bonds | 4.060 | Ser. '04 to '11 | Anytime | " | 40 |
| 1,035 | 04/06/04 | Tax Allocation Bonds | 2.000 - 3.200 | Ser. '04 to '11 | 2008 | " | 1,035 |
| 5,500 | 04/07/04 | Tax Allocation Bonds | 3.000 - 4.800 | Ser. '04 to '15 | 2010 | " | 5,500 |
| Total Tax Allocation Bonds | | | | | | | <u>\$ 7,075</u> |
| Total General, MIRF, And Tax Allocation Bonds | | | | | | | <u>\$ 98,815</u> |
| Special Assessment Bonds: | | | | | | | |
| 3,860 | 11/15/89 | Special Assessment Revolving | 5.900 - 6.850 | Ser. '90 to '04 | 1996 | Semiannually | \$ 100 |
| TOTAL GENERAL OBLIGATION BONDS | | | | | | | <u>\$ 98,915</u> |
| Tax-Supported Revenue Bonds: | | | | | | | |
| 11,080 | 2/27/02 | Antelope Valley Project | 1.500 - 5.000 | Ser. '02 to '16 | 2012 | Semiannually | \$ 10,255 |
| 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 | 05/20/03 | Water Revenue | 5.000 | Ser. '04 to '12 | - | " | 29,065 |
| Total Water Bonds | | | | | | | <u>\$ 47,575</u> |
| 15,765 | 08/01/03 | Wastewater Revenue | 2.000 - 5.000 | Ser. '04 to '23 | 2013 | Semiannually | \$ 14,015 |
| 39,235 | 08/01/03 | Wastewater Revenue | 4.625 - 5.000 | Term '24 to '28 | 2013 | " | 39,235 |
| Total Wastewater Bonds | | | | | | | <u>\$ 53,250</u> |
| 6,815 | 09/08/99 | Parking Revenue Series A | 4.000 - 5.000 | Ser. '00 to '09 | 2009 | Semiannually | \$ 5,055 |
| 6,695 | 09/08/99 | Parking Revenue Series A | 5.375 | Term '10 to '14 | 2009 | " | 6,695 |
| 6,000 | 12/05/01 | Parking Revenue | 3.750 - 5.125 | Ser. '02 to '21 | 2011 | " | 5,290 |
| Total Parking Bonds | | | | | | | <u>\$ 17,040</u> |
| 3,165 | 10/23/01 | Golf Course Revenue Refunding | 2.300 - 4.050 | Ser. '02 to '11 | 2008 | Semiannually | \$ 2,290 |
| 45,560 | 02/15/98 | Electric Revenue Bonds '98 Series A | 4.500 - 5.000 | Ser. '98 to '18 | 2008 | Semiannually | \$ 36,555 |
| 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 |
| 93,045 | 10/01/03 | Electric Revenue Bonds '03 | 3.000 - 5.000 | Ser. '04 to '26 | 2014 | " | 93,045 |
| 33,265 | 10/01/03 | Electric Revenue Bonds '03 | 4.750 | Term '28 | 2014 | " | 33,265 |
| Total Electric Bonds | | | | | | | <u>\$ 452,205</u> |
| TOTAL REVENUE BONDS | | | | | | | <u>\$ 572,360</u> |

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

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

| Fiscal Year Ended August 31 | Governmental Activities | | | | | | | |
|-----------------------------------|--------------------------|---------------|--------------------------|----------|-----------------------------|--------------|----------------|--------------|
| | General Obligation Bonds | | Special Assessment Bonds | | Tax-Supported Revenue Bonds | | Capital Leases | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2005 | \$ 4,736 | 4,430 | 100 | 3 | 565 | 423 | 375 | 293 |
| 2006 | 4,809 | 3,971 | - | - | 580 | 409 | 543 | 285 |
| 2007 | 4,485 | 3,798 | - | - | 595 | 392 | 515 | 272 |
| 2008 | 4,737 | 3,632 | - | - | 615 | 372 | 537 | 259 |
| 2009 | 5,604 | 3,453 | - | - | 635 | 350 | 546 | 242 |
| 2010 - 2014 | 26,584 | 14,023 | - | - | 3,575 | 1,334 | 2,563 | 930 |
| 2015 - 2019 | 28,530 | 7,652 | - | - | 3,690 | 335 | 1,811 | 461 |
| 2020 - 2024 | 19,330 | 2,163 | - | - | - | - | 895 | 89 |
| | <u>\$ 98,815</u> | <u>43,122</u> | <u>100</u> | <u>3</u> | <u>10,255</u> | <u>3,615</u> | <u>7,785</u> | <u>2,831</u> |

| Fiscal Year Ended August 31 | Business-Type Activities | | | |
|-----------------------------------|--------------------------|----------------|----------------|------------|
| | Revenue Bonds | | Capital Leases | |
| | Principal | Interest | Principal | Interest |
| 2005 | \$ 19,915 | 27,188 | 418 | 60 |
| 2006 | 17,730 | 26,840 | 432 | 44 |
| 2007 | 18,515 | 26,106 | 323 | 26 |
| 2008 | 22,200 | 25,258 | 333 | 12 |
| 2009 | 23,175 | 24,271 | 23 | 3 |
| 2010 - 2014 | 121,265 | 104,229 | 25 | 1 |
| 2015 - 2019 | 144,935 | 72,831 | - | - |
| 2020 - 2024 | 114,195 | 36,381 | - | - |
| 2025 - 2029 | 90,430 | 13,240 | - | - |
| | <u>\$ 572,360</u> | <u>356,344</u> | <u>1,554</u> | <u>146</u> |

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

| Fiscal Year Ended August 31 | Major Funds | | | | | |
|-----------------------------------|-------------------|---------------|---------------|---------------|-----------------|----------------|
| | Wastewater System | | Water System | | Electric System | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2005 | \$ 1,500 | 2,405 | 4,000 | 2,256 | 12,980 | 21,594 |
| 2006 | 1,520 | 2,359 | 4,175 | 2,072 | 10,545 | 21,534 |
| 2007 | 1,545 | 2,313 | 4,365 | 1,879 | 11,050 | 21,103 |
| 2008 | 1,580 | 2,274 | 4,560 | 1,672 | 14,430 | 20,570 |
| 2009 | 1,620 | 2,235 | 4,775 | 1,454 | 15,085 | 19,916 |
| 2010 - 2014 | 8,855 | 10,214 | 15,750 | 4,084 | 87,810 | 87,880 |
| 2015 - 2019 | 10,600 | 8,028 | 5,760 | 1,937 | 126,760 | 62,362 |
| 2020 - 2024 | 13,135 | 5,143 | 4,190 | 426 | 96,010 | 30,746 |
| 2025 - 2029 | 12,895 | 1,638 | - | - | 77,535 | 11,602 |
| | <u>\$ 53,250</u> | <u>36,609</u> | <u>47,575</u> | <u>15,780</u> | <u>452,205</u> | <u>297,307</u> |

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

Long-term liability activity for the year ended August 31, 2004, was as follows (in thousands of dollars):

| | 09/01/03 Beginning Balance | Additions | Reductions | 08/31/04 Ending Balance | Due Within One Year |
|-------------------------------------------------------|----------------------------------|----------------|-----------------|-------------------------------|------------------------|
| Governmental Activities: | | | | | |
| Bonds and Leases Payable: | | | | | |
| General Obligation Bonds | \$ 57,865 | 35,000 | (3,215) | 89,650 | 3,850 |
| Municipal Infrastructure Redevelopment Bonds | 2,395 | - | (305) | 2,090 | 320 |
| Tax Allocation Bonds | 1,294 | 6,535 | (754) | 7,075 | 566 |
| Special Assessment Debt with Government Commitment | 205 | - | (105) | 100 | 100 |
| Tax-Supported Antelope Valley Project Bonds | 10,810 | - | (555) | 10,255 | 565 |
| Capital Leases | 1,680 | 6,430 | (325) | 7,785 | 375 |
| Gross Bonds and Leases Payable | <u>74,249</u> | <u>47,965</u> | <u>(5,259)</u> | <u>116,955</u> | <u>5,776</u> |
| Deferred Amounts: | | | | | |
| For Issuance Premiums | 388 | 1,919 | (24) | 2,283 | - |
| For Issuance Discounts | (3) | (6) | - | (9) | - |
| Net Bonds and Leases Payable | <u>74,634</u> | <u>49,878</u> | <u>(5,283)</u> | <u>119,229</u> | <u>5,776</u> |
| Other Liabilities: | | | | | |
| Compensated Absences | 7,257 | 5,808 | (5,149) | 7,916 | 5,595 |
| Claims and Judgements | 5,144 | 1,702 | (1,851) | 4,995 | 2,336 |
| Net Pension Obligation | 130 | 1,300 | - | 1,430 | - |
| Governmental Activity Long-Term Liabilities | <u>\$ 87,165</u> | <u>58,688</u> | <u>(12,283)</u> | <u>133,570</u> | <u>13,707</u> |
| Business-Type Activities: | | | | | |
| Bonds, Notes and Leases Payable: | | | | | |
| Water Revenue Bonds | \$ 50,690 | - | (3,115) | 47,575 | 4,000 |
| Wastwater Revenue Bonds | 55,000 | - | (1,750) | 53,250 | 1,500 |
| Parking Revenue Bonds | 18,185 | - | (1,145) | 17,040 | 1,140 |
| Golf Course Revenue Bonds | 2,580 | - | (290) | 2,290 | 295 |
| Electric System Revenue Bonds | 372,865 | 126,310 | (46,970) | 452,205 | 12,980 |
| Commercial Paper Notes | 90,173 | - | - | 90,173 | - |
| Capital Leases | 1,349 | 612 | (407) | 1,554 | 418 |
| Gross Bonds, Notes and Leases Payable | <u>590,842</u> | <u>126,922</u> | <u>(53,677)</u> | <u>664,087</u> | <u>20,333</u> |
| Deferred Amounts: | | | | | |
| For Issuance Premiums | 21,689 | 2,154 | (2,411) | 21,432 | - |
| For Issuance Discounts | (26,766) | (311) | 3,578 | (23,499) | - |
| For Refunding | (1,257) | (3,084) | 141 | (4,200) | - |
| Net Bonds, Notes and Leases Payable | <u>584,508</u> | <u>125,681</u> | <u>(52,369)</u> | <u>657,820</u> | <u>20,333</u> |
| Other Liabilities: | | | | | |
| Compensated Absences | 999 | 811 | (714) | 1,096 | 770 |
| Business-Type Activity Long-Term Liabilities | <u>\$ 585,507</u> | <u>126,492</u> | <u>(53,083)</u> | <u>658,916</u> | <u>21,103</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, 2004

Long-term liability activity for the major enterprise funds for the year ended August 31, 2004, was as follows (in thousands of dollars):

| | 09/01/03 Beginning Balance | Additions | Reductions | 08/31/04 Ending Balance | Due Within One Year |
|-----------------------------------|----------------------------------|-----------|------------|-------------------------------|------------------------|
| Lincoln Wastewater System: | | | | | |
| Bonds Payable: | | | | | |
| Wastwater Revenue Bonds | 55,000 | - | (1,750) | 53,250 | 1,500 |
| Deferred For Issuance Premiums | 2,009 | - | (81) | 1,928 | - |
| Net Bonds Payable | 57,009 | - | (1,831) | 55,178 | 1,500 |
| Other Liabilities: | | | | | |
| Compensated Absences | 331 | 270 | (230) | 371 | 256 |
| Total Long-Term Liabilities | \$ 57,340 | 270 | (2,061) | 55,549 | 1,756 |
| Lincoln Water System: | | | | | |
| Bonds Payable: | | | | | |
| Water Revenue Bonds | \$ 50,690 | - | (3,115) | 47,575 | 4,000 |
| Deferred for Issuance Premiums | 2,443 | - | (257) | 2,186 | - |
| Deferred for Refunding | (1,216) | - | 136 | (1,080) | - |
| Net Bonds Payable | 51,917 | - | (3,236) | 48,681 | 4,000 |
| Other Liabilities: | | | | | |
| Compensated Absences | 430 | 313 | (268) | 475 | 288 |
| Total Long-Term Liabilities | \$ 52,347 | 313 | (3,504) | 49,156 | 4,288 |
| Lincoln Electric System: | | | | | |
| Bonds and Notes Payable: | | | | | |
| Electric System Revenue Bonds | \$ 372,865 | 126,310 | (46,970) | 452,205 | 12,980 |
| Commercial Paper Notes | 90,173 | - | - | 90,173 | - |
| Deferred for Issuance Premiums | 17,237 | 2,154 | (2,073) | 17,318 | - |
| Deferred for Issuance Discounts | (26,766) | (311) | 3,578 | (23,499) | - |
| Deferred for Refunding | - | (3,084) | - | (3,084) | - |
| Total Long-Term Liabilities | \$ 453,509 | 125,069 | (45,465) | 533,113 | 12,980 |

(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, 2004, (December 31, 2003 for Lincoln Electric System), with the exception of LES' long-term debt for which the estimated fair value is \$483,000,000.

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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

(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, 2004, for these two divisions is presented as follows:

| | <u>Golf</u> | <u>Parking Facilities</u> |
|---------------------------------------------------------------------------------|---------------------|-------------------------------|
| CONDENSED STATEMENT OF NET ASSETS | | |
| Assets: | | |
| Current Assets | \$ 84,564 | 3,830,130 |
| Restricted Assets | 426,963 | 2,565,055 |
| Deferred Charges | 55,639 | 495,173 |
| Capital Assets | <u>7,876,539</u> | <u>36,375,466</u> |
| Total Assets | <u>8,443,705</u> | <u>43,265,824</u> |
| Liabilities: | | |
| Current Liabilities | 546,834 | 374,331 |
| Due to Other Funds | 116,220 | 3,106 |
| Current Liabilities Payable from Restricted Assets | 298,894 | 1,216,658 |
| Noncurrent Liabilities | <u>2,383,917</u> | <u>15,900,018</u> |
| Total Liabilities | <u>3,345,865</u> | <u>17,494,113</u> |
| Net Assets: | | |
| Invested in Capital Assets, Net of Related Debt | 5,053,403 | 19,830,639 |
| Restricted | 704,969 | 2,488,397 |
| Unrestricted | <u>(660,532)</u> | <u>3,452,675</u> |
| Total Net Assets | <u>\$ 5,097,840</u> | <u>25,771,711</u> |
| CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS | | |
| Operating Revenues | \$ 2,896,171 | 5,325,668 |
| Depreciation Expense | (593,452) | (1,022,072) |
| Other Operating Expenses | <u>(2,467,141)</u> | <u>(2,733,492)</u> |
| Operating Income (Loss) | (164,422) | 1,570,104 |
| Nonoperating Revenues (Expenses): | | |
| Investment Earnings | 3,499 | 138,930 |
| Loss on Disposal of Capital Assets | (26,831) | (28,467) |
| Interest Expense and Fiscal Charges | (131,846) | (947,270) |
| Capital Contributions | <u>12,716</u> | <u>-</u> |
| Change in Net Assets | (306,884) | 733,297 |
| Beginning Net Assets | <u>5,404,724</u> | <u>25,038,414</u> |
| Ending Net Assets | <u>\$ 5,097,840</u> | <u>25,771,711</u> |
| CONDENSED STATEMENT OF CASH FLOWS | | |
| Net Cash Provided (Used) by: | | |
| Operating Activities | \$ 385,668 | 2,725,848 |
| Noncapital Financing Activities | 110,738 | - |
| Capital and Related Financing Activities | (640,847) | (2,584,499) |
| Investing Activities | <u>153,147</u> | <u>148,012</u> |
| Net Increase in Cash | 8,706 | 289,361 |
| Beginning Balance | <u>96,803</u> | <u>1,028,210</u> |
| Ending Balance | <u>\$ 105,509</u> | <u>1,317,571</u> |

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

(12) DEFICIT NET ASSETS

The following funds had a net asset or fund balance deficit as of August 31, 2004:

| | |
|-----------------------------------------------|--------------|
| Major Governmental - Federal Grants Fund | \$ (328,692) |
| Special Revenue - Impact Fees Fund | (2,666) |
| Enterprise - Emergency Medical Services Fund | (146,575) |
| Internal Service - Engineering Revolving Fund | (182,930) |

(13) EMPLOYEES' RETIREMENT PLANS

The employees of the City are covered by several retirement plans. Article II Section 3 of the Lincoln Charter assigns the authority to establish and amend benefit provisions of the various plans to the City Council. The Police and Fire Department Plan (PFDP) is administered by the City and is included in the Fiduciary Fund type. All other plans are administered by outside trustees and are not included in the City's basic financial statements.

POLICE AND FIRE PENSION

Plan Description - PFDP is a single-employer defined benefit pension plan administered by the City of Lincoln. PFDP provides retirement, disability, and death benefits to plan members and beneficiaries. PFDP recognizes plan member contributions in the period in which they are due. Employer contributions are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Cost-of-living adjustments are provided to members and beneficiaries in accordance with the plan document. The City does not issue a separate report that includes financial statements and required supplementary information for PFDP.

The City has established the Deferred Retirement Option Plan (DROP) for police and fire pension members. The DROP program allows a member to retire for pension purposes, but to continue working. The member receives a paycheck and the member's monthly pension benefit is deposited into the member's DROP account. At the end of five years, or anytime before five years, the member must "retire-in-fact". Contributions to the pension are eliminated at the beginning of the DROP period. Pension benefits are set, and will not be increased because of raises, promotions, increased years of 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, 2004, the date of the latest actuarial valuation:

| | |
|-----------------------------------------------------------------------|------------|
| Retirees and beneficiaries receiving benefits | 316 |
| Terminated plan members entitled to but not yet receiving benefits | 25 |
| Active plan members (non-DROP) | 533 |
| DROP members | <u>70</u> |
| Total | <u>944</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 2004 was 12.83% of annual covered payroll. Actual contributions by the City were 7.1% of annual covered payroll. Administrative costs of PFDP are financed through investment earnings.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

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 | \$ 3,297 |
| Interest on net pension obligation | 10 |
| Adjustment to annual required contribution | <u>(15)</u> |
| Annual pension cost | 3,292 |
| Contributions made | <u>1,992</u> |
| Increase in net pension obligation | 1,300 |
| Net pension obligation beginning | <u>130</u> |
| Net pension obligation ending | <u>\$ 1,430</u> |

The annual required contribution for the current year was determined as part of the August 31, 2002, actuarial valuation using the entry age actuarial funding method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 4.5 to 8.5% per year, and (c) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using a four year smoothed market method. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis over a period of ten years.

Three-Year Trend Information
(Dollar Amounts in Thousands)

| Year Ended August 31 | Annual Pension Cost (APC) | Annual Pension Contribution | Percentage of APC Contributed | Net Pension Obligation |
|-------------------------|---------------------------|-----------------------------|-------------------------------|------------------------|
| 2004 | \$ 3,292 | \$ 1,992 | 61 % | \$ 1,430 |
| 2003 | 2,287 | 1,783 | 78 | 130 |
| 2002 | 1,989 | 1,585 | 80 | (374) |

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 * | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|-------------------------------------------------|-----------------------------|--------------------|-------------------|---------------------------------------------------|
| August 31, 2004 | \$ 136,974 | \$ 144,179 | \$ 7,205 | 95.0 % | \$ 28,125 | 25.6 % |
| August 31, 2003 | 132,578 | 137,508 | 4,930 | 96.4 | 27,415 | 18.0 |
| August 31, 2002 | 128,319 | 130,875 | 2,556 | 98.0 | 26,607 | 9.6 |
| 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) |

* Non-DROP payroll in 2002 and later

Schedule of Employer Contributions
(Dollar Amounts in Thousands)

| Year Ended August 31 | Annual Required Contribution | Annual Pension Contribution | Percentage Contributed |
|-------------------------|------------------------------|-----------------------------|------------------------|
| 2004 | \$ 3,297 | \$ 1,992 | 60 % |
| 2003 | 2,234 | 1,781 | 80 |
| 2002 | 1,878 | 1,542 | 82 |
| 2001 | 821 | 1,111 | 135 |
| 2000 | 92 | 941 | 1023 |
| 1999 | 962 | 908 | 94 |

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

ELECTRIC SYSTEM

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

LES has a defined contribution retirement plan covering all employees upon employment; however, employees are not eligible to receive employer contributions until they have been employed six months. The plan is a straight-money purchase plan, administered by a financial institution. LES' contribution is equal to 200% of the employees' contributions which range from 2% to 5% of gross wages. This plan and related contribution requirements were authorized by the administrative board of directors 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 \$2,469,000 (9.3% of covered payroll) and its employees contributed approximately \$1,395,000 (5.3% 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, 2003, was \$1,388,932. City contributions totaled \$162,020 or 11.7% of covered payroll. There were no voluntary employee contributions made for the year ended December 31, 2003.

ALL OTHER CITY EMPLOYEES

All other City employees are eligible after 6 months' service and age 19 to be covered under the City's Money Purchase Pension Plan, established by City Ordinance, and administered by an insurance company. Enrollment in the program is mandatory at age 40 with 5 years service. Vesting occurs in increments between 3 and 7 years of enrollment in the plan. The Plan is a defined contribution plan requiring employees to contribute 3% of earnings on the first \$4,800 and 6% on the balance of earnings. Currently, the City contributes 200% of the employees' contributions. Employee forfeitures are used to reduce employer contributions. Employees covered by the Plan may also make voluntary contributions. During the year ended December 31, 2003, total payroll was approximately \$63,332,000 and covered payroll was approximately \$52,463,000. City contributions totaled \$5,802,287 or 11.0% of covered payroll and employee contributions totaled \$2,956,419 or 5.6% of covered payroll. Employees made \$40,587 in voluntary contributions for the year ended December 31, 2003.

(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.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

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

The City of Lincoln owns a solid waste disposal area which discontinued operations in 1990, but still requires certain closure and postclosure care, including the construction of final cover 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 \$20,000,000 as of August 31, 2004, which will be financed primarily through highway user fees, bond proceeds, federal and state grants, and developer contributions.

LINCOLN WASTEWATER SYSTEM

The Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$4,700,000 at August 31, 2004. In September 2004 additional construction commitments of approximately \$40,000,000 were entered into.

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 three years. The maximum remaining commitment is approximately \$1,200,000 at August 31, 2004.

LINCOLN WATER SYSTEM

The Lincoln Water System has commitments under major construction contracts in progress of approximately \$4,700,000 as of August 31, 2004.

Lincoln Water System has commitments to purchase approximately \$1,000,000 of automated meter reading system equipment for three years. The maximum remaining commitment is approximately \$3,000,000 at August 31, 2004.

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.

During 2002, LES and NPPD entered into a new agreement which 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.

LES recognized expense for its share of the total fixed demand costs under the new agreement of approximately \$9.1 million in 2003.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

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 \$7,100,000 in 2003. 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 \$16,700,000 in 2003.

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 \$15,600,000, \$16,100,000, \$15,400,000, \$15,500,000, and \$16,200,000, respectively, in each of the five years subsequent to December 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 \$56,000,000 are reflected in utility plant at December 31, 2003.

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, 2004, 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, 2004, 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 2003, 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, 2004, consists of the following:

| Due To | Due From | | | | | | | Total |
|---------------------------|-------------------|---------------------|----------------|----------------------------|-----------------------|---------------------|------------------|------------------|
| | General Fund | Street Construction | Federal Grants | Community Health Endowment | Nonmajor Governmental | Nonmajor Enterprise | Internal Service | |
| General Fund | \$ - | 56,531 | 240,151 | 83 | 282,241 | 1,182,223 | 3,844 | 1,765,073 |
| Street Construction | 394 | - | - | - | 2,157,968 | - | - | 2,158,362 |
| Federal Grants | 3,000 | - | - | - | - | - | - | 3,000 |
| Nonmajor Governmental | 9,300 | - | 5,271 | - | 544,944 | - | - | 559,515 |
| Lincoln Wastewater System | - | - | - | - | 337,721 | - | - | 337,721 |
| Lincoln Water System | - | - | - | - | 873,440 | - | - | 873,440 |
| Nonmajor Enterprise | 22,358 | 12,152 | - | - | - | - | - | 34,510 |
| Internal Service | 649,816 | 5,633 | 3,524 | - | 58,031 | 16,617 | 32,507 | 766,128 |
| | <u>\$ 684,868</u> | <u>74,316</u> | <u>248,946</u> | <u>83</u> | <u>4,254,345</u> | <u>1,198,840</u> | <u>36,351</u> | <u>6,497,749</u> |

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“Due to” and “Due from” balances are recorded when funds overdraw their share of pooled cash. The total due to the General Fund includes \$1,031,773 from the Emergency Medical Services Enterprise Fund for an advance made for cash flow needs. Of this amount, \$776,890 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, 2004, consists of the following:

| Transfer To | Transfer From | | | | | | | Total |
|-----------------------|----------------------|---------------------|----------------|-----------------------|-------------------------|---------------------|------------------|-------------------|
| | General Fund | Street Construction | Federal Grants | Nonmajor Governmental | Lincoln Electric System | Nonmajor Enterprise | Internal Service | |
| General Fund | \$ - | - | 10,250 | 349,184 | 1,128,665 | - | - | 1,488,099 |
| Street Construction | 771,800 | - | 53,000 | 6,668,936 | - | 8,907 | - | 7,502,643 |
| Federal Grants | 584,389 | - | - | 182,806 | - | - | - | 767,195 |
| Nonmajor Governmental | 16,878,890 | 1,498,233 | - | 3,619,008 | - | 611,680 | 5,850 | 22,613,661 |
| Nonmajor Enterprise | 593,368 | - | - | - | - | - | - | 593,368 |
| Internal Service | 2,284 | 451,553 | - | - | - | - | - | 453,837 |
| Total | \$ 18,830,731 | 1,949,786 | 63,250 | 10,819,934 | 1,128,665 | 620,587 | 5,850 | 33,418,803 |

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.

The variance of \$335 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, 2004, the City has a self-insured retention for workers' compensation exposures up to \$500,000 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 \$500,000 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 is covered by a policy which 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,

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and long-term disability exposures. Such analysis has been used to assist the City with its financial planning and management of the self-insurance program. Included in the specific objectives of the studies were to:

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

The City funds its self-insurance program on an "incurred loss" basis. The governmental and proprietary funds pay annual premium amounts, based on past experience of incurred losses, to the Insurance Revolving Fund. Claim liabilities of \$4,995,121 were recorded at August 31, 2004. This is the actuarially estimated amount of claims based on an estimate of ultimate incurred and incurred but not reported losses as of that date and is calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic and social factors. 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, 2004 and 2003:

| | <u>2004</u> | <u>2003</u> |
|----------------------------------------------|---------------------|--------------------|
| Balance at September 1 | \$ 5,143,840 | 5,507,344 |
| Current year claims and changes in estimates | 1,702,660 | 1,805,085 |
| Claims payments | <u>(1,851,379)</u> | <u>(2,168,589)</u> |
| Balance at August 31 | <u>\$ 4,995,121</u> | <u>5,143,840</u> |

(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, 2004, the City had incurred a liability of approximately \$4,579,000 for the solid waste disposal area which represents the amount of costs reported to date based on the approximately 33 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$9.3 million, which will be recognized as the remaining capacity is used (estimated to be approximately 22 years).

As of August 31, 2004, the City had incurred a liability of approximately \$524,000 for the construction and demolition disposal area which represents the amount of costs reported to date based on the approximately 47 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$589,000, which will be recognized as the remaining capacity is used (estimated to be approximately 15 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.

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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, 2004, a liability for closure and postclosure care costs is recorded in the amount of approximately \$2,135,000, 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, 2004.

(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, 2004, the City made rental payments of approximately \$2 million to the Commission.

As of August 31, 2004, the Commission has bonds outstanding of \$48,725,000 attributable to several bond issues. Certain proceeds from the bonds totaling \$13,730,000 have been utilized by the Commission to acquire, construct, and/or renovate certain buildings occupied by the City and County. The City's proportionate share of such buildings are recorded as capital assets and the corresponding debt are reflected as capital leases in the City's financial statements. Lease payments are not recorded as capital lease payments in the Debt Service funds but rather are recorded as current expenditures in the various individual funds.

Additional bond proceeds, totaling \$29,000,000, have been utilized by the Commission to construct a new County-City building and to renovate the prior County-City building to be used as a Hall of Justice. It is estimated that the City occupies approximately 65% of the new building and 38% of the renovated building (Hall of Justice). It is anticipated that property tax levies by the Commission will be sufficient to meet bond principal and interest payments. Should revenues from such property tax levies not be sufficient to meet debt service requirements in any given year, the City and County would contribute the necessary payments based on their proportionate occupancy in such buildings. Such contributions are expected to be minimal and will be expensed in the appropriate funds when incurred. The City's proportionate share of the buildings has been recorded in capital assets in accordance with the terms of the joint venture agreement regarding the ultimate transfer of assets to the City and County.

Bonds of \$11,295,000 have been issued to acquire land, construct and furnish an addition to the Lincoln-Lancaster County Health Department building, construct additional parking facilities, and renovate and improve the current Health facilities. The City's proportionate share of the Health facilities renovations will be recorded in capital assets and capital leases 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.

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(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.

(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 \$144,000 in 2003. The total amount of payments to LES for energy was approximately \$68,000 in 2003.

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.

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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 \$83,000 in 2003. The total amount of payments to LES for energy was approximately \$4.9 million in 2003.

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

This **CONTINUING DISCLOSURE CERTIFICATE**, dated June 1, 2005 (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 \$6,555,000 aggregate principal amount of its General Obligation Storm Sewer Refunding Bonds, Series 2005, dated the date of delivery (June 1, 2005) thereof (the “**Bonds**”) pursuant to Ordinance No. 18508 duly passed and adopted by the Council of the City on March 7, 2005 and approved by the Mayor of the City on March 9, 2005 (the “**Bond Ordinance**”).

2. The City is executing and delivering this Disclosure Certificate for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Rule 15c2-12(b)(5) 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 the registered owner of any Bond and 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.

“**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** attached hereto.

“**Dissemination Agent**” means the City, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City.

“**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, who is required to comply with the Rule in connection with the offering of the Bonds.

“**Repository**” shall mean each National Repository and each State Repository, if any.

“**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 Disclosure 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 provide the Annual Report to each Repository by the date required in **Section 2(a)**, the City shall send a notice to each Repository in substantially the form indicated by **Exhibit B** attached hereto.

(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) certify that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date that 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 similar to the audited 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.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the City is an “obligated person” (as

defined by the Rule), which have been provided to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

Section 4. Reporting of Material 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 (each a “**Material Event**”) with respect to the Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) modifications to rights of registered owners;
- (iv) optional, contingent or unscheduled redemption of the Bonds;
- (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 each Repository. Notwithstanding the foregoing, notice of Material Events described in **Section 4(a)(iv)** and **Section 4(a)(v)** 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 Bond Ordinance.

Section 5. Central Post Office. The City may 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 unless the City has actual notice that the Central Post Office has failed to deliver the Annual Report or Material Event Notice to the Repositories.

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. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign as dissemination agent hereunder at any time upon **30** days prior written notice to the City. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report (including without limitation the Annual Report) prepared by the City pursuant to this Disclosure Certificate. The initial Dissemination Agent is the City.

Section 8. 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 Bond Counsel or other counsel experienced in federal securities law matters provides the City and the Dissemination Agent with its written opinion that the undertaking of the City contained herein, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to this Disclosure Certificate.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment or waiver in the next Annual Report, 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, (1) notice of such change shall be given in the same manner as for a Material Event under **Section 4(c)**, and (2) the Annual Report 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 9. 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 any Annual Report 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 Annual Report 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 Annual Report or notice of occurrence of a Material Event.

Section 10. 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 mandamus or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Bond Ordinance, 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 11. Duties and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or wilful misconduct. The obligations of the City under this **Section 11** shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The City shall pay the fees, charges and expenses of the Dissemination Agent in connection with its administration of this Disclosure Certificate.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, 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 13. Severability. If any provision in this Disclosure Certificate, the Bond Ordinance or the Bonds shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 14. 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. Copies, facsimiles, electronic files and other reproductions of original documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.

Section 15. Governing Law. This Disclosure Certificate shall be governed by and construed in accordance with the laws of the State of Nebraska.

DATED: June 1, 2005

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

Standard & Poor's Securities Evaluations, Inc.

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FT Interactive Data

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100 William Street
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New York, New York 10038
Phone: (212) 771-6999 or (800) 689-8466
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CENTRAL POST OFFICE

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www.DisclosureUSA.org

Paper submissions

(permitted through December 31, 2007):

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Austin, Texas 78768-4667

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Disclosure USA
600 West 8th Street
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EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: **City of Lincoln, Nebraska**

Name of Issue: **General Obligation Storm Sewer Refunding Bonds, Series 2005**

Date of Issuance: **June 1, 2005**

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 June 1, 2005. The City anticipates that the Annual Report will be filed by _____, 200__.

DATED: _____

CITY OF LINCOLN, NEBRASKA

APPENDIX D

BOOK-ENTRY SYSTEM

BOOK ENTRY ONLY SYSTEM

Generally

The Depository Trust Company, New York, New York (“**DTC**”) will act as securities depository for the Bonds. Initially, ownership of one fully registered Bond for each maturity of the Bonds, as set forth on the 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 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 Bonds if issued in certificate form. See the caption “**Discontinuance of Book-Entry 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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit with respect to the Bonds in the records of DTC. The ownership interest of each actual purchaser (the “**Beneficial Owner**”) of each Bond 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 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 Bonds, except in the event the use of the book-entry system for the Bonds is discontinued as provided in the Bond Ordinance.

Each Beneficial Owner for whom a DTC Participant has an interest in the 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 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 DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE 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 BOND ORDINANCE TO BE GIVEN BY THE CITY TO REGISTERED OWNERS OF THE BONDS; (D) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE 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 Bond is registered in the name of DTC's nominee, all payments of the principal of, redemption premium, if any, and interest on, the 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 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 registered owners of the Bonds 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 Bonds.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 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 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 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 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 Bond.

To facilitate subsequent transfers, all 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 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 Bonds; DTC's record reflect only the identity of the DTC Participants to whose accounts the 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 Bonds

Registered ownership of the 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 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 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 Bond as shown on the registration books of the Registrar. So long as all 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 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 Bonds from any applicable record date through and including the next succeeding interest or principal payment date for the Bonds, or from the record date next preceding any selection of Bonds to be redeemed or thereafter, until after the first mailing of any notice of redemption; or to transfer or exchange any Bonds called for redemption.

Discontinuance of Book-Entry System

DTC's services with respect to the 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 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 Bonds if the City determines that DTC is unable to discharge its responsibilities with respect to the Bonds or that a continuation of the requirement that all of the outstanding 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 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 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 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 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.