

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

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

**RATINGS (See “RATINGS”):** Moody’s: “Aaa” (MBIA Insured)  
|S&P: “AAA” (MBIA Insured)  
Moody’s: “Aa2” (Underlying)  
S&P: “AA+” (Underlying)

*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 (the “Code”), interest on the Series 2007 Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal and Nebraska income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Series 2007 Bonds have not been designated by the City as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Code. See “TAX MATTERS.”*

**DAC Bond**

**OFFICIAL STATEMENT  
\$20,460,000  
THE CITY OF LINCOLN, NEBRASKA  
SANITARY SEWER REVENUE BONDS  
SERIES 2007**

**Dated:** date of delivery

**Due:** June 15, as shown on inside cover

The Series 2007 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 (“DTC”), New York, New York, which will act as securities depository for the Series 2007 Bonds. Purchases of the Series 2007 Bonds will be originally made in book-entry form only, in the denomination of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC participants. Beneficial owners of the Series 2007 Bonds will not receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2007 Bonds. So long as DTC or its nominee is the registered owner of the Series 2007 Bonds, payments of the principal or redemption price of and interest on the Series 2007 Bonds will be made directly to DTC. 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. Interest is payable on June 15 and December 15 of each year, beginning December 15, 2007. Wells Fargo Bank, National Association is bond registrar and paying agent for the Series 2007 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 SERIES 2007 BONDS - Book-Entry System.”

The Series 2007 Bonds maturing on or after June 15, 2018 are subject to optional redemption prior to maturity at any time on or after June 15, 2017 as set forth herein. See “THE SERIES 2007 BONDS - Optional Redemption.”

Payment of the principal of and interest on the Series 2007 Bonds when due will be insured by a financial guaranty insurance policy (the “Bond Insurance Policy”) to be issued by MBIA Insurance Corporation (the “Bond Insurer”) simultaneously with the delivery of the Bonds. See “BOND INSURANCE.”

**MBIA**

The Series 2007 Bonds are being issued for the purpose of (a) providing a portion of the funds necessary to pay for certain improvements to the City’s municipally owned and operated sanitary sewer system (the “System”), (b) making a deposit into the 2007 Account established in the Reserve Fund established with respect to the Series 2007 Bonds, and (c) paying expenses incident to the issuance of the Series 2007 Bonds. The Series 2007 Bonds, together (a) with \$50,230,000 outstanding aggregate principal amount of the City’s Sanitary Sewer Revenue and Refunding Bonds, Series 2003, dated July 31, 2003, (b) \$17,455,000 outstanding aggregate principal amount of the City’s Sanitary Sewer Revenue Bonds, Series 2005, dated August 3, 2005, and (c) all additional bonds hereafter issued pursuant to Ordinance No. 18171 of the City (as amended and supplemented from time to time, the “Ordinance”), are payable solely from and are secured by a pledge of the net earnings (gross revenues less operating and maintenance expenses) of the System and money, if any, from time to time on deposit in certain funds and accounts created by the Ordinance. See “INTRODUCTION,” “SECURITY,” and “APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE.”

**THE SERIES 2007 BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY AND NEITHER THE FULL FAITH AND CREDIT OF THE CITY OR THE STATE OF NEBRASKA (THE “STATE”), NOR ANY FUNDS DERIVED BY THE CITY FROM SOURCES OTHER THAN THOSE SPECIFICALLY MENTIONED IN THE PRECEDING PARAGRAPH, ARE PLEDGED TO THE PAYMENT THEREOF. THE SERIES 2007 BONDS ARE SPECIAL, REVENUE OBLIGATIONS OF THE CITY AND THE PRINCIPAL OR REDEMPTION PRICE THEREOF AND INTEREST PAYABLE THEREON DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE THEREON. THE SERIES 2007 BONDS DO NOT CONSTITUTE A DEBT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION UNDER THE LAWS OF THE STATE. THE SERIES 2007 BONDS AND THE INTEREST THEREON DO NOT, DIRECTLY OR INDIRECTLY, OBLIGATE THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATIONS FOR THEIR PAYMENT, AND THE SERIES 2007 BONDS DO NOT NOW AND SHALL NEVER CONSTITUTE A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF.**

**MATURITY SCHEDULE – SEE INSIDE COVER**

The Series 2007 Bonds are offered when, as, and if issued, subject to the approval of legality by Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel. Certain legal matters will be passed on by Dana W. Roper, City Attorney. It is expected that the Series 2007 Bonds will be available for delivery through DTC on or about April 18, 2007.

**CITIGROUP**

**AMERITAS INVESTMENT CORP.**  
Has acted as Financial Advisor

The date of this Official Statement is April 4, 2007

## MATURITY SCHEDULE

**\$20,460,000**  
**THE CITY OF LINCOLN, NEBRASKA**  
**SANITARY SEWER REVENUE BONDS**  
**SERIES 2007**

<u>Maturity (June 15)</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP Number</u>
2008	\$ 360,000	4.000%	3.500%	100.559%	534323 GE 4
2009	510,000	4.000	3.530	100.964	534323 GF 1
2010	530,000	4.000	3.550	101.329	534323 GG 9
2011	550,000	4.000	3.580	101.605	534323 GH 7
2012	570,000	4.000	3.600	101.863	534323 GJ 3
2013	595,000	4.000	3.650	101.910	534323 GK 0
2014	615,000	4.000	3.700	101.867	534323 GL 8
2015	640,000	4.000	3.760	101.668	534323 GM 6
2016	665,000	4.000	3.830	101.298	534323 GN 4
2017	695,000	4.000	3.900	100.827	534323 GP 9
2018	720,000	4.000	4.000	100.000	534323 GQ 7
2019	750,000	4.000	4.080	99.234	534323 GR 5
2020	780,000	4.000	4.180	98.187	534323 GS 3
2021	815,000	4.125	4.260	98.571	534323 GT 1
2022	850,000	4.375	4.375	100.000	534323 GU 8
2023	885,000	4.500	4.400*	100.806	534323 GV 6
2024	920,000	4.250	4.400	98.201	534323 GW 4
2025	965,000	4.375	4.420	99.436	534323 GX 2
2026	1,005,000	4.500	4.400*	100.806	534323 GY 0
2027	1,050,000	4.500	4.410*	100.725	534323 GZ 7
2028	1,095,000	4.500	4.420*	100.643	534323 HA 1
2029	1,145,000	4.500	4.430*	100.562	534323 HB 9

\$3,750,000 - 4.375% Term Bonds due June 15, 2032, priced at 97.976% to yield 4.510%  
CUSIP No. 534323 HC 7

\* Yield to date of earliest optional redemption

**THE CITY OF LINCOLN, NEBRASKA  
CITY OFFICIALS**

Coleen J. Seng, Mayor

**City Council Members**

Patte Newman (Chair)

Jon Camp  
Jonathan Cook  
Robin Eschliman

Dan Marvin  
Annette McRoy  
Ken Svoboda

**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  
Karl Fredrickson ..... Public Works and Utilities Director  
Bruce Dart ..... Health Director  
Don Taute ..... Personnel Director  
Dana W. Roper ..... City Attorney  
Thomas Casady ..... Police Chief  
Danny Wright ..... Interim Fire Chief  
Mike Merwick ..... Building and Safety Director

Peggy Watchorn, City Controller

**Financial Advisor**

Ameritas Investment Corp.

**Bond Counsel**

Gilmore & Bell, P.C.

**Registrar and Paying Agent**

Wells Fargo Bank, National Association

**Independent Auditors**

BKD LLP

## REGARDING USE OF THIS OFFICIAL STATEMENT

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### AUTHORIZED INFORMATION AND REPRESENTATIONS

No dealer, broker, sales representative or other person has been authorized by The City of Lincoln, Nebraska (the “**City**”) or Ameritas Investment Corp. (“**Ameritas**”) to give any information or to make any representations other than those contained in this official statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This official statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2007 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, Ameritas. Citigroup (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.

The Underwriter intends to offer the Series 2007 Bonds initially at the offering prices set forth on the inside cover of this Official Statement, which may subsequently change without any requirement of prior notice.

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### REGISTRATION EXEMPTION

The Series 2007 Bonds have not been registered with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended (the “**Securities Act**”), in reliance upon an exemption contained in the Securities Act. In making an investment decision, investors must rely upon their own examination of the City and the terms of the offering, including the merits and risks involved. No federal or state securities commission or regulatory authority has recommended the Series 2007 Bonds. Moreover, none of the foregoing authorities has confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

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### FORWARD-LOOKING STATEMENTS

This Official Statement contains statements that are “forward-looking statements” as defined in Section 27a of the Securities Act of 1933 and Section 21e of the Securities Exchange Act of 1934. When used in this Official Statement, the words “estimate,” “intend,” “expect” and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Official Statement.

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**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2007 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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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 HEREIN 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.**

## OFFICIAL STATEMENT

\$20,460,000

### THE CITY OF LINCOLN, NEBRASKA SANITARY SEWER REVENUE BONDS SERIES 2007

#### INTRODUCTION

This Official Statement is provided by The City of Lincoln, Nebraska (the “**City**”) to furnish information about the City, its municipally owned and operated sanitary sewer collection and treatment system (the “**System**”), and its \$20,460,000 Sanitary Sewer Revenue Bonds, Series 2007 (the “**Series 2007 Bonds**”). The Series 2007 Bonds are being issued pursuant to Ordinance No. 18171, duly passed by the Council on May 3, 2003 and approved by the Mayor on May 5, 2003, as amended and supplemented from time to time including, but not limited to Ordinance No. 18900 passed by the Council on March 26, 2007 and approved by the Mayor on March 28, 2007 (collectively, the “**Ordinance**”). The Series 2007 Bonds, together with (a) \$50,230,000 outstanding aggregate principal amount of the City’s Sanitary Sewer Revenue and Refunding Bonds, Series 2003, dated July 31, 2003 (the “**Series 2003 Bonds**”), (b) \$17,455,000 outstanding aggregate principal amount of the City’s Sanitary Sewer Revenue Bonds, Series 2005, dated August 3, 2005 (the “**Series 2005 Bonds**”), and (c) all additional sanitary sewer revenue bonds hereinafter issued by the City pursuant to the Ordinance and outstanding thereunder (collectively, the “**Bonds**”) are payable solely from and secured by a pledge of the Net Revenues (hereinafter defined) of the System. The City will use the proceeds of the Series 2007 Bonds, together with other legally available funds of the City to (a) pay the costs of additional improvements to the System (the “**2007 Project**”), (b) make a deposit into the 2007 Account in the Reserve Fund established pursuant to the Ordinance, and (c) pay the costs of issuing the Series 2007 Bonds.

Descriptions of and references to the Series 2007 Bonds, the 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 which are available for inspection at the offices of the financial advisor to the City, Ameritas Investment Corp., (“**Ameritas**”), at its offices in Lincoln, Nebraska. Definitions of initially capitalized terms used in this Official Statement and a summary of the Ordinance may be found in “**APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE.**”

#### AUTHORITY

The Series 2007 Bonds are authorized pursuant to the provisions of Sections 15-244 and 18-1803 to 18-1805, inclusive, Reissue Revised Statutes of Nebraska, as amended, Article IX, Section 44 of the City’s Home-Rule Charter and the Ordinance. The Ordinance permits the issuance of sanitary sewer revenue refunding bonds (the “**Refunding Bonds**”) and additional sanitary sewer revenue bonds (the “**Additional Bonds**”) on a parity with the Series 2003 Bonds, the Series 2005 Bonds, and the Series 2007 Bonds. See “**APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Refunding Bonds**” and “**- Additional Bonds.**”

## SECURITY

The Series 2003 Bonds, the Series 2005 Bonds, and the Series 2007 Bonds, together with any Refunding Bonds and Additional Bonds hereafter issued by the City in accordance with the provisions of the Ordinance (collectively, the **"Bonds"**), are payable solely from and secured by a pledge of the Net Revenues. The Ordinance defines (a) **"Net Revenues"** as Revenues less Operation and Maintenance Expenses plus Depreciation, determined in accordance with generally accepted accounting principles for proprietary governmental operations such as the System, (b) **"Revenues"** as (1) total operating revenues, plus (2) interest income, plus (3) tap fees, plus (4) impact fees, if any, allocable to the System, plus (5) such other revenues and income as shall be determined to be appropriate in accordance with generally accepted accounting principles for proprietary governmental operations such as the System, (c) **"Operation and Maintenance Expenses"** as the necessary expenditures for operating and maintaining the System and shall include expenditures generally classified as operating expenses in accordance with generally accepted accounting principles for proprietary governmental operations such as the System and (d) **"Depreciation"** as depreciation and amortization expenses with respect to the System, classified as such in accordance with generally accepted accounting principles for proprietary governmental operations such as the System. **The full faith and credit of the City is not pledged to the payment of the Bonds.**

The Ordinance establishes a 2007 Reserve Account for the Series 2007 Bonds and requires the deposit therein of an amount equal to the Reserve Requirement for the Series 2007 Bonds. The **"Reserve Requirement"** with respect to a Series (as defined in the Ordinance) of Bonds is defined to be the least of (a) 10% of the stated principal amount of such Series of Bonds, (b) the maximum annual principal and interest requirements on such Series of Bonds, and (c) 125% of the average annual principal and interest requirements on such Series of Bonds. If the aggregate initial offering price of such Series of Bonds to the public is less than 98% or more than 102% of par, such offering price shall be used in clause (a) in lieu of the stated principal amount. The Ordinance requires the creation of similar reserve accounts for Additional Bonds and Refunding Bonds hereafter issued pursuant to the Ordinance.

See **"APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE"** for a summary of other covenants of the City, including provisions as to rates and charges for sanitary sewer service provided by the System, the issuance of Additional Bonds or Refunding Bonds, annual audits, disposition of property of the System, and other provisions for the security of the Bonds.

## BOND INSURANCE

The following information has been furnished by MBIA Insurance Corporation (**"MBIA"**) for use in this Official Statement. Reference is made to **"APPENDIX G – SPECIMENT FINANCIAL GUARANTY INSURANCE POLICY"** for a specimen of MBIA's policy (the **"Policy"**).

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading **"BOND INSURANCE."** Additionally, MBIA makes no representation regarding the Series 2007 Bonds or the advisability of investing in the Series 2007 Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Registrar or its successor of an amount equal to (a) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory

sinking fund payment) and interest on, the Series 2007 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (b) the reimbursement of any such payment which is subsequently recovered from any Owner of the Series 2007 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a **“Preference”**).

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2007 Bonds. MBIA's Policy does not, under any circumstance, insure against loss relating to: (a) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (b) any payments to be made on an accelerated basis; (c) payments of the purchase price of Series 2007 Bonds upon tender by an owner thereof; or (d) any Preference relating to (a) through (c) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Series 2007 Bonds resulting from the insolvency, negligence or any other act or omission of the Registrar or any other paying agent for the Series 2007 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Registrar or any owner of a Series 2007 Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2007 Bonds or presentment of such other proof of ownership of the Series 2007 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2007 Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2007 Bonds in any legal proceeding related to payment of insured amounts on the Series 2007 Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Registrar payment of the insured amounts due on such Series 2007 Bonds, less any amount held by the Registrar for the payment of such insured amounts and legally available therefor.

### **MBIA Insurance Corporation**

MBIA Insurance Corporation (**“MBIA”**) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the **“Company”**). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

## **Regulation**

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

## **Financial Strength Ratings of MBIA**

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

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

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

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

The above ratings are not recommendations to buy, sell or hold the Series 2007 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2007 Bonds. MBIA does not guaranty the market price of the Series 2007 Bonds nor does it guaranty that the ratings on the Series 2007 Bonds will not be revised or withdrawn.

## **MBIA Financial Information**

As of December 31, 2005, MBIA had admitted assets of \$11.0 billion (audited), total liabilities of \$7.2 billion (audited), and total capital and surplus of \$3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2006, MBIA had admitted assets of \$10.9 billion (unaudited), total liabilities of \$6.9 billion (unaudited), and total capital and surplus of \$4.0 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to MBIA at its principal executive offices.

**Incorporation of Certain Documents by Reference**

The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated by reference into this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series 2007 Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (a) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (b) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006 are available (1) over the Internet at the SEC's web site at <http://www.sec.gov>; (2) at the SEC's public reference room in Washington, D.C.; (3) over the Internet at the Company's web site at <http://www.mbia.com>; and (4) at no cost, upon request to MBIA at its principal executive offices.

**ESTIMATED SOURCES AND USES OF FUNDS**

**SOURCES OF FUNDS:**

Principal Amount of Series 2007 Bonds	\$ 20,460,000.00
Less: Net Original Issue Discount	<u>11,784.30</u>

**TOTAL SOURCES: \$20,448,215.70**

**USES OF FUNDS:**

2007 Project Costs	\$ 18,839,637.94
2007 Account in Reserve Fund	1,365,668.76
Costs of Issuance (including Underwriters' Discount)	<u>242,909.00</u>

**TOTAL USES: \$20,448,215.70**

## DEBT SERVICE REQUIREMENTS

The following table sets for the debt service requirements for the City's outstanding Series 2003, Series 2005 Bonds and the Series 2007 Bonds for each of the fiscal years ending August 31:

<u>Year</u>	<u>Outstanding</u> <u>Bonds</u>	<u>Series 2007 Bonds</u>			<u>Aggregate</u> <u>Debt Service</u>
	<u>Annual</u> <u>Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual</u> <u>Debt Service</u>	
2007	\$5,086,481.26				\$5,086,481.26
2008	5,079,456.26	\$360,000.00	\$1,005,998.02	\$1,365,998.02	6,445,454.28
2009	5,075,956.26	510,000.00	854,087.50	1,364,087.50	6,440,043.76
2010	5,062,756.26	530,000.00	833,687.50	1,363,687.50	6,426,443.76
2011	5,029,556.26	550,000.00	812,487.50	1,362,487.50	6,392,043.76
2012	5,023,706.26	570,000.00	790,487.50	1,360,487.50	6,384,193.76
2013	5,005,331.26	595,000.00	767,687.50	1,362,687.50	6,368,018.76
2014	4,989,331.26	615,000.00	743,887.50	1,358,887.50	6,348,218.76
2015	4,960,831.26	640,000.00	719,287.50	1,359,287.50	6,320,118.76
2016	4,927,581.26	665,000.00	693,687.50	1,358,687.50	6,286,268.76
2017	4,905,831.26	695,000.00	667,087.50	1,362,087.50	6,267,918.76
2018	4,884,081.26	720,000.00	639,287.50	1,359,287.50	6,243,368.76
2019	4,860,393.76	750,000.00	610,487.50	1,360,487.50	6,220,881.26
2020	4,851,143.76	780,000.00	580,487.50	1,360,487.50	6,211,631.26
2021	4,840,368.76	815,000.00	549,287.50	1,364,287.50	6,204,656.26
2022	4,830,918.76	850,000.00	515,668.76	1,365,668.76	6,196,587.52
2023	4,824,143.76	885,000.00	478,481.26	1,363,481.26	6,187,625.02
2024	4,809,543.76	920,000.00	438,656.26	1,358,656.26	6,168,200.02
2025	4,815,043.76	965,000.00	399,556.26	1,364,556.26	6,179,600.02
2026	4,817,600.00	1,005,000.00	357,337.50	1,362,337.50	6,179,937.50
2027	4,812,825.00	1,050,000.00	312,112.50	1,362,112.50	6,174,937.50
2028	4,803,525.00	1,095,000.00	264,862.50	1,359,862.50	6,163,387.50
2029	1,179,450.00	1,145,000.00	215,587.50	1,360,587.50	2,540,037.50
2030	<u>1,180,850.00</u>	1,195,000.00	164,062.50	1,359,062.50	2,539,912.50
2031		1,250,000.00	111,781.26	1,361,781.26	1,361,781.26
2032		<u>1,305,000.00</u>	<u>57,093.76</u>	<u>1,362,093.76</u>	<u>1,362,093.76</u>
<b>TOTALS:</b>	<b><u>\$110,656,706.44</u></b>	<b><u>\$20,460,000.00</u></b>	<b><u>\$13,583,135.58</u></b>	<b><u>\$34,043,135.58</u></b>	<b><u>\$144,699,842.02</u></b>

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**THE CITY OF LINCOLN, NEBRASKA  
SANITARY SEWER SYSTEM**

**Five-year Statement of Historical Operations  
and Debt Service Coverage**

<u>Fiscal Year Ending August 31</u>	<u>Annual Discharge in H.C.F.<sup>(1)</sup></u>	<u>Revenue Per H.C.F.<sup>(1)</sup></u>	<u>Revenues<sup>(2)</sup></u>	<u>Net Operating Costs<sup>(3)</sup></u>	<u>Net Operating Revenue</u>	<u>Debt Service Requirement</u>	<u>Debt Service Coverage</u>
2002	13,362,970	1.12	\$15,026,486	\$ 8,632,287	\$6,394,199	\$1,309,347	4.88
2003	13,496,600	1.16	15,607,743	9,086,469	6,521,274	1,300,527	5.01
2004	13,631,566	1.30	17,754,898	10,042,919	7,711,979	3,883,704	1.99
2005	13,495,249	1.35	18,248,683	10,482,955	7,765,728	3,903,519	1.99
2006	13,630,221	1.46	19,827,194	11,125,819	8,701,375	5,108,500	1.70

<sup>(1)</sup>H.C.F. = Hundred Cubic Feet

<sup>(2)</sup>Revenues are (a) operating income, plus (b) investment income, plus (c) impact fees allocable to the System, the use of which by the City is unrestricted, plus (d) such other revenues and income as shall be determined to be appropriate in accordance with generally accepted accounting principles for proprietary governmental operations such as the System. The initial year of impact fee income was fiscal year ending August 31, 2005.

<sup>(3)</sup>Total operating expense less depreciation.

This Five-Year Statement of Historical Operating and Debt Service Results has been extracted from the audited financial statements of the System for the Fiscal Years indicated.

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**Projected Operating Results  
and Debt Service Coverage**

<u>Fiscal Year Ending August 31</u>	<u>Annual Discharge H.C.F.<sup>(1)</sup></u>	<u>Revenue Per H.C.F.<sup>(1)</sup></u>	<u>Revenues<sup>(2)</sup></u>	<u>Net Operating Costs<sup>(3)</sup></u>	<u>Net Operating Revenue</u>	<u>Debt Service Requirement</u>	<u>Debt Service Coverage</u>
2007	13,766,504	1.57	\$21,640,000 <sup>(a)</sup>	\$11,442,188	\$10,197,812	\$5,086,481	2.01
2008	13,904,169	1.70	23,643,000 <sup>(b)</sup>	12,084,751	11,558,249	7,187,114 <sup>(f)</sup>	1.61
2009	14,043,210	1.85	25,910,000 <sup>(c)</sup>	12,628,565	13,281,435	7,549,417 <sup>(g)</sup>	1.76
2010	14,183,642	1.99	28,156,000 <sup>(d)</sup>	13,196,850	14,959,150	8,548,831 <sup>(h)</sup>	1.75
2011	14,325,479	2.12	30,334,000 <sup>(e)</sup>	13,790,708	16,543,292	9,804,548 <sup>(i)</sup>	1.69

<sup>(1)</sup> H.C.F. = Hundred Cubic Feet

<sup>(2)</sup> Revenues are (a) operating income, plus (b) investment income, plus (c) impact fees allocable to the System, the use of which by the City is unrestricted, plus (d) such other revenues and income as shall be determined to be appropriate in accordance with generally accepted accounting principles for proprietary governmental operations such as the System.

<sup>(3)</sup> Total operating expense less depreciation.

<sup>(a)</sup> 8.00% Average rate increase for the Fiscal Year ended 2007.

<sup>(b)</sup> 9.00% Average rate increase proposed for the Fiscal Year ended 2008.

<sup>(c)</sup> 9.00% Average rate increase proposed for the Fiscal Year ended 2009.

<sup>(d)</sup> 7.00% Average rate increase proposed for the Fiscal Year ended 2010.

<sup>(e)</sup> 7.00% Average rate increase proposed for the Fiscal Year ended 2011.

<sup>(f)</sup> Increase due to \$20,460,000 bond issue in Fiscal Year ended 2007.

<sup>(g)</sup> Increase due to estimated \$4,500,000 bond issue proposed in Fiscal Year ended 2008.

<sup>(h)</sup> Increase due to estimated \$12,500,000 bond issue in proposed Fiscal Year ended 2009.

<sup>(i)</sup> Increase due to estimated \$16,000,000 bond issue in proposed Fiscal Year ended 2010.

The figures presented above have been prepared by the Business Office of the Public Works and Utilities Department. The projections are based on historical discharge data and population growth of 1% and a historical inflationary increase in operation and maintenance costs of 4½% annually. Neither proposed rate increases for years ending 2008 through 2011 nor the proposed bond issues for the fiscal years ending 2008 through 2010 have been approved by the City Council.

## **Summary of Project Costs**

The proceeds of the Series 2007 Bonds will be used to pay (a) a portion of the costs of Theresa Street Wastewater Treatment Plant improvements (\$3,400,000), (b) selected trunk sewer replacements (\$2,565,000), (c) solids handling improvements at the Northeast Wastewater Treatment Plant (\$1,665,000), and (d) designing and constructing other major trunk sewers in the Salt Creek, Oak Creek, Beal Slough, West "O" Street and Steven Creek basins (\$11,115,000). Accumulated revenues will be used to pay the remaining costs of the project in excess of the proceeds of the Series 2007 Bonds.

## **Sanitary Sewer Rates and Charges**

The City's rates for the use of the System are fixed by the Council. The Council has increased rates periodically to maintain the System on a sound financial basis. The Council instituted a 9.00% increase effective November 15, 2005, and an 8.00% increase effective November 15, 2006.

(a) The basic sanitary sewer use unit charge is \$1.44.

(b) For any given residential property, the basic sanitary sewer use charge for each billing cycle shall be determined by multiplying for each such cycle the total amount of water (in hundreds of cubic feet) metered for said property during a billing cycle chosen by the Director of Public Works & Utilities from the most recent past winter, by the basic sanitary sewer use unit charge.

In the case of change of occupancy of residential property, if the Director reasonably determines that to compute the basic sanitary sewer use charge for a given billing cycle upon the amount of water used by such property during such winter billing cycle would be inequitable either to the City or to the user, he shall use the average amount of water used by like users during such winter billing cycle to compute such charge.

(c) For any non-residential property, the basic sanitary sewer use charge for a given billing cycle shall be determined by multiplying for each cycle the amount of water or wastewater, in hundreds of cubic feet, measured for said property during such cycle, by the basic sanitary sewer use unit charge.

(d) Non-residential users shall be given credit, at the same rate, for water not discharged into the sanitary sewers provided such water is separately metered with the approval of the Public Utilities Department and at the customer's expense.

(e) Where a wastewater flow meter or other wastewater measuring device is required or permitted by the Director and is used to measure the volume of wastewater discharged into the Lincoln Sanitary Sewer System, such sanitary sewer use charge shall be computed thereon at the basic sanitary sewer use unit charge.

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**Monthly Service Charge** Regardless of whether a wastewater meter is used, there shall be a service charge per month to each property using the System, determined by the number and size of the water meters serving such property, to wit:

WATER METER SIZE	SERVICE CHARGE
5/8 inch	\$ 1.31
3/4 inch	1.31
1 inch	1.31
1-1/2 inch	2.62
2 inch	5.24
3 inch	11.79
4 inch	20.96
6 inch	47.17
8 inch	83.85
10 inch	131.02

The minimum service charge for a multiple dwelling unit or a mobile home shall be at least \$0.78 per dwelling unit or mobile home hookup space per month. In those instances where fire protection considerations dictate that a water meter larger than 1-inch service a single-family dwelling unit located on a single lot, the monthly service charge shall be \$1.31 per dwelling unit.

**Sanitary Sewer Rates to Customers Outside City Limits** Customers located outside the city limits of the City and served by the System shall pay the same sanitary sewer rates charged to customers within the city limits of the City furnished to them by the System.

**Largest Sanitary Sewer Users**  
(Discharge for Fiscal Year Ended August 31, 2006)

<u>User</u>	<u>Hundred Cubic Feet</u>	<u>Revenue</u>	<u>Percentage of Total Revenue</u>
University of Nebraska	333,407	\$458,231	2.6%
State of Nebraska	254,721	338,514	1.9
Archer-Daniels Midland Co.	155,378	215,944	1.2
BryanLGH Medical Center	105,784	140,044	0.8
Lincoln Public Schools	105,696	148,901	0.8
Kawasaki	92,847	127,870	0.7
Lincoln Housing Authority	91,986	143,429	0.8
Pfizer Animal Health	85,762	121,264	0.7
ConAgra Refrigerator Foods	77,887	106,141	0.6
Lincoln Plating	77,828	107,357	0.6

These users accounted for approximately 11% of the System's Revenues for the fiscal year ended August 31, 2006.

## Number of Sanitary Sewer Customers

Fiscal Year Ended (August 31)	Number of Customers
2001-02	69,292
2002-03	70,651
2003-04	72,753
2004-05	74,326
2005-06	75,573

### General Information

The City limits cover about 82 square miles, incorporating an estimated population of 241,700 as of August 31, 2006 (recent population estimate by Lincoln-Lancaster County Planning Department). An additional 30 square miles are predicted to become part of the community over the next 25 years, as outlined in the Comprehensive Plan. City policy requires annexation of land prior to providing service by the System. Currently, the System includes over 978 miles of pipeline, 14 wastewater lift stations, 2 wastewater treatment facilities, and serves 75,573 residential, commercial, industrial, and institutional accounts.

**Wastewater Collection** The existing System provides service to 14 major drainage basins. The System components include pipelines ranging in size from 8 to 90 inches in diameter; approximately 16,120 manholes; and 16 "siphon crossings" of stream channels. System flow-through is generated predominantly by gravity; however, some portions of the System are served by wastewater lift (pumping) stations. There are 14 wastewater lift stations located throughout the collection portions of the System. Collection pipelines are primarily constructed of vitrified clay pipe (VCP), plastic pipe (PVC), reinforced concrete pipe (RCP), both lined (with protective PVC plastic liner) and unlined, centrifugally cast fiberglass reinforced polymer mortar, and ductile iron. The current minimum diameter or size of new sanitary sewer installed for any type of service area is eight inches.

The annual performance objectives for the System's service and maintenance personnel include:

- cleaning 525 miles of pipeline by high pressure jet flushing and other mechanical means;
- chemically treating or jet root cutting for root intrusion 75 miles of System pipeline and performing an average of 80 corrective pipeline repairs;
- performing smoke and dye testing on approximately 5 miles of System lines;
- rehabilitating or repairing 200 manholes;
- conducting 350 service taps and abandonments; and
- examining via internal television 100 miles of System pipeline.

Maintenance personnel also assist other operating sections in the division and within the Department of Public Works and Utilities with various maintenance functions and activities such as the reading of large water meters and snow removal.

The System utilizes a computerized database and maintenance program to inventory:

- the service history of all lines, manholes, and siphons installed, repaired, and replaced;
- backups to or interruptions of service in the System;
- service taps and abandonments made or replaced;
- lines internally inspected and tested; and
- all components of the System cleaned, chemically treated, or repaired.

As-built records of collection lines, manholes, and structures are maintained by the System applying the City's computer-aided design and records management for use and reference.

Automatic flow monitoring equipment continuously records data describing hydraulic flows at 36 selected key points in the collection side of the System. System personnel utilize a computerized integrated data collection and database management system to retrieve flow data from each of the remote locations, using conventional telephone and wireless technology. Precipitation data is obtained from weather stations located throughout the System. An average of 13,000 station days per year of hydraulic flow evaluations are performed and an average of 3,200 station days per year of precipitation data are collected. Collected information is utilized to identify potential sources of extraneous flow (infiltration and inflow), perform statistical correlations of precipitation to peak flows in the System, and develop design flow equations for sizing of wastewater pipelines, lift station pumping systems, and treatment facilities. This information is also used in combination with mobile television results to schedule pipeline repairs and replacement needs.

***Industrial Pretreatment Program and Treatment Facilities Monitoring*** Industrial discharges from 32 industries and commercial businesses are monitored by field sampling crews, allowing analytical examination of samples by laboratory staff. These measures ensure compliance with pretreatment permits and aid treatment plant operations. The industrial program is required by the Federal Clean Water Act and the State of Nebraska's Department of Environmental Quality (NDEQ). A joint Memorandum of Understanding between NDEQ and the City describes the City's essential pretreatment activities. System personnel perform required monitoring and general administration for the various classified categorical industries and business identified under this program.

Laboratory results are used to monitor the performance of local industry and to make decisions about treatment facility unit process control and performance. A quarterly schedule is applied in sampling and testing of both categorical and non-categorical industries and businesses, including wastewater discharges into the System. A typical year for the laboratory and sample collection operations consists of the following:

- collecting 1,300 industrial sanitary sewer samples;
- performing 14,000 industrial analyses;
- 2,500 station days per year of corrosive and other gas monitoring within the collection system; and
- 38,000 individual analyses in support of treatment plant operation and regulatory reporting.

The resultant monitoring information is utilized for permit compliance and to assess surcharges to the specific discharger for waste strengths and loadings in excess of normal domestic wastewater characteristics. City staff provide technical assistance to commercial and industrial customers, enhancing the business operation while improving discharge characteristics.

**Wastewater Treatment** Two wastewater treatment facilities serve the community: (a) the Theresa Street facility (2400 Theresa Street) and (b) the Northeast facility (7000 North 70th Street). Collectively, these two facilities treat 23.6 million gallons per day as an annual average. Both operations discharge to Salt Creek, with the Theresa Street facility serving approximately 70% of the City and the Northeast facility serving the remaining 30% of the City.

Both facilities provide for secondary wastewater treatment to meet existing NDEQ and Federal US EPA National Pollutant Discharge Elimination System (NPDES) permit limits, including the requirements of 40 CFR, Part 503 of the US EPA Sewage Sludge Regulations and Nebraska Surface Water Quality Standards. The System's facilities comply with local, State, and Federal Clean Air Emissions permit limits and requirements.

New NDPEs permits were received for both treatment facilities and became effective on January 1, 2004. These permits contained both interim and final permit limits and included a compliance schedule for improvements to meet new effluent discharge limits for ammonia and total residual chlorine. Construction of the necessary nitrification treatment process improvements and installation of ultraviolet (UV) effluent disinfection systems are currently underway. The UV disinfection systems were completed and operational in May of 2004 at the Northeast facility and in May of 2005 at the Theresa Street facility. Nitrification treatment process improvements for the removal of ammonia and capacity improvements to meet future growth needs in the City began in August of 2004 for both the Northeast and Theresa Street facilities. Improvements for nitrification at the NETP became operational in December of 2005.

Reduction and treatment of odors, such as hydrogen sulfide, generated at the treatment facilities are managed by chemical odor control methods at each treatment facility. The System manages the biosolids land application program through an interlocal agreement and partnership with the University of Nebraska - Lincoln (UNL) Cooperative Extension in The County of Lancaster, Nebraska (the "County") and local county agricultural crop producers. The treated biosolids meet the Class "B" requirements of 40 CFR, Part 503 of the US EPA Sewage Sludge Regulations.

A Supervisory Control and Data Acquisition (SCADA) system automatically monitors and controls the daily operation of the treatment process, instrumentation, electrical controls, and equipment for both sanitary sewer facilities. The SCADA system also monitors the operation of the collection system lift stations and storm water pumping station operations. System treatment maintenance personnel utilize a computerized maintenance management system (CMMS) and program to maintain a complete and comprehensive inventory and maintenance history of all daily treatment operations, equipment, site structures and facilities, preventative and corrective maintenance program of repairs and improvements, scheduled routine and capital improvements, unscheduled repairs, and other related site maintenance programs at both of the treatment facilities. Treatment maintenance personnel are also responsible for maintenance of the 14 wastewater lift stations and 4 storm water pumping stations in the City.

**Theresa Street Wastewater Treatment Facility** The original wastewater treatment facilities at Theresa Street were constructed in 1923 and consisted of influent pumps and Imhoff tanks. Various improvements and upgrades to the facilities have occurred since that time. In general, the current Theresa Street facility liquid stream treatment process consists of preliminary treatment (influent screening pumping and grit removal), primary clarification, and advanced secondary treatment by the following secondary process treatment trains:

- The West Side Train (originally placed into service in 1996; modification and improvements for nitrification in October of 2000);
- The East Side Train (originally placed into service in 1973; modifications and improvements for nitrification completed in July of 2003); and

- The New Central Train (construction completion and start-up scheduled for November, 2007)

Each of the above processes is followed by secondary clarification and seasonal disinfection by the UV system of the treated effluent prior to discharge into Salt Creek.

The estimated future hydraulic and nitrification treatment capacities of the combined processes at the Theresa Street facility are as follows:

- Hydraulic capacity - 56 millions per day (mgd)\*
- Nitrification and capacity improvements - 27.4 mgd\*, June of 2007

\* Note: capacity estimates - "Pre-Design Report, HDR Engineering, 2003"

Solids generated by primary clarification and secondary treatment processes are anaerobically digested in egg-shaped digesters. Waste activated sludge solids from the secondary treatment process are thickened by dissolved air floatation units prior to anaerobic digestion. The anaerobically digested biosolids are dewatered, transported, and applied to agricultural croplands by private agricultural farmers each year within the County. The applied biosolids meet the Class "B" requirements of 40 CFR, Part 503 of the US EPA Sewage Sludge Regulations.

Methane gas produced by the anaerobic digestion process is used by electrical co-generation units to generate electrical power and heat the anaerobic digester and related solids digestion buildings. This process generates approximately 50 percent of the electrical energy used by treatment processes and equipment at the Theresa Street facility. The operation of the co-generation facility also complies with the requirements of a Federal Clean Air Act Emissions permit.

Additionally, a liquid waste receiving facility provides for treatment of liquid wastes from such sources as septic tanks, chemical toilet wastes, mud sumps, grit traps, and other liquid wastes generated in the City and County. These waste products are transported by private liquid waste haulers to the Theresa Street liquid waste receiving and handling station. System personnel operate and monitor the quantity and strength of the liquid wastes each year and perform an evaluation and audit of the operation to set specific fees and rates for the handling and treatment of the wastes. System laboratory personnel review special liquid waste permits for each waste type received and perform an average of 6,400 tests and analyses per year on the wastes received at the station.

***Northeast Treatment Facility*** Construction of the original Northeast treatment facility was completed in November, 1980. Various improvements and upgrades to the facility have occurred since that time. In general, the current Northeast facility liquid stream treatment process consists of preliminary treatment (screening, pumping, and grit removal), primary clarification, advanced secondary treatment for ammonia removal (nitrification) by clarification, and seasonal disinfection prior to discharge to Salt Creek.

The current rated hydraulic and nitrification treatment capacities of the treatment processes at the Northeast facility are as follows:

- Existing treatment train (originally placed into service in 1980); and
- New East Side train (construction and startup occurred in December, 2005).

Each of the above processes is followed by secondary clarification and seasonal disinfection by a UV system of the treated effluent prior to discharge to Salt Creek.

The estimated future hydraulic and nitrification treatment capacities of the combined processes at Northeast and are as follows:

- Hydraulic capacity - 37 mgd\*
- Nitrification and capacity improvements - 10 mgd\*

\* Note: capacity estimates - "Pre-Design Report, Black & Veatch Engineers and Olsson Associates, 2003"

A portion of the treated wastewater effluent from the Northeast facility is being utilized for cooling water purposes at a nearby combined cycle electrical power generating station operated by Lincoln Electric System (LES). Spent LES cooling water (previously treated wastewater effluent) is returned to the Northeast facility for treatment under the requirements of an industrial pretreatment permit for this operation. System personnel monitor the returned cooling water for compliance with the pretreatment permit and for assessing industrial surcharge fees in accordance with the pretreatment program. An interlocal agreement between the System and LES stipulates the terms and conditions for the use of the effluent and return of the cooling waters to the treatment facility.

Solids generated by primary clarification and secondary treatment processes are anaerobically digested in conventional round-shaped digesters. Waste activated sludge solids from the secondary treatment process are thickened by rotary drum thickeners prior to anaerobic digestion. The anaerobically digested biosolids are currently thickened and pumped to a biosolids holding pond that is located on the City-owned biosolids injection site. The liquid biosolids are pumped from the pond and are injected sub-surface into the agricultural crop land at the injection site and also into adjacent City-owned crop land. The injected biosolids meet the Class "B" requirements of 40 CFR, Part 503 of the US EPA Sewage Sludge Regulations. As previously mentioned, management of the site occurs with the UNL Cooperative Extension in the County office. Methane gas produced by the anaerobic digestion process of treatment solids is used by solids heating boilers and heat exchangers for a hot water heating system to heat the anaerobic digesters and provide hot water for heating other on-site treatment process buildings and related solids digestion buildings.

The Northeast facility also receives and treats leachate from the City's Bluff Road Municipal Solid Waste Landfill. An average of one million gallons per year of sanitary landfill leachate are received, treated, and monitored by System personnel.

Upgrades, repairs, rehabilitation, improvements, and new additions to the wastewater treatment facilities are designed according to criteria that generally follows the "Recommended Standards for Sewage Works" prepared by the Committee of the Great Lakes Upper Mississippi River Board of State Sanitary Engineers (otherwise known as the "Ten State Standards"). In addition, construction of the facilities follows those standards established by the US EPA and NDEQ to insure that the designed and operating treatment facilities will meet State and Federal Clean Water Act and NPDES permit requirements.

**Summary** The System seeks to emphasize efficiency of operation, proactive planning, preventive maintenance, and application of new technology. Staffing and reorganization of the division has been adjusted using a process of competitive assessment. New treatment discharge limits and the growth of the City promise increasing Capital Improvement Program demands over the coming years.

## Employee Information

The System has 98 employees as of the date of this Official Statement. All employees, with the exception of six managers who are not currently represented by any bargaining unit, are represented by either the Public Association of Governmental Employees or by the City Employees Association. In addition to Social Security, the City has a contributory retirement plan for its employees, including employees of the System. The plan is a straight money purchase plan. Employee forfeitures are used to reduce the employer's contribution. All past service costs and vested benefits are fully funded. The total retirement expense for employees of the System, including Social Security, was \$487,000 for the Fiscal Year ended August 31, 2006.

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

Karl Fredrickson	Director of Public Works & Utilities Years of Related Experience: 3 Years with City of Lincoln: 5
Margaret Remmenga	Public Works & Utilities Business Manager Years of Related Experience: 31 Years with City of Lincoln: 39
R. Steven Masters	Public Utilities Administrator Years of Related Experience: 26 Years with City of Lincoln: 28
Gary Brandt	Chief Engineer of Wastewater Collection & Treatment Years of Related Experience: 20 Years with City of Lincoln: 20

## THE SERIES 2007 BONDS

### General

The Series 2007 Bonds will be initially issued in fully registered, book-entry form only (see **"Book-Entry System"** under this heading), 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 15 and December 15 of each year, commencing December 15, 2007, and will mature on June 15 in the years and in the principal amounts, and will bear interest at the rates (calculated on the basis of a 360-day year consisting of twelve, 30-day months) as set forth on the inside cover of this Official Statement. Each installment of interest shall be payable by check or draft mailed by Wells Fargo Bank, National Association, as the bond registrar and paying agent for the Series 2007 Bonds (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 Series 2007 Bond as shown on the bond registration records maintained by the Registrar as of the Record Date (hereinafter defined) therefor. The principal of each Series 2007 Bond shall be payable only upon the surrender of such Series 2007 Bond to the Registrar. The **"Record Date"** for each installment of interest shall be the last day (whether a business day or not) of the calendar month next preceding the interest payment date.

## **Book-Entry System**

**General.** The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2007 Bonds. The ownership of one fully registered Series 2007 Bond for each maturity, as set forth on the inside cover of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as the nominee for DTC. Ownership interests in the Series 2007 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 herein are found in “**APPENDIX E - BOOK-ENTRY SYSTEM**” to this Official Statement.

**Risk Factors.** Beneficial Owners of the Series 2007 Bonds may experience some delay in their receipt of distributions of the principal or redemption price of and interest on the Series 2007 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 Series 2007 Bonds can only be effected through DTC, DTC Participants and certain banks, the ability of a Beneficial Owner to pledge Series 2007 Bonds to persons or entities that do not participate in the Book-Entry System, or otherwise to take actions in respect of such Series 2007 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 Ordinance, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and DTC Participants.

## **Optional Redemption**

Series 2007 Bonds maturing on or prior to June 15, 2017 are not subject to redemption prior to their stated maturities. Series 2007 Bonds maturing on or after June 15, 2018 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 15, 2017 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% of the principal amount then being redeemed, together with accrued interest on such principal amount to the date fixed for redemption.

## **Notice and Effect of Call for Redemption**

Notice of redemption will be mailed by first class mail by the Registrar not less than 30 days prior to the redemption date to the registered owner of each Series 2007 Bonds, all or a portion of which is called for redemption. Each notice of redemption shall designate the Series 2007 Bonds to which such notice relates, the Date of Original Issue of such Series 2007 Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and address of the Registrar), the CUSIP number (if any) of the maturity, and, if less than all of such maturity, the distinctive certificate numbers of the Series 2007 Bonds of such maturity to be redeemed and, in the case of any Series 2007 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 the redemption date there will become due and payable on each of such Series 2007 Bonds the redemption price thereof or such specified portion of the principal amount thereof in the case of a Series 2007 Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date, interest thereon shall cease to accrue, and shall require that such Series 2007 Bonds be then surrendered at the address of the Registrar specified in the redemption notice. Failure of any owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

So long as DTC is effecting book-entry transfers of the Series 2007 Bonds, the Registrar will provide the notices of Series 2007 Bonds to be redeemed to DTC. It is expected that DTC will, in turn, notify the DTC Participants and that the DTC Participants, in turn, will notify or cause notification to be given to the Beneficial Owners. Any failure on the part of DTC or a DTC Participant, or failure on the part of a nominee of a Beneficial Owner of a Bond (having been mailed notice from the Registrar, a DTC Participant or otherwise) to notify the Beneficial Owner of the Bond so affected, will not affect the validity of the redemption of such Bond.

### **Interchangeability and Transfer**

The Series 2007 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 Series 2007 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 Series 2007 Bonds is exercised, the City shall execute and the Registrar shall deliver the Series 2007 Bonds in accordance with the Ordinance. For every such transfer or exchange of Series 2007 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 Series 2007 Bonds during the period between a Record Date and the next succeeding interest payment date or, in the case of any proposed redemption of Series 2007 Bonds, after notice of the redemption of such Series 2007 Bonds or any portion thereof shall have been given pursuant to the Ordinance.

The foregoing procedures do not apply to Beneficial Owners, whose transfer and exchange privileges will be governed by the procedures described under **"THE SERIES 2007 BONDS - Book-Entry System"** herein so long as the Series 2007 Bonds are held in book-entry format.

### **RATINGS**

Moody's Investors Service, Inc. ("**Moody's**") will assign the Series 2007 Bonds a rating of "Aaa" and Standard & Poor's, a division of The McGraw Hill Companies ("**S&P**"), will assign the Series 2007 Bonds a rating of "AAA," and conditioned upon the issuance by the Bond Insurer of the Bond Insurance Policy. Moody's has also given the Series 2007 Bonds an underlying rating of "Aa2," and S&P has also given the Series 2007 Bonds an underlying rating of "AA+." Such ratings reflect 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, and Standard & Poor's Ratings Services, 55 Water Street, New York, New York, 10041, telephone (212) 438-2124.

Generally, rating agencies base their ratings on such information and materials and investigations, studies and assumptions furnished to and obtained and made by the rating agencies. The debt ratings are not a recommendation to purchase, sell or hold a security, inasmuch as they do not comment as to market price or suitability for a particular investor. There is no assurance that the above ratings will remain for any given period of time or that they may not be lowered, suspended or withdrawn entirely by either or both rating services if they deem circumstances are appropriate. Any downward change in, suspension or

withdrawal of either or both ratings may have an adverse effect on the market price of the Series 2007 Bonds.

## TAX MATTERS

### General

***Federal and Nebraska Tax Exemption.*** In the opinion of Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel, under existing law, the interest on the Series 2007 Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal and Nebraska income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the Series 2007 Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal and Nebraska income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2007 Bonds in gross income for federal and Nebraska income tax purposes retroactive to the date of issuance of the Series 2007 Bonds. The Series 2007 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 each Series 2007 Bond maturing in the years 2019 through 2021, 2024, 2025 and 2032 (the “OID Bonds”), to the extent properly allocable to each owner of such Series 2007 Bond, is excluded 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 (a) the issue price of such OID Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (b) the yield to maturity 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 (c) 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.

***Bonds Purchased at a Premium.*** Series 2007 Bonds maturing in the years 2008 through 2017, 2023 and 2026 through 2029 have an initial offering price that exceeds the stated redemption price of such Series 2007 Bond at maturity. The excess of the purchase price of a Series 2007 Bond over its stated redemption price at maturity constitutes premium on such Series 2007 Bond. A purchaser of a Series 2007 Bond must amortize any premium over such Series 2007 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 Series 2007 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 Series 2007 Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed.

Purchasers of any Series 2007 Bonds at a premium, *whether at the time of initial issuance or afterward*, should consult with their own tax advisors as to the determination and treatment of premium for federal income tax purposes and state and local tax consequences of owning such Series 2007 Bonds.

Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Series 2007 Bonds.

### **Other Tax Consequences**

Prospective purchasers of the Series 2007 Bonds should be aware that there may be tax consequences of purchasing the Series 2007 Bonds other than those discussed above, including the following:

- (a) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2007 Bonds, or in the case of a financial institution, that portion of such institution's interest expense allocable to interest on the Series 2007 Bonds;
- (b) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series 2007 Bonds;
- (c) interest on the Series 2007 Bonds earned by certain foreign corporations doing business in the United States of America could be subject to a branch profits tax imposed by Section 884 of the Code;
- (d) passive investment income, including interest on the Series 2007 Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year, if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income; and
- (e) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Series 2007 Bonds.

Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of Series 2007 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 Series 2007 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 May 1, 2008, and to provide notices of the occurrence of certain enumerated events, if material, using the services of Digital Assurance Certification, L.L.C. as dissemination agent (the "**Dissemination Agent**"). The Annual Report will be filed by the Dissemination Agent with each Nationally Recognized Municipal Securities Information Repository. Notices of material events will be filed by the Dissemination Agent with the Municipal Securities Rulemaking Board. The proposed form of the Dissemination Agent Agreement between the City and the

Dissemination Agent is attached to this Official Statement as “**APPENDIX D – FORM OF DISCLOSURE DISSEMINATION AGENT AGREEMENT.**” These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5) (the “**Rule**”).

A failure by the City to comply with the Disclosure Dissemination Agent Agreement will not constitute a default under the Ordinance, although Beneficial Owners will have any available remedy at law or in equity. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2007 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2007 Bonds and their market price. The City is in compliance with each prior undertaking made by it pursuant to the Rule.

### **LITIGATION**

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2007 Bonds or questioning or affecting the validity of the Series 2007 Bonds or the proceedings and authority under which they are to be issued. None of the creation, organization or existence of the City or 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 Ordinance pursuant to which the Series 2007 Bonds are being issued.

### **FINANCIAL ADVISOR**

Ameritas Investment Corp. (“**Ameritas**”), Lincoln, Nebraska, is serving as financial advisor to the City with respect to the sale of the Series 2007 Bonds. Ameritas has assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series 2007 Bonds and provided other advice. Ameritas will not participate as an underwriter in any offer to purchase the Series 2007 Bonds.

### **LEGAL MATTERS**

All legal matters incident to the authorization and issuance of the Series 2007 Bonds are subject to the approval of Bond Counsel. Certain legal matters will be passed on by Dana W. Roper, City Attorney. Bond Counsel has participated in the preparation of this Official Statement, but the factual and financial information appearing herein has been supplied or reviewed by certain officials of the City and certified public accountants, as referred to herein, and Bond Counsel expresses no opinion as to the accuracy or sufficiency thereof except for the information under “**THE SERIES 2007 BONDS,**” “**LEGAL MATTERS**” and “**TAX MATTERS.**”

### **INDEPENDENT AUDITORS**

The financial statements and schedules of the System for the years ended August 31, 2006 and 2005, 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**

**THE CITY OF LINCOLN, NEBRASKA**

# THE CITY OF LINCOLN

## General

Lincoln, the capital of Nebraska, is located in southeastern Nebraska near the center of population of the state. The City was originally incorporated in 1869. It is approximately midway between Chicago and Denver. It has an area of 85.76 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 2006 population is 239,213.

## City Government

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

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

## Transportation

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

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

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

## Government Center

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

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

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

**Education**

The University of Nebraska, with approximately 21,000 students, Nebraska Wesleyan University, with approximately 1,950 students, Union College, with approximately 800 students, Hamilton College, with approximately 500 students and Southeast Community College, with approximately 10,000 students and with a number of facilities for both full-time and part-time occupational training, are in the City of Lincoln. The City's modern and progressive school system, with an enrollment of over 32,000 is served by 6 senior high schools, 10 middle schools, and 36 elementary schools. Lincoln is home to nearly 30 private and parochial schools. Lincoln's private school offerings range from pre-K to high school institutions. Affiliations include Roman Catholic, Lutheran, SDA, and nondenominational Christian.

**Building Permits and Property Values**

LAST TEN YEARS

FISCAL YEAR	COMMERCIAL 1 CONSTRUCTION		RESIDENTIAL 1 CONSTRUCTION		PROPERTY VALUE 2		TOTALS
	# PERMITS	VALUE	# PERMITS	VALUE	COMMERCIAL	RESIDENTIAL	
2006	1,088	\$ 263,006,153	3,150	\$ 195,885,622	\$ 3,814,534,869	\$ 9,083,290,211	\$ 12,897,825,080
2005	1,092	\$ 204,677,969	3,387	\$ 277,158,200	\$ 3,694,097,147	\$ 8,727,702,573	\$ 12,421,799,720
2004	1,061	258,670,339	3,846	321,126,701	3,598,787,015	8,402,403,364	12,001,190,379
2003	1,036	269,298,229	3,913	315,666,242	3,094,988,486	7,255,640,292	10,350,628,778
2002	1,013	245,476,386	3,405	262,293,941	2,855,200,333	7,048,688,380	9,903,888,713
2001	1,017	215,856,679	3,212	231,390,626	2,540,905,431	6,273,610,610	8,814,516,041
2000	1,069	181,983,107	3,385	225,622,611	2,356,367,014	6,067,493,586	8,423,860,600
1999	1,148	186,569,754	3,235	206,065,342	2,132,780,337	5,726,511,673	7,859,292,010
1998	1,093	119,532,867	3,109	185,894,741	2,001,814,878	4,863,604,491	6,865,419,369
1997	1,107	90,599,429	3,284	191,975,903	1,834,275,313	4,676,645,258	6,510,920,571

<sup>1</sup> City of Lincoln, Building and Safety Department.

<sup>2</sup> Lancaster County Assessor.

**Police and Fire Protection**

Lincoln has fourteen fire stations manned by 247 firefighters and two police stations with 317 police officers.

**City Employee Information**

For the 2006-2007 fiscal year, contracts have been signed with all of our unions. Unions include: the Lincoln Police Union (LPU) representing police officers; the International Association of Firefighters (IAF) representing firefighters, the Amalgamated Transit Union (ATU) representing transit workers, the Public Association of Government Employees (PAGE) representing labor, trades, and clerical personnel, and the City Employees Association (CEA) representing supervisory, highly technical, and professional personnel. The LPU, IAF, CEA and PAGE contracts expire at the end of August, 2008; and the ATU contract expires at the end of August, 2009.

Since the inception of labor contracts in 1970, the City of Lincoln has been able to handle its labor relations in such a manner as to avoid interruptions, although it has been necessary to use the facilities of the Nebraska Commission of Industrial Relations on issues involving the International Association of Firefighters, International Brotherhood of Police Officers, and the union representing labor, trades, and clerical personnel.

## SELECTED ECONOMIC INDICATORS

### LINCOLN SMSA (LANCASTER COUNTY) NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

	MAY 31, 2006		NOVEMBER 30, 2006	
	Number Employed	Percent of Total	Number Employed	Percent of Total
<b>Industry Manufacturing:</b>				
Durable Goods	7,918	4.6	7,679	4.4
Nondurable Goods	6,026	3.5	5,597	3.2
<b>Total Industry Manufacturing</b>	<b>13,944</b>	<b>8.1</b>	<b>13,276</b>	<b>7.7</b>
<b>Nonmanufacturing:</b>				
Natural Resource & Construction	8,528	5.0	8,476	4.9
Transportation, Communications & Utilities	7,369	4.3	7,564	4.4
Wholesale Trade	3,912	2.3	3,896	2.2
Retail Trade	16,468	9.6	17,023	9.8
Information	2,856	1.8	2,843	1.8
Finance, Insurance & Real Estate	12,858	7.5	13,166	7.6
Services (except domestic)	64,690	37.6	65,503	37.8
Government	41,288	24.0	41,593	24.0
<b>Total Nonmanufacturing</b>	<b>157,969</b>	<b>92.0</b>	<b>160,064</b>	<b>92.5</b>
<b>TOTAL</b>	<b>171,913</b>	<b>100.0</b>	<b>173,340</b>	<b>100.0</b>

Lincoln is proud to have some of the nation's leading industrial companies as local employers, including Goodyear Tire and Rubber Company, Burlington Northern Railroad, Archer-Daniels-Midlands Company, Kawasaki Motors Corporation USA, and Square D.

### LINCOLN SMSA (LANCASTER COUNTY LABOR FORCE DATA 1997-2006) (For the Calendar Year Indicated)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Civilian Labor Force	142,807	142,918	142,384	150,239	150,846	153,021	156,940	158,444	157,999	157,632
Unemployment	2,494	3,208	3,397	3,542	4,209	5,007	5,841	5,346	5,643	4,592
Percent of Labor Force	1.7	2.2	2.4	2.4	2.8	3.3	3.7	3.4	3.6	2.9
Employment	140,313	139,710	138,987	146,697	146,636	148,013	151,100	153,098	152,355	153,040

### STATE OF NEBRASKA

Percent of Labor Force										
Unemployment	2.3	2.7	2.9	2.7	3.1	3.6	3.8	3.8	3.9	3.2

Source: State of Nebraska, Department of Labor

**DEMOGRAPHIC STATISTICS  
LAST TEN YEARS**

Year	Population 1	Per Capita Income 2	School Enrollment 3
2006	239,213	\$	32,934
2005	238,625		32,505
2004	236,146	32,749	32,270
2003	235,565	31,071	31,889
2002	231,800	30,237	31,867
2001	225,588	29,453	31,581
2000	218,497	29,045	31,354
1999	217,537	27,127	31,052
1998	215,000	26,110	31,000
1997	209,192	24,363	30,924

Sources:

1 Lincoln/Lancaster Planning Department.

2 U.S. Dept. of Commerce Bureau of Economic Analysis.

Per Capital Income is based on Lincoln Metropolitan Statistical Area, which includes all of Lancaster and Seward Counties

Per Capita Income for 2005 and 2006 is unavailable.

3 Lincoln Public Schools.

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

**LINCOLN UTILITY CUSTOMERS  
LAST TEN YEARS**

Year	Water Customers	Gas Customers	Electricity Customers
2006	75,919	92,824	123,376
2005	74,649	92,152	121,508
2004	73,059	91,046	119,456
2003	72,260	89,642	116,974
2002	69,704	89,085	114,388
2001	68,187	87,749	112,247
2000	66,956	86,501	110,414
1999	65,823	85,156	108,194
1998	64,423	80,770	105,970
1997	63,241	79,490	103,616

Source: Indicated Utility Companies

## SELECTED FINANCIAL STATISTICS

### GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION <sup>1</sup> LAST TEN FISCAL YEARS

Fiscal Year	General Government	Public Safety	Streets And Highways	Culture And Recreation	Economic Opportunity	Health And <sup>3</sup> Welfare	Mass <sup>2</sup> Transit	Debt Service	Totals
2006	\$ 34,666,641	60,064,604	16,928,575	20,938,212	12,623,307	25,566,267	8,901,327	11,016,269	190,705,202
2005	32,532,685	58,669,932	17,064,845	21,669,847	14,870,592	19,126,931	8,306,921	10,562,993	182,804,746
2004	30,884,544	55,272,920	13,633,902	22,308,940	14,728,510	18,544,667	10,525,090	7,914,521	173,813,094
2003	28,938,852	50,933,285	12,317,663	19,935,823	16,469,645	17,614,751	7,996,019	8,507,223	162,713,261
2002	27,237,134	49,913,169	10,833,055	16,974,798	14,017,601	17,989,603	12,691,837	7,411,878	157,069,075
2001	23,821,580	48,122,074	11,175,059	14,806,760	12,559,336	15,862,462	-	7,742,690	134,089,961
2000	23,529,495	44,042,882	9,039,840	13,958,414	11,204,029	13,974,690	-	7,924,295	123,673,645
1999	21,891,174	41,555,922	9,406,531	13,254,994	10,215,261	11,709,801	-	9,181,071	117,214,754
1998	30,170,768	41,140,827	8,992,439	13,111,328	12,009,990	10,979,131	-	9,651,132	126,055,615
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

<sup>1</sup> Includes General, Special Revenue, and Debt Service Funds.

<sup>2</sup> StarTran added as a Governmental Fund in 2002.

<sup>3</sup> Community Health Permanent Endowment Fund added as a Governmental Fund in 1999.

### GENERAL REVENUES BY SOURCE <sup>1</sup> LAST TEN FISCAL YEARS

Fiscal Year	Taxes And Special Assessment	Inter-Governmental	Permits And Fees	Reimbursement For Services	Investment Earnings	Other	Totals
2006	\$ 121,857,986	60,757,501	18,423,079	7,063,192	4,082,196	7,886,377	220,070,331
2005	119,318,079	63,180,171	16,535,049	6,936,334	4,327,311	12,028,417	222,325,361
2004	114,756,962	58,619,699	15,593,326	6,322,870	5,207,711	10,188,520	210,689,088
2003	107,114,577	52,773,424	12,679,623	6,097,336	4,353,336	8,234,138	191,252,434
2002 <sup>2</sup>	105,139,052	59,029,609	12,449,879	5,605,557	4,606,825	10,325,634	197,156,556
2001	95,016,014	48,619,317	9,638,475	5,071,766	8,005,027	9,146,189	175,496,788
2000	92,305,453	35,807,100	9,838,029	4,896,203	9,330,374	10,246,196	162,423,355
1999 <sup>3</sup>	88,259,613	35,600,952	8,685,268	4,366,482	8,016,026	7,684,411	152,612,752
1998	84,391,111	41,035,908	9,131,287	3,709,572	4,726,874	9,389,155	152,383,907
1997	82,736,034	27,424,737	7,903,461	5,094,910	3,849,287	7,268,050	134,276,479

<sup>1</sup> Includes General, Special Revenue and Debt Service Funds.

<sup>2</sup> StarTran added as a Governmental Fund in 2002.

<sup>3</sup> Community Health Permanent Endowment Fund added as a Governmental Fund in 1999.

**SPECIAL ASSESSMENT COLLECTIONS  
LAST TEN YEARS <sup>1</sup>**

Fiscal Year Ended <u>August 31</u>	Special Assessment Collections <u>Including Interest</u>
2006	\$ 1,667,037
2005	1,413,582
2004	2,104,925
2003	1,814,191
2002	1,867,653
2001	1,796,924
2000	1,948,791
1999	2,359,812
1998	2,104,022
1997	2,390,085

<sup>1</sup> 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 2006 tax levy for the 2006-2007 fiscal year is \$68,512,344 below the legal limit, a tax rate per \$100 valuation of .28337. The assessed value upon which the 2006 levy is based is \$15,342,163,788. Only 90% of the property tax levy may be appropriated, by charter.

For the 2006-2007 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 2006-2007 the City can also use authority equal to the amount of real growth in the tax base of 2.80%. An additional 1% can be authorized by a 75% vote of the City Council but was not utilized for the 2006-2007 budget. The 2006-2007 budget is approximately \$6.6 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		Accumulated Collections As Of August 31, 2005	
		Amount	Percent	Amount	Percent
2006	\$ 40,873,358	\$ 39,579,041	96.83 %	\$ 39,579,041	96.83 %
2005	38,755,995	37,514,748	96.80	38,847,890	100.24
2004	36,994,112	35,726,509	96.57	37,026,097	100.09
2003	35,007,926	33,676,453	96.20	35,034,547	100.08
2002	33,731,282	32,501,760	96.35	33,830,227	100.29
2001	31,159,364	29,936,079	96.07	31,145,644	99.96
2000	29,603,794	28,665,780	96.83	29,761,419	100.53
1999	27,597,664	26,411,546	95.70	27,510,816	99.69
1998	26,812,692	25,758,577	96.07	26,975,496	100.61
1997	27,022,949	25,894,971	95.83	26,962,614	99.78

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>2006 Assessed Valuations</u>	<u>Percentage Of Total Assessed Valuation</u>
Alltel Communications	Telecommunications	\$ 77,180,720	.57%
Kawasaki	Manufacturing	69,477,067	.51
B & J Partnership Ltd.	Building Management	62,605,030	.46
Ameritas Life Insurance Corp	Insurance	49,520,031	.36
Chateau Van Dorn LLC	Real Estate Development	46,979,720	.35
WEA Gateway LLC	Retail Management	45,403,741	.33
Pfizer	Animal Health	44,063,691	.32
Burlington Northern	Railroad	43,813,618	.32
Nebco	Construction/Development	38,828,548	.29
Molex Inc.	Manufacturing	<u>32,776,339</u>	<u>.24</u>
		<u>\$ 510,648,505</u>	<u>3.75%</u>

**CITY SALES TAX INFORMATION**

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

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

<u>Year Ended</u> <u>August 31</u>	<u>Amount</u>
2006	\$ 54,270,346
2005	53,781,209
2004	51,869,477
2003	48,657,268
2002	45,393,491
2001	44,486,127
2000	43,608,313
1999	41,642,771
1998	37,479,413
1997	36,549,194

**GENERAL FUND TAX COLLECTIONS  
LAST TEN YEARS**

<u>Fiscal</u> <u>Year</u>	<u>Property and</u> <u>Motor Vehicle</u> <u>Taxes</u>	<u>Sales and</u> <u>Use Taxes</u>	<u>Insurance</u> <u>Taxes</u>	<u>Sundry</u> <u>Taxes</u>	<u>Taxes</u> <u>In Lieu</u>	<u>Occupation</u> <u>Taxes</u>	<u>Total</u>
2006	\$ 28,366,526	54,270,346		9,526	1,315,038	8,936,502	92,897,938
2005	26,727,618	53,781,209		12,445	1,159,742	9,169,791	90,850,805
2004	24,546,532	51,869,477		9,263	1,144,747	9,037,781	86,607,800
2003	22,780,085	48,657,268		10,876	1,199,507	8,831,712	81,479,448
2002	23,353,414	45,393,491		8,403	1,163,468	9,097,442	79,016,218
2001	20,284,364	44,486,127		8,497	1,107,183	5,889,097	71,775,268
2000	19,487,198	43,608,313		8,522	1,043,287	5,651,371	69,798,691
1999	20,741,154	41,642,771		17,516	1,080,495	5,721,321	69,203,257
1998	18,953,860	37,479,413	889,226	8,647	944,612	4,743,649	63,019,407
1997	19,642,898	36,549,194	921,550	14,903	960,260	4,783,841	62,872,646

**TAXABLE ASSESSED VALUATION  
LAST TEN YEARS <sup>1</sup>**

Tax Year	Real Estate	All Other	Total
2006	\$ 12,897,825,080	685,425,215	13,583,250,295
2005	12,421,799,720	716,716,506	13,138,516,226
2004	12,001,190,379	742,915,013	12,744,105,392
2003	10,350,628,778	779,959,389	11,130,588,167
2002	9,903,888,713	820,797,124	10,724,685,837
2001	8,814,516,041	806,431,814	9,620,947,855
2000	8,423,860,600	716,780,457	9,140,641,057
1999	7,859,292,010	660,609,204	8,519,901,214
1998	6,865,419,369	637,669,384	7,503,088,753
1997	6,510,920,571	525,762,951	7,036,683,522

<sup>1</sup>Property is assessed at actual value; therefore, the assessed values are equal to actual value.

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

	Tax Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
City of Lincoln	0.3009	0.2950	0.2903	0.3145	0.3145	0.3239	0.3239	0.3239	0.3581	0.3837
School District No. 1	1.3142	1.3141	1.3011	1.2830	1.2732	1.3684	1.3813	1.3050	1.6308	1.6260
Lancaster County	0.2841	0.2797	0.2683	0.2683	0.2583	0.2643	0.2584	0.2782	0.2966	0.3106
Educational Service Unit #18	0.0150	0.0150	0.0150	0.0150	0.0150	0.0150	0.0150	0.0149	0.0089	0.0081
Community Technical College	0.0696	0.0655	0.0655	0.0655	0.0636	0.0295	0.0334	0.0696	0.0782	0.0840
Lower Platte South Natural Res. Dist.	0.0422	0.0323	0.0323	0.0359	0.0365	0.0367	0.0372	0.0389	0.0365	0.0346
Railroad Transportation Safety Dist.	0.0260	0.0260	0.0248	0.0220	0.0221	0.0260	0.0260	0.0260	0.0260	0.0091
Agricultural Society of Lancaster County	0.0018	0.0020	0.0030	0.0012	0.0024	0.0073	0.0032	0.0013	0.0364	0.0364
Lancaster County Fairgrounds	0.0042	0.0042	0.0043	0.0050	0.0052	0.0000	0.0000	0.0000	0.0000	0.0000
Public Building Commission	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0169
	<u>2.0750</u>	<u>2.0508</u>	<u>2.0216</u>	<u>2.0274</u>	<u>2.0078</u>	<u>2.0881</u>	<u>2.0954</u>	<u>2.0748</u>	<u>2.4885</u>	<u>2.5094</u>

\*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, 2006

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
<b>General Obligation Bonds:</b>							
<b>General Bonds:</b>							
14,435	03/01/99	Various Purpose Series A	3.000 - 4.600	Ser. '00 to '14	2009	Semiannually	\$ 8,780
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	"	3,140
7,500	05/29/02	Storm Sewer and Drainage	3.000 - 5.000	Ser. '04 to '22	2010	"	6,965
15,595	06/24/03	Various Purpoc	2.625 - 3.750	Ser. '04 to '17	2013	"	10,940
3,710	06/24/03	Various Purpoc	4.000 - 4.125	Term '18 to '23	2013	"	3,710
6,555	05/01/05	Storm Sewer Refunding	2.500 - 4.375	Ser. '05 to '17	2011	"	6,180
9,950	05/25/05	Storm Sewer Construction	3.250 - 4.250	Ser. '06 to '25	2015	"	9,585
Total General Bonds							<u>\$ 56,665</u>
<b>Tax Allocation Bonds:</b>							
1,310	11/15/92	Tax Allocation Bonds	3.250 - 6.200	Ser. '93 to '06	1997	Semiannually	\$ 65
105	11/15/92	Tax Allocation Bonds	6.350	Term '93 to '06	1997	"	15
232	04/21/00	Tax Allocation Bonds	6.390	Ser. '00 to '10	2000	"	110
42	06/01/03	Tax Allocation Bonds	4.060	Ser. '04 to '11	Anytime	"	29
1,035	04/06/04	Tax Allocation Bonds	2.000 - 3.200	Ser. '04 to '11	2008	"	790
5,500	04/07/04	Tax Allocation Bonds	3.000 - 4.800	Ser. '04 to '15	2010	"	4,895
365	08/15/05	Tax Allocation Bonds	4.750	Ser. '06 to '18	Anytime	"	343
Total Tax Allocation Bonds							<u>\$ 6,247</u>
<b>Tax Supported Bonds:</b>							
3,200	06/13/00	Municipal Infrastructure Redevelopment	4.750 - 5.100	Ser. '01 to '09	2005	Semiannually	\$ 1,435
35,000	03/03/04	Highway Allocation Fund	2.000 - 5.000	Term '07 to '23	2014	"	35,000
Total Tax-Supported Bonds							<u>\$ 36,435</u>
TOTAL GENERAL OBLIGATION BONDS							<u>\$ 99,347</u>
<b>Tax Supported Bonds:</b>							
11,080	2/27/02	Antelope Valley Project	1.500 - 5.000	Ser. '02 to '16	2012	Semiannually	<u>\$ 9,110</u>
<b>Revenue Bonds:</b>							
15,765	07/31/03	Wastewater Revenue	2.000 - 5.000	Ser. '04 to '23	2013	Semiannually	\$ 10,995
39,235	07/31/03	Wastewater Revenue	4.625 - 5.000	Term '24 to '28	2013	"	39,235
18,000	08/03/05	Wastewater Revenue	4.000 - 5.000	Ser. '06 to '30	2015	"	17,455
Total Wastewater Bonds							<u>\$ 67,685</u>
11,850	11/22/02	Water Revenue	2.750 - 5.000	Ser. '05 to '17	2012	Semiannually	\$ 10,360
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	-	"	22,380
40,000	11/16/04	Water Revenue	3.000 - 5.000	Ser. '05 to '25	2014	"	38,150
Total Water Bonds							<u>\$ 77,550</u>
6,815	09/08/99	Parking Revenue Series A	4.000 - 5.000	Ser. '00 to '09	2009	Semiannually	\$ 3,175
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	"	4,845
Total Parking Bonds							<u>\$ 14,715</u>
3,165	10/23/01	Golf Course Revenue Refunding	2.300 - 4.050	Ser. '02 to '11	2008	Semiannually	<u>\$ 1,690</u>
4,000	08/17/06	Solid Waste Mangement Revenue	4.000 - 4.250	Ser. '07 to '21	2013	Semiannually	<u>\$ 4,000</u>
45,560	02/15/98	Electric Revenue Bonds '98 Series A	4.500 - 5.000	Ser. '98 to '18	2008	Semiannually	\$ 32,985
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	"	131,085
93,045	10/01/03	Electric Revenue Bonds '03	3.000 - 5.000	Ser. '04 to '26	2014	"	90,195
33,265	10/01/03	Electric Revenue Bonds '03	4.750	Term '28	2014	"	33,265
61,290	10/01/05	Electric Revenue Bonds '05	5.00	Ser. '29 to '32	2015	"	61,290
53,710	10/01/05	Electric Revenue Bonds '05	4.750	Term '35	2015	"	53,710
Total Electric Bonds							<u>\$ 543,680</u>
TOTAL REVENUE BONDS							<u>\$ 709,320</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		Tax-Supported Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 4,913	4,100	595	392	1,029	728
2008	5,176	3,927	615	372	1,238	697
2009	6,049	3,741	635	350	1,269	658
2010	5,182	3,521	660	326	1,223	617
2011	5,573	3,321	685	299	1,212	575
2012 - 2016	31,413	12,787	3,900	993	6,043	2,169
2017 - 2021	26,856	6,073	2,020	50	3,135	1,189
2022 - 2026	14,185	1,037	-	-	2,307	495
2027 - 2031	-	-	-	-	865	22
	<u>\$ 99,347</u>	<u>38,507</u>	<u>9,110</u>	<u>2,782</u>	<u>18,321</u>	<u>7,150</u>

Fiscal Year Ended August 31	Business-Type Activities			
	Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2007	\$ 20,135	33,912	323	26
2008	23,860	33,484	333	12
2009	24,880	32,440	23	3
2010	25,980	31,316	25	1
2011	28,725	30,098	-	-
2012 - 2016	140,900	131,074	-	-
2017 - 2021	171,255	92,867	-	-
2022 - 2026	98,865	56,772	-	-
2027 - 2031	89,005	33,101	-	-
2032 - 2036	85,715	12,700	-	-
	<u>\$ 709,320</u>	<u>487,764</u>	<u>704</u>	<u>42</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 \$3,225,252, \$3,427,680, and \$5,210,292 are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, and Tax Allocation Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

The City has entered into lease agreements for financing the acquisition of land, buildings, emergency ambulances and defibrillators, fire engines, golf equipment and computer equipment and software. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Land	\$ 515,750	\$ 210,000
Buildings	12,134,675	-
Machinery and Equipment	1,838,042	2,736,012
Less Accumulated Depreciation, (where applicable)	<u>(1,126,681)</u>	<u>(1,562,675)</u>
Total	<u>\$ 13,361,786</u>	<u>\$ 1,383,337</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 \$150 million under a commercial paper note program. At December 31, 2005, LES had \$90.0 million of tax exempt commercial paper notes outstanding. The notes mature at various dates but not more than 270 days after the date of issuance. The weighted-average interest rate for the year ended December 31, 2005, was 2.3 percent. The annual requirement to pay interest on this outstanding debt is approximately \$2.0 million. The outstanding commercial paper notes are secured by a revolving credit agreement which provides for borrowings up to \$150 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement LES can either settle or refinance the commercial paper upon maturity.

The general obligation debt of all local governmental units which provide services within the City's boundaries and which debt must be borne by properties in the City (commonly called overlapping debt) as of August 31, 2006, is summarized below (unaudited):

<u>Governmental Units</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable <sup>1</sup></u>	<u>Direct And Overlapping Debt To The City</u>
Direct:			
City	\$ 99,347,000	100.0 %	\$ 99,347,000
Overlapping:			
School District #1	281,600,000	99.5	280,192,000
Lower Platte South N.R.D.	9,782,000	75.4	7,376,000
Lancaster County	7,960,000	85.4	6,798,000
Public Building Commission	50,105,000	85.4	42,790,000
Lancaster County Fairgrounds	<u>2,780,000</u>	85.4	<u>2,374,000</u>
	<u>352,227,000</u>		<u>339,530,000</u>
Total	<u>\$ 451,574,000</u>		<u>\$ 438,877,000</u>

The City has no direct liability for the School District, Lower Platte South N.R.D., Lancaster County, Public Building Commission or Lancaster County Fairgrounds debt summarized above. This results in a per capita direct City debt of \$415.31; a per capita direct and overlapping debt of \$1,834.67; a ratio of direct City debt to 2006 actual valuation of .73 percent; and a ratio of direct and overlapping debt to 2006 actual valuation of 3.23 percent.

#### **Debt Payment Record**

The City of Lincoln has never defaulted on its obligation to pay principal or interest on its indebtedness.

**Contingencies**

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

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR  
GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES  
LAST TEN FISCAL YEARS**

Fiscal Year	Principal	Interest <sup>3</sup>	Total Debt Service	Total General Governmental Expenditures <sup>1,2,4</sup>	Ratio Of Debt Service To Total General Expenditures
2006	\$ 5,770,794	\$ 4,670,734	\$ 10,441,528	\$ 190,705,202	5.48 %
2005	5,421,699	4,860,926	10,282,625	182,804,746	5.62
2004	4,934,224	2,893,437	7,827,661	173,813,094	4.50
2003	5,435,370	2,986,634	8,422,004	162,713,261	5.18
2002	4,921,172	2,421,303	7,342,475	157,069,075	4.67
2001	4,966,405	2,753,247	7,719,652	134,089,961	5.76
2000	5,125,296	2,772,021	7,897,317	123,673,645	6.39
1999	4,209,267	2,301,745	6,511,012	117,214,754	5.55
1998	4,927,317	2,329,696	7,257,013	126,055,615	5.76
1997	5,469,089	2,274,947	7,744,036	101,748,922	7.61

<sup>1</sup> Includes: General, Special Revenue, and Debt Service Funds

<sup>2</sup> Community Health Permanent Endowment Fund added as a Governmental Fund in 1999.

<sup>3</sup> Does not include fiscal and miscellaneous charges.

<sup>4</sup> StarTran added as a Governmental Fund in 2002.

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

Fiscal Year	General Obligation Bonded Debt	Sinking Funds	Net General Obligation Bonded Debt	Population <sup>1</sup>	Net G.O. Bonded Debt Per Capita	Assessed Valuation Real And Personal <sup>2</sup>	Ratio Of Net Debt To Assessed Valuation Real & Personal	Assessed Valuation Of Taxable Real Property <sup>2</sup>	Ratio Of Net Debt To Estimated Valuation Of Taxable Real Property
2006	99,347,000	\$ 9,733,000	\$ 89,614,000	239,213	\$ 374.62	\$ 13,583,250,295	0.66 %	\$ 12,897,825,080	0.69 %
2005	104,538,000	13,364,000	91,174,000	238,625	382.08	13,138,516,226	0.69	12,421,799,720	0.73
2004	98,915,000	20,509,000	78,406,000	236,146	332.02	12,744,105,392	0.62	12,001,190,379	0.65
2003	61,759,000	17,083,000	44,676,000	235,565	189.65	11,130,588,167	0.40	10,350,628,778	0.43
2002	56,997,000	15,847,000	41,150,000	231,800	177.52	10,724,685,837	0.38	9,903,888,713	0.42
2001	54,418,000	11,243,000	43,175,000	225,588	191.39	9,620,947,855	0.45	8,814,516,041	0.49
2000	58,814,000	9,739,000	49,075,000	218,497	224.60	9,140,641,057	0.54	8,423,860,600	0.58
1999	60,508,000	12,182,000	48,326,000	217,537	222.15	8,519,901,214	0.57	7,859,292,010	0.61
1998	40,492,000	17,707,000	22,785,000	215,000	105.98	7,503,088,753	0.30	6,865,419,369	0.33
1997	47,665,000	16,121,000	31,544,000	209,192	150.79	7,036,683,522	0.45	6,510,920,571	0.48

<sup>1</sup> Source: Lincoln/Lancaster Planning Department.

<sup>2</sup> 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			Coverag
				Principal	Interest	Total	
<u>Wastewater System</u>							
2006	\$ 19,305,465	11,125,819	8,179,646	2,065,000	3,043,500	5,108,500	1.60
2005	18,526,816	10,482,955	8,043,861	1,500,000	2,403,519	3,903,519	2.06
2004	19,071,798	10,042,919	9,028,879	1,750,000	2,133,704	3,883,704	2.32
2003	15,785,843	9,086,469	6,699,374	1,032,500	266,722	1,299,222	5.16
2002	15,731,749	8,632,287	7,099,462	992,500	316,847	1,309,347	5.42
2001	16,663,975	8,087,688	8,576,287	952,500	364,972	1,317,472	6.51
2000	16,741,692	7,707,242	9,034,450	912,500	411,097	1,323,597	6.83
1999	16,286,632	7,591,990	8,694,642	1,255,000	474,743	1,729,743	5.03
1998	15,873,036	7,512,753	8,360,283	1,217,500	554,216	1,771,716	4.72
1997	15,521,150	7,339,135	8,182,015	1,120,000	627,402	1,747,402	4.68
<u>Water System</u>							
2006	\$ 27,297,378	13,808,214	13,489,164	5,130,000	3,834,301	8,964,301	1.50
2005	25,600,740	13,145,665	12,455,075	4,895,000	3,517,932	8,412,932	1.48
2004	22,940,862	12,477,486	10,463,376	3,115,000	2,411,632	5,526,632	1.89
2003	21,533,965	11,631,496	9,902,469	3,010,000	2,898,489	5,908,489	1.68
2002	22,687,789	11,474,433	11,213,356	2,880,000	2,110,590	4,990,590	2.25
2001	22,287,139	10,960,315	11,326,824	2,755,000	2,240,075	4,995,075	2.27
2000	23,823,957	9,812,147	14,011,810	2,640,000	2,361,515	5,001,515	2.80
1999	20,787,797	9,067,262	11,720,535	2,530,000	2,514,373	5,044,373	2.32
1998	21,009,615	8,894,295	12,115,320	2,435,000	2,621,365	5,056,365	2.40
1997	20,426,318	8,161,529	12,264,789	2,345,000	2,730,407	5,075,407	2.42
<u>Parking Facilities</u> <sup>1, 2</sup>							
2006	\$ 6,785,593	2,775,122	4,010,471	1,185,000	799,931	1,984,931	2.02
2005	6,219,935	2,972,709	3,247,226	1,140,000	850,501	1,990,501	1.63
2004	6,299,598	2,733,492	3,566,106	1,145,000	908,456	2,053,456	1.74
2003	5,988,240	2,304,632	3,683,608	1,085,000	962,829	2,047,829	1.80
2002	5,483,546	1,964,389	3,519,157	1,115,000	924,470	2,039,470	1.73
2001	5,172,264	2,127,350	3,044,914	795,000	787,419	1,582,419	1.92
2000	4,853,708	1,393,637	3,460,071	455,000	761,521	1,216,521	2.84
1999	4,209,988	2,329,165	1,880,823	585,000	640,712	1,225,712	1.53
1998	4,068,991	1,340,709	2,728,282	455,000	651,694	1,106,694	2.47
1997	3,623,705	1,110,085	2,513,620	435,000	670,847	1,105,847	2.27
<u>Golf</u>							
2006	\$ 2,993,961	2,467,141	526,820	305,000	74,973	379,973	1.39
2005	3,135,875	2,568,462	567,413	295,000	83,823	378,823	1.50
2004	2,899,670	2,467,141	432,529	290,000	91,653	381,653	1.13
2003	2,648,552	2,408,947	239,605	280,000	98,513	378,513	0.63
2002	2,673,078	2,141,707	531,371	305,000	75,628	380,628	1.40
2001	2,626,592	2,140,853	485,739	230,000	239,088	469,088	1.04
2000	2,934,568	1,952,906	981,662	215,000	252,310	467,310	2.10
1999	2,527,564	1,656,746	870,818	200,000	264,310	464,310	1.88
1998	2,337,800	1,493,277	844,523	190,000	275,520	465,520	1.81
1997	2,414,843	1,620,120	794,723	180,000	285,960	465,960	1.71

- 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. 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>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>
Cash & Investment Balance - September 1 of Year Indicated	20,599,597	26,542,206	22,742,585	25,069,133	26,814,745	24,802,768	26,589,993	26,784,845	23,521,130	18,948,253
Receipts:										
Property Tax	19,642,898	18,953,860	20,741,154	19,487,198	20,284,364	23,353,414	22,780,085	24,546,532	26,727,618	28,366,526
City Sales & Use Tax	36,549,194	37,479,413	41,642,771	43,608,313	44,486,127	45,393,492	48,657,268	51,869,477	53,781,209	54,270,346
Other Income	<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>	<u>25,620,145</u>	<u>25,390,112</u>
Total Receipts	74,900,764	75,806,677	82,375,147	84,434,604	86,556,507	95,089,320	96,371,191	100,031,329	106,128,972	108,026,984
Less Disbursements	<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>	<u>110,701,849</u>	<u>113,499,594</u>
Cash & Investment Balance - August 31 of Year Indicated	<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>	<u>18,948,253</u>	<u>13,475,643</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. 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>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>
Cash Balance - September 1 of Year Indicated	3,748,493	4,000,777	3,682,098	3,536,402	3,313,405	3,099,198	3,440,537	2,935,997	3,570,557	3,364,608
Receipts:										
Property Tax	4,350,593	4,461,628	4,475,066	5,843,384	5,814,489	6,340,938	5,883,592	5,387,468	5,607,615	2,973,410
Interest Income	166,270	236,658	145,534	174,146	107,693	53,873	32,298	48,595	83,286	86,812
Bond Proceeds			189,482				9,436,083		6,597,635	
Other Income	<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>	<u>149,038</u>	<u>2,935,603</u>
Total Receipts	<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>	<u>12,437,574</u>	<u>5,995,825</u>
Disbursements:										
Bonds Paid	3,158,769	3,304,097	2,725,042	3,973,769	4,052,948	4,137,254	4,177,765	3,215,000	3,850,000	4,250,000
Bonds Defeased							9,609,774			
Interest Paid	1,756,656	1,817,400	1,955,821	2,500,471	2,308,922	2,144,322	2,309,084	2,271,548	2,197,207	2,342,582
Transfer to Trustee			164,400						6,504,876	
Other Disbursements	<u>5,965</u>	<u>12,464</u>	<u>164,990</u>	<u>13,878</u>	<u>10,255</u>	<u>3,905</u>		<u>6,295</u>	<u>91,440</u>	<u>6,360</u>
Total Disbursements	<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>	<u>12,643,523</u>	<u>6,598,942</u>
Equity Transfer										
Cash Balance - August 31 of Year Indicated	<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>	<u>3,364,608</u>	<u>2,761,491</u>

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

	<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>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>
Cash & Investment Balance - September 1 of Year Indicated	4,855,959	5,150,392	5,357,118	5,003,362	4,964,458	3,778,207	6,586,633	6,910,967	7,830,502	7,583,251
Receipts:										
Special Assessment Collections	1,972,082	1,818,743	1,992,503	1,638,233	1,529,352	1,360,347	1,271,575	1,654,695	1,208,686	1,476,284
Interest on Special Assessments	418,003	285,279	367,309	310,558	257,157	294,839	346,725	267,298	204,108	189,927
City's Share of Costs	161,620		2,038,202	895,961	2,516,175	2,145,574	97,107	116,009	578,992	723,038
Developers' Share of Costs	40,508	685,754	75,572		473,445	4,617				
Bond Proceeds										
Interest on Investments	253,112	341,581	241,768	286,460	219,536	137,143	130,555	140,289	217,996	254,809
Miscellaneous	4,134		244,724	993,245	144,005	474,438	195,535	288,482	30,687	74,657
Total Receipts	<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>	<u>2,240,469</u>	<u>2,718,715</u>
Disbursements:										
Construction Costs	703,170	1,637,987	2,333,433	2,338,999	3,646,025	1,090,434	1,560,456	1,399,323	1,796,239	1,066,513
Bonds Paid	1,115,000	1,105,000	785,000	770,000	270,000	110,000	105,000	105,000	100,000	
SID Warrants										
Interest Paid on Bonds & Notes	225,544	167,055	110,155	67,293	39,438	24,762	17,534	10,420	3,425	
Other Refunds & Expenses	511,312	14,589	2,085,246	987,069	2,370,458	383,336	34,173	32,495	588,056	389,453
Total Disbursements	<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>	<u>2,487,720</u>	<u>1,455,966</u>
Cash & Investment Balance - August 31 of Year Indicated	<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>	<u>7,583,251</u>	<u>8,846,000</u>

# LINCOLN WASTEWATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

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### **(8) Risk Management**

Lincoln Wastewater System participates in the City's self-insurance program administered by the City's Risk Management Division (the Division). The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On behalf of the City, the Division purchases insurance and administers funds for its self-insured program. The Division maintains a workers' compensation fund and a self-insured loss fund. The Division provides first dollar coverage for all liability and workers' compensation exposure with insurance acting as an umbrella or excess coverage. The maximum exposure would be the deductible amounts for property and auto physical damage, as well as losses not covered by insurance. Lincoln Wastewater System had no claims or judgments exceeding the policy limits during each of the last three prior years. Budgeted premium amounts charged to Lincoln Wastewater System are placed in the appropriate fund maintained by the Division. Premium expense was approximately \$347,000 and \$347,000 in 2006 and 2005, respectively.

### **(9) Pension Plan**

Employees of Lincoln Wastewater System are participants in the City of Lincoln Employees' Retirement Plan. Plan participation is required if the employee has completed five years of continuous service and attained the age of 40. An employee may voluntarily enter the plan upon attaining age 19 and after completing six months of service. 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. Lincoln Wastewater System contributed \$2 for every \$1 contributed by the employees. Plan participants vest in the City's contributions in year three of participation at 20% up to 100% vested in year seven. All past service costs and vested benefits are fully paid. Contributions made by the System were approximately \$487,000 and \$463,000 for 2006 and 2005, respectively. Contributions made by the plan members were approximately \$222,000 and \$210,000 for 2006 and 2005, respectively.

LINCOLN WASTEWATER SYSTEM

Summary of Long-Term Debt

August 31, 2006

Due years ending August 31	Series 1977		Series 2003		Series 2005		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ -	1,305	1,545,000	2,312,919	460,000	768,563	2,005,000	3,082,787
2008	-	-	1,580,000	2,274,294	475,000	750,163	2,055,000	3,024,457
2009	-	-	1,620,000	2,234,794	490,000	731,162	2,110,000	2,965,956
2010	-	-	1,660,000	2,186,194	505,000	711,563	2,165,000	2,897,757
2011	-	-	1,710,000	2,103,194	525,000	691,363	2,235,000	2,794,557
2012-2016	-	-	9,480,000	9,445,219	2,910,000	3,071,563	12,390,000	12,516,782
2017-2021	-	-	11,505,000	6,946,844	3,515,000	2,374,975	15,020,000	9,321,819
2022-2026	-	-	14,385,000	3,832,138	4,340,000	1,540,113	18,725,000	5,372,251
2027-2030	\$ -	1,305	6,745,000	509,750	4,235,000	486,900	10,980,000	996,650
			50,230,000	31,845,346	17,455,000	11,126,365	67,685,000	42,973,016
								110,658,016

## Operating Expenses

Years ended August 31, 2006 and 2005

	2006	2005
Plant, pumping and treatment:		
Theresa Street Treatment Plant:		
Supervision and management	\$ 296,481	295,455
Administrative and support staff	47,419	45,730
Training and education	51,585	36,084
Data management	122,919	119,938
General operations	903,351	767,188
Treatment and process control	564,637	529,268
Solids processing	1,094,452	1,115,986
Structures maintenance	189,742	257,789
Process equipment maintenance	567,307	533,923
Control system maintenance	127,297	135,901
Electrical maintenance	55,374	42,297
Grounds maintenance	45,317	48,321
Depreciation of structure and improvement	940,286	876,884
Depreciation of treatment equipment	1,315,260	1,199,862
Depreciation of meters	180,530	160,530
Depreciation of office/communications equipment	3,047	5,007
<b>Total Theresa Street Treatment Plant</b>	<b>\$ 6,505,004</b>	<b>6,170,163</b>
Northeast Treatment Plant:		
Supervision and management	\$ 94,368	90,238
Administrative and support staff	14,059	13,592
Training and education	17,959	18,618
Data management	41,478	56,676
General operations	382,062	308,023
Treatment and process control	176,043	172,961
Solids processing	313,044	276,502
Structures maintenance	61,596	92,871
Process equipment maintenance	166,573	164,575
Control system maintenance	70,411	45,402
Electrical maintenance	25,062	33,857
Grounds maintenance	107,775	127,590
Depreciation of structures and improvements	417,655	432,741
Depreciation of treatment system	390,967	173,895
Depreciation of injection system	38,006	37,175
Depreciation of shop and laboratory equipment	8,709	8,818
Depreciation of office/communications equipment	839	839
<b>Total Northeast Treatment Plant</b>	<b>\$ 2,326,606</b>	<b>2,054,373</b>

LINCOLN WASTEWATER SYSTEM

Schedule 2, Cont.

Operating Expenses, Continued

	2006	2005
<b>Liftstations:</b>		
Data management	\$ 957	263
General operations	25,869	23,660
Structures maintenance	10,808	11,167
Process equipment maintenance	72,895	78,468
Control system maintenance	39,311	23,007
Electrical maintenance	3,992	4,865
Grounds maintenance	2,766	1,735
Depreciation of liftstations	108,909	108,490
<b>Total liftstations</b>	<b>265,507</b>	<b>251,655</b>
<b>Total plant, pumping and treatment</b>	<b>\$ 9,097,117</b>	<b>8,476,191</b>
<b>Operation and maintenance of wastewater lines:</b>		
Supervision and management	\$ 223,737	235,901
Administrative and support staff	39,559	39,687
Training and education	33,885	31,390
Data management	96,241	116,640
General operations	346,991	311,720
Structures maintenance	9,098	2,399
Main repair/maintenance	279,484	168,808
Manhole repair/rehabilitation	84,397	93,328
Customer service	283,256	298,503
Cleaning maintenance	581,646	553,839
Field operations	231,341	225,052
Depreciation of structures and improvements	908	908
Depreciation of treatment equipment	63,677	23,425
Depreciation of shop and lab equipment	19,516	15,898
Depreciation of transmission mains	2,082,021	1,590,201
<b>Total operation and maintenance of wastewater lines</b>	<b>\$ 4,375,757</b>	<b>3,707,699</b>
<b>Sanitary engineering services:</b>		
Supervision and management	\$ 366,784	334,819
Administrative and support staff	45,555	36,187
Training and education	10,407	10,882
Data management	255,148	244,713
Laboratory operations	670,187	624,174
Field operations	446,569	396,601
Depreciation of structures and improvements	14,449	14,449
Depreciation of treatment equipment	516	516
Depreciation of office/communications equipment	4,627	7,131
Depreciation of shop and laboratory equipment	97,456	113,163
<b>Total sanitary engineering services</b>	<b>\$ 1,911,698</b>	<b>1,782,635</b>

**LINCOLN WASTEWATER SYSTEM****Schedule 2****Operating Expenses, Continued**

	<b>2006</b>	<b>2005</b>
<b>Accounting and collecting:</b>		
Supervision and management	\$ 132,517	106,171
Administrative and support staff	524	555
Meter reading	100,636	111,211
Billing and accounting	127,540	132,793
Collections	82,203	79,956
Customer services and billing	28,212	28,889
Customer contracts and orders	21,631	21,568
<b>Total accounting and collecting</b>	<b>\$ 493,263</b>	<b>481,143</b>
<b>Administrative and general:</b>		
Supervision and management	\$ 980,835	846,177
Administrative and support staff	52,689	78,370
Delivery service	37,648	36,449
Depreciation of office and communication equipment	17,647	20,909
<b>Total administrative and general</b>	<b>\$ 1,088,819</b>	<b>981,905</b>

**LINCOLN WASTEWATER SYSTEM**

Schedule 3

Utility Plant in Service

August 31, 2006

Asset Class	Capital Assets		Accumulated Depreciation		Net Capital Assets	
	August 31, 2005	Increases Decreases	August 31, 2005	Increases Decreases	August 31, 2006	August 31, 2006
<b>Theresa Street Plant:</b>						
Structures and improvements	\$ 37,926,823	255,286 (1,528,419)	36,653,690	(957,641) 1,528,419	(9,672,191)	26,981,499
Line equipment	10,159	-	10,159	(612)	(6,937)	3,222
Treatment equipment	24,130,559	170,915 (7,770)	24,293,704	(7,567,576) (1,386,614)	(8,966,420)	15,327,284
Transmission mains	132,421,042	14,298,114	146,719,156	(32,179,928) (2,181,160)	(34,361,088)	112,358,068
Environmental equipment	262,610	-	265,751	(100,216) (40,080)	(133,437)	122,314
Office furniture and equipment	385,981	-	385,981	(179,580) (22,274)	(201,854)	184,127
Shop equipment	114,868	33,522	148,390	(63,663) (19,969)	(83,632)	64,758
Communications system	54,621	-	54,621	(51,158) (2,712)	(53,870)	751
Laboratory equipment	473,946	25,535 (24,713)	474,768	(295,517) (57,258)	(328,062)	146,706
Meters	3,210,591	400,000	3,610,591	(695,034) (180,530)	(875,564)	2,735,027
<b>Theresa Street depreciable assets</b>	<b>198,991,200</b>	<b>15,183,372 (1,567,761)</b>	<b>212,606,811</b>	<b>(4,848,850) 1,567,761</b>	<b>(54,683,055)</b>	<b>157,923,756</b>
Land and land rights	723,649	83,545	807,194	-	-	807,194
<b>Theresa Street nondepreciable assets</b>	<b>723,649</b>	<b>83,545</b>	<b>807,194</b>	<b>-</b>	<b>-</b>	<b>807,194</b>
<b>Total Theresa Street Plant</b>	<b>199,714,849</b>	<b>15,266,917 (1,567,761)</b>	<b>213,414,005</b>	<b>(4,848,850) 1,567,761</b>	<b>(54,683,055)</b>	<b>158,730,950</b>
<b>Northeast Plant:</b>						
Structures and improvements	16,316,908	62,654 (1,063,925)	15,315,637	(421,096) 1,063,925	(6,321,690)	8,993,947
Treatment equipment	3,838,444	16,852,217 (8,800)	20,882,861	(387,525) 8,800	(915,354)	19,767,507
Office furniture and equipment	11,413	-	11,413	(838)	(2,982)	8,431
Shop and work equipment	150,302	-	150,302	(34,056) (8,709)	(42,765)	107,537
Laboratory equipment	-	-	-	-	-	-
Infection system	658,907	-	658,907	(308,148) (14,721)	(322,869)	336,038
Pond and liner	520,132	-	520,132	(360,988) (14,468)	(375,456)	144,676
Sludge injection equipment	43,906	-	43,906	(31,230) (4,091)	(35,321)	8,585
Transmission mains	-	-	-	1,885 0	1,885	1,885
Transmission/work equipment	236,322	-	236,322	(151,245) (4,726)	(155,971)	80,351
<b>Northeast depreciable assets</b>	<b>21,777,334</b>	<b>16,914,871 (1,072,725)</b>	<b>37,619,480</b>	<b>(838,273) (856,175) 1,072,725</b>	<b>(8,170,723)</b>	<b>29,448,757</b>
Land and land rights	2,054,375	-	2,054,375	-	-	2,054,375
<b>Northeast nondepreciable assets</b>	<b>2,054,375</b>	<b>-</b>	<b>2,054,375</b>	<b>-</b>	<b>-</b>	<b>2,054,375</b>
<b>Total Northeast Plant</b>	<b>23,831,709</b>	<b>16,914,871 (1,072,725)</b>	<b>39,673,855</b>	<b>(838,273) (856,175) 1,072,725</b>	<b>(8,170,723)</b>	<b>31,503,132</b>
Vehicles and work equipment (all locations)	2,149,617	140,757 (53,123)	2,237,251	(1,299,468) (135,810)	(1,387,768)	849,483
Utility plant in service	\$ 225,688,175	32,322,545 (2,689,609)	255,325,111	(61,088,727) (5,840,835)	(64,241,546)	191,083,565
Construction in progress	30,139,360	31,955,541 (27,099,872)	34,995,029	-	-	34,995,029
<b>Total capital assets</b>	<b>\$ 255,835,535</b>	<b>64,278,086 (29,793,481)</b>	<b>290,320,140</b>	<b>(61,088,727) (5,840,835) 2,688,016</b>	<b>(64,241,546)</b>	<b>226,078,594</b>

**LINCOLN WASTEWATER SYSTEM**

**GENERAL STATISTICS**

**Year Ended August 31, 2006**

(Unaudited)

---

Altitude of Lincoln, Nebraska .....	1,167 Feet
Area of Lincoln, Nebraska .....	85.76 Square Miles
Population .....	241,700 Estimate
<b>Total Miles of Wastewater Mains &amp; Collector Lines In Use:</b>	
Miles in use September 1, 2005	960.4
Estimated Added During Year	17.5
Estimated Removed During Year	0.0
Total as of August 31, 2006 .....	977.9 Miles
Number of Wastewater Lift (Pumping) Stations: .....	14
Number of Stormwater Pumping Stations: .....	4
<b>Plant Capacity:</b>	
Theresa Street Treatment Plant .....	27.4 million gallons per day
Northeast Treatment Plant .....	10.0 million gallons per day
<b>Average Daily Flow:</b>	
Theresa Street Treatment Plant .....	19.23 million gallons per day
Northeast Treatment Plant .....	4.22 million gallons per day
<b>Total Number of Active Wastewater Customers</b>	
End of Fiscal Year .....	75,573
Debt of Lincoln Wastewater System as of August 31, 2006 .....	\$67,685,000

**LINCOLN WASTEWATER SYSTEM**

**TOP TEN CUSTOMERS**

**Year Ended August 31, 2006**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	333,407	\$458,231
2. State of Nebraska	254,721	338,514
3. Archer-Daniels Midland Company	155,378	215,944
4. BryanLGH Medical Center	105,784	140,044
5. Lincoln Public Schools	105,696	148,901
6. Kawasaki	92,847	127,870
7. Lincoln Housing Authority	91,986	143,429
8. Pfizer Animal Health	85,762	121,264
9. ConAgra Refrigerator Foods	77,887	106,141
10. Lincoln Plating	77,828	107,357
<b>Top Ten User Totals</b>	<b>1,381,296</b>	<b>\$1,907,695</b>



06R-155

Introduce: 8-14-06

(Substitute)  
RESOLUTION NO. A- 83987

1 WHEREAS, the City Council of Lincoln, Nebraska, is authorized under Sections 17.60.020  
2 and 17.60.030 of the Lincoln Municipal Code to establish wastewater charges for all customers of  
3 the Lincoln Wastewater System.

4 WHEREAS, Both the Mayor's Advisory Committees, Streets, Roads and Trails (SRT) and  
5 the Mayor's Infrastructure Finance Committee (MIFC) support the wastewater rate increases  
6 proposed by the City's Public Works & Utilities Department over the next 10 years, to help finance  
7 the infrastructure needs identified in the City's Capital Improvement Program. The current  
8 projections acknowledge the need for approval of a 8% increase for Fiscal Year 2006-07; a 9%  
9 increase for Fiscal Year 2007-08; and a 9% increase for Fiscal Year 2008-09.

10 WHEREAS, Lincoln's wastewater infrastructure is a necessary component and is required  
11 under city charter to be provided to all areas served within the city limits.

12 And WHEREAS, Lincoln's wastewater rates have historically remained low, and even with  
13 the proposed rate increases will continue this tradition of competitive rates within the region and  
14 nationally.

15 NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Lincoln,  
16 Nebraska:

17 Effective with the billing cycle commencing on November 15, 2006, the following schedule  
18 of wastewater use charges is hereby established and adopted:

19 BASIC WASTEWATER USE CHARGE

20 (a) The basic wastewater use unit charge is hereby established as 144.0 cents.

21 (b) For any given residential property, the basic wastewater use charge for each billing cycle

1 shall be determined by multiplying for each such cycle the total amount of water, in hundreds of  
2 cubic feet, metered for said property during a billing cycle chosen by the Director from the most  
3 recent past winter, by the basic wastewater use unit charge.

4 In the case of change of occupancy of residential property, if the Director reasonably  
5 determines that to compute the basic wastewater use charge for a given billing cycle upon the  
6 amount of water used by such property during such winter billing cycle would be inequitable either  
7 to the City or to the user, he shall use the average amount of water used by like users during such  
8 winter billing cycle to compute such charge.

9 (c) For any non-residential property, the basic wastewater use charge for a given billing cycle  
10 shall be determined by multiplying for each cycle the amount of water or wastewater, in hundreds  
11 of cubic feet, measured for said property during such cycle, by the basic wastewater use unit charge.

12 (d) Non-residential users shall be given credit, at the same rate, for water not discharged into  
13 the sanitary sewers provided such water is separately metered with the approval of the Public  
14 Utilities Department and at the customer's expense.

15 (e) Where a wastewater flow meter or other wastewater measuring device is required or  
16 permitted by the Director and is used to measure the volume of wastewater discharged into the  
17 Lincoln Wastewater System, such wastewater use charge shall be computed thereon at the basic  
18 wastewater use unit charge.

19 **SERVICE CHARGE**

20 Regardless of whether a wastewater meter is used, there shall be a service charge per month  
21 to each property using the Lincoln Wastewater System, determined by the number and size of the  
22 water meters serving such property, to-wit:

	WATER METER SIZE	SERVICE CHARGE
1		
2	5/8 inch	\$ 1.31
3	3/4 inch	1.31
4	1 inch	1.31
5	1-1/2 inch	2.62
6	2 inch	5.24
7	3 inch	11.79
8	4 inch	20.96
9	6 inch	47.17
10	8 inch	83.85
11	10 inch	131.02

12 The minimum service charge for a multiple dwelling unit or a mobile home shall be at least  
 13 \$0.78 per dwelling unit or mobile home hookup space per month. In those instances where fire  
 14 protection considerations dictate that a water meter larger than 1-inch service a single-family  
 15 dwelling unit located on a single lot, the monthly service charge shall be \$1.31 per dwelling unit.

16 WASTEWATER RATES TO CUSTOMERS OUTSIDE  
 17 THE CITY LIMITS

18 Customers located outside the City Limits of Lincoln and served by the Lincoln Wastewater  
 19 System shall pay the same Wastewater rates charged to customers within the City Limits of Lincoln  
 20 for service furnished them by the Lincoln Wastewater System.

21 BE IT FURTHER RESOLVED that Resolution No. A-83458, adopted by the City Council  
 on August 1, 2005 is hereby superseded.

Introduced by:

*Ann M. McKeay*

Approved as to Form & Legality:

*Dennis W. Roper*  
 City Attorney

Approved:

*[Signature]*  
 Director of Public Works/Utilities

Approved this 24 day of Aug, 2006:

*Coleen J. Seng*  
 Mayor

**ADOPTED**

AUG 21 2006

BY CITY COUNCIL

Lincoln Wastewater System

Summary of Insurance Coverage

August 31, 2006

(Unaudited)

Type of policy	Insurance coverage	Policy limits	Self-insured retention deductible	Self-insurance deductible	Insurance carrier	Policy number
Automobile Fleet Liability	Self-Insured Excess Coverage Excess Coverage	0 - 250,000 250,000 - 1,000,000 1,000,000 - 5,000,000	250,000		Genesis	YXB300909C
Automobile Fleet Physical Damage**	Self-Insured	Actual cash value	2,500	2,500	None	
Building and Contents (includes Boiler & Machinery)	Blanket policy - buildings and contents	Replacement cost	50,000	2,500	FM Global	FM212
Money and Securities	Inside/outside premises	50,000	500	0	Fidelity & Deposit	CCP003595
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FM212
Equipment Floater (NON-LIC)	Non-licensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM212
Equipment Floater (Sanitary)	Inspection scheduled equipment	Replacement cost	50,000	2,500	FM Global	FM212
General Liability ***	\$1,000,000 occurrence/\$5,000,000 aggregate	5,000,000	250,000	0	Genesis	YXB300909C
Public Employee Blanket Bond	Employees blanket bond coverage	1,000,000	25,000	0	Fidelity & Deposit	CCP 003 05 95
Public Officials Liability***	\$1,000,000 occurrence	5,000,000	250,000	0	Genesis	YXB300909C
Workers' Compensation Excess	Policy has \$25,000,000 limit	25,000,000	500,000	0	Safety National	SP-2A04-NE

\*\* Self-insured for both comp & collision.

## LINCOLN WASTEWATER SYSTEM

Schedule 7 (Cont.)

### Summary of Insurance Coverage

This summary of insurance coverage provides general information regarding the City's casualty-property insurance policies.

#### AUTOMOBILE INSURANCE

*Liability Coverage:* Provides coverage for accidents involving all owned, nonowned and hired vehicles. Protects the City against third-party claims from members of the public for bodily injury or property damage.

*Physical Damage:* Provides comprehensive (other than collision) and collision coverage for City-owned vehicles on a self-insured basis.

#### PROPERTY INSURANCE

*Building and Contents:* Provides coverage for damage to City-owned buildings and contents provided the buildings are listed on the City's property schedule.

*Boiler and Machinery:* Provides coverage for damage to boilers, vessels, steam generators, refrigerating and air conditioning vessels and piping, deep well pump units, turbines and certain machines.

*Crime:* Coverage for theft, disappearance or destruction of money and securities both inside and outside the premises.

*Inland Marine Floaters:* Provides physical damage coverage for specifically scheduled property. Current floaters insured include: data processing equipment, nonlicensed equipment, recycling containers and sanitary sewer equipment.

#### GENERAL LIABILITY

Provides coverage for general liability (bodily injury and property damage) claims made against the City.

#### PUBLIC EMPLOYEES BLANKET BOND

Provides coverage for loss of money and securities resulting from employee dishonesty. This is a blanket policy covering City employees.

#### PUBLIC OFFICIALS LIABILITY (Claims-made)

The insurance company will pay on behalf of the City of Lincoln (amount over self-insured retention) for any civil claim or claim made against them on a *claims-made basis* because of any wrongful act. A wrongful act under the coverage is defined as any actual or alleged error or misstatement or misleading statement or act of omission or neglect or breach of duty including misfeasance, malfeasance and nonfeasance by an insured. Also covered are claims arising out of employment practices.

#### WORKERS' COMPENSATION

Provides excess workers' compensation insurance for injuries arising out of and in the course of employment. This provides indemnity and medical coverage above our self-insured retention limits.

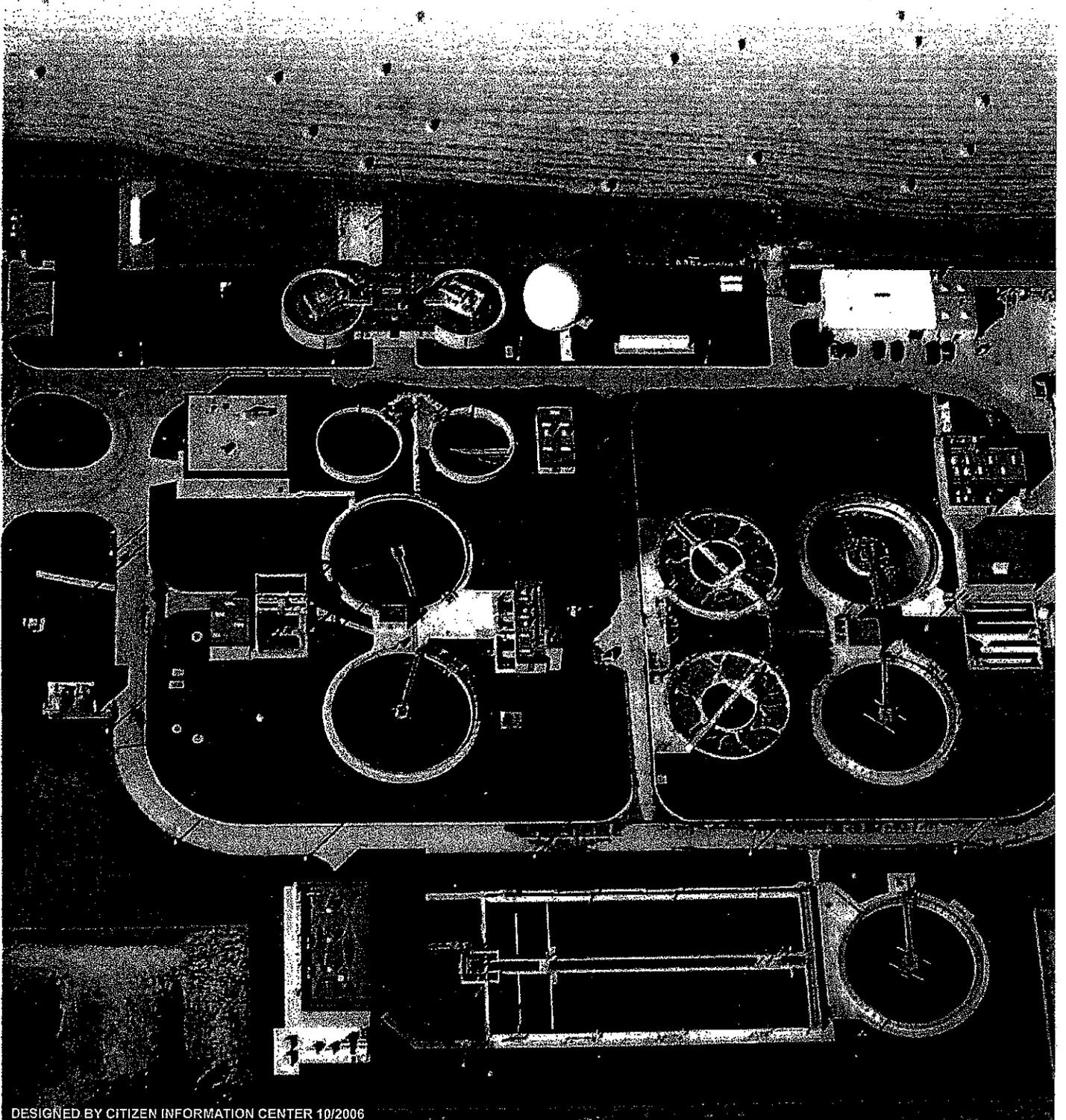
**APPENDIX B**

**FINANCIAL STATEMENTS**

# LINCOLN WASTEWATER SYSTEM

Fiscal Year Ended August 31, 2006

Financial Statements & Schedules



# **ANNUAL FINANCIAL REPORT**

## **DEPARTMENT OF PUBLIC WORKS/UTILITIES**

### **CITY OFFICIALS**

**Coleen J. Seng** ..... **Mayor**

### **COUNCIL MEMBERS**

**Patte Newman** ..... **Chair**

**Dan Marvin** ..... **Vice-Chair**

**Jon Camp**

**Jonathan Cook**

**Robin Eschliman**

**Annette McRoy**

**Ken Svoboda**

### **WASTEWATER SYSTEM**

**Karl Fredrickson** ..... **Director of Public Works/Utilities**

# Lincoln Wastewater System

August 31, 2006 and 2005

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

The Honorable Mayor and Members of the City Council  
Lincoln Wastewater System  
Lincoln, Nebraska

We have audited the accompanying basic financial statements of Lincoln Wastewater System as of and for the years ended August 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of Lincoln Wastewater System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the City of Lincoln, Nebraska Wastewater System are intended to present the financial position, the changes in financial position and cash flows of only that portion of the City of Lincoln, Nebraska, that is attributable to the transactions of the Lincoln Wastewater System. They do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Wastewater System as of August 31, 2006 and 2005, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We 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.

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

Our audits were conducted for the purpose of forming an opinion on Lincoln Wastewater System's basic financial statements. The accompanying supplementary information 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, except for that portion marked "Unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

November 3, 2006

## **LINCOLN WASTEWATER SYSTEM**

### **Management's Discussion and Analysis**

This Management's Discussion and Analysis of the Lincoln Wastewater System's (the "System") financial performance provides an overview of the financial activities for the years ended August 31, 2006 and 2005. Please read this information in conjunction with the accompanying basic financial statements and notes to the financial statements.

#### ***Using This Annual Report***

The System's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the System, including resources held by the System but restricted for specific purposes by creditors, contributors, or enabling legislation. The System is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

#### ***The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets***

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the System's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the System's net assets and changes in them. The System's total net assets – the difference between assets and liabilities – is one measure of the System's financial health or financial position. Over time, increases or decreases in the System's net assets are an indicator of whether its financial health is improving or deteriorating.

#### ***The Statement of Cash Flows***

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

#### ***The System's Net Assets***

The System's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The System's net assets increased by \$6,843,874 (4.06%) in 2006 over 2005 as shown in Table 1.

## Financial Analysis

The following comparative condensed financial statements summarize Lincoln Wastewater System's financial position and operating results for the years ended August 31, 2006, 2005, and 2004.

**Table 1**

### Condensed Balance Sheets

	August 31		Variance	
	2006 Actual	2005 Actual	Dollars	Percent
Current assets	\$ 7,561,293	\$ 17,089,238	(\$9,527,945)	-55.75%
Capital assets	226,078,594	194,746,808	31,331,786	16.09%
Long-term investments	17,530,822	33,212,990	(15,682,168)	-47.22%
Deferred charges	647,175	676,330	(29,155)	-4.31%
<b>Total assets</b>	<b>251,817,884</b>	<b>245,725,366</b>	<b>6,092,518</b>	<b>2.48%</b>
Current liabilities	8,650,708	7,302,991	1,347,717	18.45%
Long-term liabilities	67,910,595	70,009,668	(2,099,073)	-3.00%
<b>Total liabilities</b>	<b>76,561,303</b>	<b>77,312,659</b>	<b>(751,356)</b>	<b>-0.97%</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	160,423,939	143,065,437	17,358,502	12.13%
Restricted for debt service	2,210,193	1,937,602	272,591	14.07%
Restricted for capital acquisition	471,616	259,888	211,728	81.47%
Unrestricted	12,150,833	23,149,780	(10,998,947)	-47.51%
<b>Total net assets</b>	<b>175,256,581</b>	<b>168,412,707</b>	<b>6,843,874</b>	<b>4.06%</b>
<b>Total liabilities and net assets</b>	<b>\$251,817,884</b>	<b>\$245,725,366</b>	<b>\$6,092,518</b>	<b>2.48%</b>

### Financial Highlights – Fiscal Year 2006

- Total assets at year-end were \$251,817,884 and exceeded total liabilities by \$175,256,581, which results in an improved positive net assets position.
- Current assets decreased by \$9,527,945 (-55.75%) primarily due to an increase in construction activity.
- Capital assets increased by \$31,331,786 (16.09%) from \$194,746,808 as of the end of the Fiscal Year 2005 to \$226,078,594 as of the end of Fiscal Year 2006. Major project additions included:
  - Northeast Treatment Plant – approximately \$5,234,000
  - Transmission Mains – approximately \$14,767,000
  - Theresa Street Treatment Plant – approximately \$11,039,000
- Long-term investments decreased by \$15,682,168 (-47.22%) because of completion and payment of construction projects. Bond dollars are being used for said costs.

- There was an increase of \$1,347,717 (18.45%) in current liabilities primarily because a number of construction projects were in the process of construction at the end of the fiscal year.
- Long-term liabilities decreased by \$2,099,073 (-3.00%) from that of the previous fiscal year because of principal payments in accordance with debt service schedules.

**Table 2**

**Condensed Balance Sheets**

	August 31		Variance	
	2005 Actual	2004 Actual	Dollars	Percent
Current assets	\$ 17,089,238	\$ 14,571,808	\$ 2,517,430	17.28%
Capital assets	194,746,808	160,554,482	34,192,326	21.30%
Long-term investments	33,212,990	48,347,362	(15,134,372)	-31.30%
Deferred charges	676,330	594,824	81,506	13.70%
<b>Total assets</b>	<b>245,725,366</b>	<b>224,068,476</b>	<b>21,656,890</b>	<b>9.67%</b>
Current liabilities	7,302,991	8,292,584	(989,593)	-11.93%
Long-term liabilities	70,009,668	53,793,301	16,216,367	30.15%
<b>Total liabilities</b>	<b>77,312,659</b>	<b>62,085,885</b>	<b>15,226,774</b>	<b>24.53%</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	143,065,437	137,800,614	5,264,823	3.82%
Restricted for debt service	1,937,602	531,526	1,406,076	264.54%
Restricted for capital acquisition	259,888	337,721	(77,833)	-23.05%
Unrestricted	23,149,780	23,312,730	(162,950)	-0.70%
<b>Total net assets</b>	<b>168,412,707</b>	<b>161,982,591</b>	<b>6,430,116</b>	<b>3.97%</b>
<b>Total liabilities and net assets</b>	<b>\$245,725,366</b>	<b>\$224,068,476</b>	<b>\$21,656,890</b>	<b>9.67%</b>

**Financial Highlights – Fiscal Year 2005**

- Total assets at year-end were \$245,725,366 and exceeded total liabilities by \$168,412,707, which results in an improved positive net assets position.
- Current assets increased by \$2,517,430 (17.28%) due to a portion of the \$48,000,000 in bond revenue being utilized on construction projects resulting in additional construction activity.
- Capital assets increased by \$34,192,326 (21.30%) from \$160,554,482 as of the end of the Fiscal Year 2004 to \$194,746,808 as of the end of Fiscal Year 2005. Major project additions included:
  - Theresa Street Treatment Plant – approximately \$9,807,000
  - Northeast Treatment Plant – approximately \$8,959,000
  - Trunk Sewer Improvements – approximately \$14,584,000

- Long-term investments decreased by \$15,134,372 (-31.30%) because of completion and payment of construction projects. Bond dollars are being used for said costs.
- Deferred charges of unamortized bond issue costs increased in the amount of \$81,506 (13.70%) occurred because of the issuance of a \$18,000,000 sanitary sewer bond in July of 2005.
- There was a decrease of \$989,593 (-11.93%) in current liabilities primarily because the number of construction projects were completed and paid for this fiscal year.
- Long-term liabilities increased by \$16,216,367 (30.15%) from that of the previous fiscal year because of debt service requirements on the revenue bonds issued in July of 2005.

**Table 3**

**Condensed Statements of Revenues, Expenses, and Changes in Net Assets**

	August 31		Variance	
	2006 Actual	2005 Actual	Dollars	Percent
Operating revenues	\$17,997,650	\$16,985,552	\$1,012,098	5.96%
Operating expenses				
Plant, pumping and treatment	9,097,117	8,476,191	620,926	7.33%
Operation and maintenance of wastewater line	4,375,757	3,707,699	668,058	18.02%
Sanitary engineering services	1,911,698	1,782,635	129,063	7.24%
Accounting and collecting	493,263	481,143	12,120	2.52%
Administrative and general	1,088,819	981,905	106,914	10.89%
Total operating expenses	16,966,654	15,429,573	1,537,081	9.96%
Operating income	1,030,996	1,555,979	(524,983)	-33.74%
Net nonoperating revenues	710,777	509,759	201,018	39.43%
Capital contributions	5,102,101	4,364,378	737,723	16.90%
Change in net assets	\$6,843,874	\$6,430,116	\$413,758	6.43%

**Financial Highlights – Fiscal Year 2006**

- Operating revenues increased \$1,012,098 (5.96%) compared to 2005. This increase was primarily due to an increase of 9.00% user fees implemented with the billings starting in February 2006 and because of increased water usage this fiscal year. Sanitary sewer bills for residential customers are based on water usage during a two-month period during the winter and remain the same over the balance of the following ten-month period. Non-residential customers are billed for sanitary sewer based on their monthly water usage.

- Operating expenses increased \$1,537,081 (9.96%) compared to 2005, due to plant, pumping and treatment; operating and maintenance of wastewater lines, and sanitary engineering services expenses being higher. There was a 5.42% increase in Theresa Street Treatment Plant costs mostly attributed to an increase of processed equipment maintenance costs and maintenance of structures. There was a 13.25% increase in Northeast Treatment Plant costs mostly attributed to maintenance of structures and process equipment.

**Table 4**

**Condensed Statements of Revenues, Expenses, and Changes in Net Assets**

	August 31		Variance	
	2005 Actual	2004 Actual	Dollars	Percent
Operating revenues	\$16,985,552	\$16,011,984	\$973,568	6.08%
Operating expenses				
Plant, pumping and treatment	8,476,191	7,897,842	578,349	7.32%
Operation and maintenance of wastewater line	3,707,699	3,450,082	257,617	7.47%
Sanitary engineering services	1,782,635	1,641,068	141,567	8.63%
Accounting and collecting	481,143	542,441	(61,298)	-11.30%
Administrative and general	981,905	942,813	39,092	4.15%
Total operating expenses	15,429,573	14,474,246	955,327	6.60%
Operating income	1,555,979	1,537,738	18,241	1.19%
Net nonoperating revenues	509,759	2,072,640	(1,562,881)	-75.41%
Capital contributions	4,364,378	4,501,573	(137,195)	-3.05%
Change in net assets	\$6,430,116	\$8,111,951	(\$1,681,835)	-20.73%

**Financial Highlights – Fiscal Year 2005**

- Operating revenues increased \$973,568 (6.08%) compared to 2004. This increase was primarily due to an increase of 7.00% user fees implemented with the billings starting in February 2004 and because of increased water usage this fiscal year. Sanitary sewer bills for residential customers are based on water usage during a two-month period during the winter and remain the same over the balance of the following ten-month period. Non-residential customers are billed for sanitary sewer based on their monthly water usage.
- Operating expenses increased \$955,327 (6.60%) compared to 2004, due to plant, pumping and treatment; operating and maintenance of wastewater lines, and sanitary engineering services expenses being higher. There was a 7.39% increase in Theresa Street Treatment Plant costs mostly attributed to an increase of solids processing costs and maintenance of structures. There was a 9.01% increase in Northeast Treatment Plant costs mostly attributed to solids processing costs and maintenance of structures and process equipment.

### ***Debt Activity***

In July 2005, the Lincoln Wastewater System issued \$18,000,000 of additional bonds to be used on construction costs.

### ***System Credit and Bond Ratings***

The outstanding revenue bonds of the System are currently rated by Standard & Poor's and Moody's. This rating takes into account the amount of unrestricted net assets maintained by the System, to which the revenue bonds' obligation of the System is pledged. Currently, the credit rating received from Standard & Poor's Rating Services is AAA (MBIA Insured) and AA+ (Underlying). The credit rating issued by Moody's Rating Services is Aaa (MBIA Insured) and Aa2 (Underlying).

### ***Commitments and Contingencies***

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$12,600,000 at August 31, 2006.

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 one year.

### ***Forward-Looking Information***

The approved Capital Improvement Program for Fiscal Year 2006/07 - 2011/12 identifies the need for \$78,234,000 to fund capital improvements for the Wastewater System. Approximately \$67,487,000 of that total is projected to be funded by revenue bonds. Future user fee increases will also be necessary to make the needed improvements possible.

### ***Contact Information***

This financial report is intended to provide users a general overview of the System's financial performance for 2006 and 2005. If you have questions about this report or need additional financial information, please contact the Business Office of the Public Works & Utilities Department at 555 South 10<sup>th</sup> Street, Lincoln, NE 68508.

# LINCOLN WASTEWATER SYSTEM

## Balance Sheets

August 31, 2006 and 2005

Assets	2006	2005
<b>Current assets:</b>		
Equity in pooled cash and investments	\$ 2,304,158	10,286,544
<b>Receivables:</b>		
Accounts receivable	1,557,579	1,827,714
Unbilled revenues	1,863,030	1,738,716
Due from other funds	1,213,253	2,834,928
Impact fees	471,616	259,888
<b>Total receivables</b>	<b>5,105,478</b>	<b>6,661,246</b>
Inventories	151,657	141,448
<b>Total current assets</b>	<b>7,561,293</b>	<b>17,089,238</b>
<b>Noncurrent assets:</b>		
<b>Restricted assets:</b>		
Equity in pooled cash and investments	11,493,867	27,997,015
Investments	6,036,955	5,215,975
<b>Total restricted assets</b>	<b>17,530,822</b>	<b>33,212,990</b>
Utility plant	290,320,140	255,835,535
Less accumulated depreciation	64,241,546	61,088,727
<b>Net utility plant</b>	<b>226,078,594</b>	<b>194,746,808</b>
Unamortized bond issue costs	647,175	676,330
<b>Total noncurrent assets</b>	<b>244,256,591</b>	<b>228,636,128</b>
<b>Total assets</b>	<b>\$ 251,817,884</b>	<b>245,725,366</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 320,756	252,795
Accrued liabilities	336,829	456,985
Deposits liability	10,000	7,250
Accrued compensated absences	277,917	254,424
Construction contracts	5,056,926	3,709,474
Current maturities of long-term debt	2,005,000	2,065,000
Accrued interest	643,280	557,063
<b>Total current liabilities</b>	<b>8,650,708</b>	<b>7,302,991</b>
<b>Long-term liabilities:</b>		
Long-term debt, excluding current maturities	67,755,231	69,853,810
Accrued compensated absences	155,364	155,858
<b>Total long-term liabilities</b>	<b>67,910,595</b>	<b>70,009,668</b>
<b>Total liabilities</b>	<b>76,561,303</b>	<b>77,312,659</b>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	160,423,939	143,065,437
Restricted for debt service	2,210,193	1,937,602
Restricted for capital acquisition	471,616	259,888
Unrestricted	12,150,833	23,149,780
<b>Total net assets</b>	<b>175,256,581</b>	<b>168,412,707</b>
<b>Total liabilities and net assets</b>	<b>\$ 251,817,884</b>	<b>245,725,366</b>

See accompanying notes to financial statements.

# LINCOLN WASTEWATER SYSTEM

## Statements of Revenues, Expenses and Changes in Net Assets

Years ended August 31, 2006 and 2005

	2006	2005
Operating revenues	\$ 17,997,650	16,985,552
Operating expenses:		
Plant, pumping and treatment	9,097,117	8,476,191
Operation and maintenance of wastewater lines	4,375,757	3,707,699
Sanitary engineering services	1,911,698	1,782,635
Accounting and collecting	493,263	481,143
Administrative and general	1,088,819	981,905
Total operating expenses	16,966,654	15,429,573
Operating income	1,030,996	1,555,979
Nonoperating revenues (expenses):		
Investment income	1,307,815	890,964
Interest expense	(567,884)	(1,006,277)
Amortization of bond costs	(29,154)	(25,228)
Federal grant revenue	-	650,300
Net nonoperating revenues (expenses)	710,777	509,759
Increase in net assets before contributions	1,741,773	2,065,738
Capital contributions from:		
Developers	4,580,372	3,992,211
Impact fees	521,729	372,167
Total capital contributions	5,102,101	4,364,378
Increase in net assets	6,843,874	6,430,116
Total net assets - beginning	168,412,707	161,982,591
Total net assets - ending	\$ 175,256,581	168,412,707

See accompanying notes to financial statements.

# LINCOLN WASTEWATER SYSTEM

## Statements of Cash Flows

Years ended August 31, 2006 and 2005

	2006	2005
<b>Operating activities:</b>		
Receipts from customers and users	\$ 17,934,493	17,063,368
Payments to suppliers	(4,586,924)	(4,576,505)
Payments to employees	(6,578,300)	(6,081,704)
Net cash provided by operating activities	6,769,269	6,405,159
<b>Noncapital financing activities:</b>		
Federal grant revenue	-	650,300
Repayment from (advance) to other funds	1,621,675	(2,834,928)
Net cash provided by (used in) noncapital financing activities	1,621,675	(2,184,628)
<b>Capital and related financing activities:</b>		
Acquisition and construction of capital assets	(30,723,068)	(36,195,294)
Proceeds from sale of long-term debt	-	18,215,479
Principal paid on long-term debt	(2,065,000)	(1,500,000)
Interest paid on revenue bonds and project loan	(575,246)	(1,032,957)
Net cash used in capital and related financing activities	(33,363,314)	(20,512,772)
<b>Investing activities:</b>		
Purchases of investments	(2,216,414)	(5,234,636)
Proceeds from investment maturities	17,930,426	19,982,260
Interest on investments	1,275,972	1,277,712
Net cash provided by investing activities	16,989,984	16,025,336
Decrease in cash and cash equivalents	(7,982,386)	(266,905)
Cash and cash equivalents at beginning of year	10,286,544	10,553,449
Cash and cash equivalents at end of year	\$ 2,304,158	\$ 10,286,544
<b>Reconciliation of net operating revenues to net cash provided by operating activities:</b>		
Operating income	\$ 1,030,996	\$ 1,555,979
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation	5,840,835	4,946,618
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(65,907)	84,816
Inventories	(10,209)	(34,223)
Accounts payable	67,961	(226,837)
Accrued liabilities and deposit liability	(117,406)	39,259
Accrued compensated absences	22,999	39,547
Total adjustments	5,738,273	4,849,180
Net cash provided by operating activities	\$ 6,769,269	6,405,159

### Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$4,580,372 and \$3,992,211 were added to utility plant in 2006 and 2005, respectively.

Accounts payable incurred for utility plant purchases were \$5,056,926 and \$3,709,474 in 2006 and 2005, respectively.

See accompanying notes to financial statements.

# LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

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## (1) Organization and Summary of Significant Accounting Policies

### *Organization and Nature of Operations*

Lincoln Wastewater System is a public utility accounted for as an enterprise fund by the City of Lincoln, Nebraska (City). Lincoln Wastewater System (System) is operated under the direction of the Mayor and City Council. The authority to adopt the annual budget, to incur debt and to fix rates and charges is vested in the City Council by the Charter of the City of Lincoln. As Lincoln Wastewater System is part of the City, it is exempt from federal income tax.

### *Measurement Focus and Basis of Accounting*

The financial statements of Lincoln Wastewater System are prepared on the accrual basis of accounting using the economic resources measurement focus. Lincoln Wastewater System follows the uniform system of accounts as prescribed by the National Association of Regulatory Utility Commissioners. In reporting financial activity, Lincoln Wastewater System applies all applicable Government Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins that do not conflict with or contradict GASB pronouncements.

The financial statements referred to above present only the Lincoln Wastewater System and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2006 and 2005, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The System first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

### *Operating Revenues and Expenses*

As an enterprise fund, the Lincoln Wastewater System distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues of the Lincoln Wastewater System are charges to customers for sales and services. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(Continued)

# LINCOLN WASTEWATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

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### ***Utility Plant (Capital Assets)***

Cost of additions and replacements to utility plant are capitalized. Cost includes labor, materials, payments to contractors, equipment use, and indirect costs. Interest expense, net of interest earned on unspent bond proceeds, is capitalized in connection with the construction of major assets. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Contributed assets are capitalized at their fair value at the date of contribution. The cost of property retired, together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is removed from service, except for land, on which gain or loss is recognized upon disposition. Expenditures for maintenance and repairs are charged to current expenses.

Depreciation expense is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation expense recognized on contributed assets is charged to operations in accordance with similar utility assets.

The following estimated useful lives are being used by the System:

Buildings and improvements	5 - 50 years
Infrastructure	33 - 100 years
Furniture, fixtures and equipment	5 - 15 years

### ***Deposits and Investments***

The City Treasurer is responsible for the safekeeping of cash and invested funds of Lincoln Wastewater System. The City is authorized to invest in "certificates of deposit, time deposits, and 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." Cash balances in excess of current requirements are invested along with funds from other governmental bodies, and the interest earned on these investments is allocated monthly to the various governmental bodies by the City Treasurer on a pro rata basis of aggregate quarterly balances.

For purposes of the Statements of Cash Flows, Lincoln Wastewater System considers cash on hand and in the bank, as well as cash and equity in pooled cash and investments held by the City Treasurer, which are readily convertible to known amounts of cash and have original maturities of three months or less, to be cash and cash equivalents.

The System participates in a cash management pool, managed by the City. The pool consists of bank deposits and investments. The System's interest in this pool is shown as equity in pooled cash and investments in the balance sheets.

Fair value of the equity in the pool is the same as the value of the pool shares determined using the fair value of the pool's underlying investment portfolio.

(Continued)

# LINCOLN WASTEWATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

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Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

U.S. government and government agency securities are carried at fair value as determined by quoted market values. Collateralized investment agreements are carried at contract value.

### ***Capital Contributions***

Developer contributions are sewer improvements made to developments. Revenues from developer contributions are recorded at fair value when the development is complete. These are considered imposed non-exchange transactions.

### ***Unamortized Premium on Revenue Bonds***

Premiums received on bond issuances are being amortized over the life of the bonds using the interest method.

### ***Inventories***

Inventories of materials and supplies are stated at the lower of cost or market. Cost is generally determined on a weighted-average basis.

### ***Revenue***

Wastewater usage is billed on a two-month cycle for substantially all customers. Unbilled revenues, representing estimated consumer usage for the period between the last billing date and the end of the period, are accrued in the period of consumption.

The City Council sets the rate schedule for Lincoln Wastewater System. The billings for residential customers are based on water usage during a winter billing cycle, whereas the billings for nonresidential customers are based on water used each cycle. The rates were \$1.325 and \$1.205 per hundred cubic feet of water as of August 31, 2006 and 2005, respectively. The service charge rates are \$1.31 per month for a single-family dwelling unit and \$.78 for a multi-family dwelling unit as of August 31, 2006 and 2005.

### ***Bond Issuance Costs***

The issuance costs on the revenue bonds are amortized using the straight-line method over the terms of the related issues.

(Continued)

# LINCOLN WASTEWATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

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### **Net Assets Classification**

Net assets are required to be classified into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

**Invested in capital assets, net of related debt** - This component of net assets consists of capital assets, net of accumulated depreciation, and unamortized bond issuance costs reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement 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 constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted** - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

### **Compensated Absences**

Employees earn vacation days at varying rates dependent on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation which is in no case longer than 35 days. Employees earn sick leave at the rate of approximately one day per month. Upon retirement or death, an employee or their beneficiary is reimbursed for one-fourth or up to one-half of accumulated sick leave, which may in some cases be placed directly in a medical spending account instead of reimbursing the employee directly. The Lincoln Wastewater System accrues for vacation, sick leave and other compensated absences with similar characteristics.

Compensated absences of the Lincoln Wastewater System at August 31, 2006 and 2005 are summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
August 31, 2006	\$410,282	277,423	254,424	433,281	277,917
August 31, 2005	370,735	295,283	255,736	410,282	254,424

### **Use of Estimates**

Management of the Lincoln Wastewater System has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets, liabilities, and revenues to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

### **Reclassifications**

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 financial statement presentation. These reclassifications had no effect on the change in net assets.

(Continued)

# LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

## (2) Deposits, Investments, and Investment Return

### Deposits

State statutes require banks either to give bond or to pledge government securities to the City Treasurer in the amount of the City's deposits. The System has been allocated a portion of the City's pooled cash and investments. The City's cash deposits, including certificates of deposit, are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits or certificates of deposit in excess of the \$100,000 FDIC limits, are covered by collateral held in a Federal Reserve pledge account or by an agent for the City and thus no custodial risk exists. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

### Investments

The City may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds, bankers' acceptances, and collateralized investment agreements.

For an investment, *custodial credit risk* is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. None of the underlying securities for the Lincoln Wastewater System's investments at August 31, 2006 and 2005 are subject to custodial credit risk, as they are held in an account in the Lincoln Wastewater System's name, and by an agent who is not the counterparty to the investment transactions.

At August 31, 2006 and 2005, the Lincoln Wastewater System had the following investments and maturities:

Type	August 31, 2006				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$1,013,117	1,013,117	-	-	-
U.S. Agency obligations	3,793,857	-	-	3,793,857	-
Collateralized Investment Agreement	1,229,981	-	-	-	1,229,981
	<u>\$6,036,955</u>	<u>1,013,117</u>	<u>-</u>	<u>3,793,857</u>	<u>1,229,981</u>

Type	August 31, 2005				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$1,359,962	358,050	1,001,912	-	-
U.S. Agency obligations	3,856,013	-	-	3,856,013	-
	<u>\$5,215,975</u>	<u>358,050</u>	<u>1,001,912</u>	<u>3,856,013</u>	<u>-</u>

(Continued)

# LINCOLN WASTEWATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

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### (2) Deposits, Investments, and Investment Return, (continued)

#### Interest Rate Risk:

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits current operating funds to be invested with maturities of no longer than twenty-four months. Investments in construction funds, operating funds, and other non-operating funds are limited to ten year maturities. Collateralized Investment Agreements are not subject to interest rate risk, as the interest rate is guaranteed by the issuer.

#### Credit Risk:

Credit Risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy allows Investment Agreements with a rating at least Aa3 by Moody's Investor Service and AA- by Standards & Poor's. As of August 31, 2006 and 2005, the Lincoln Wastewater System investments in U.S. Agencies obligations not directly guaranteed by the U.S. government were rated Aaa by Moody's Investors Service and AAA by Standard and Poor's, respectively. The collateralized investment agreement was rated Aa2 by Moody's Investors Service and AA- by Standard & Poor's as of August 31, 2006.

#### Concentration of Credit Risk:

The City's Investment Policy places various limits on the amount that may be invested in any one issuer. Per the Policy, allocations limits do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument. As of August 31, 2006 and 2005, the Lincoln Wastewater System investments in U.S. Agencies obligations constituted 19% and 12% respectively, of its total funds available for investing. The collateralized investment agreement constituted 6% of its total funds available for investing as of August 31, 2006. The above mentioned investments were made with funds from the bond debt reserve funds established.

The carrying amount of equity interests in pooled cash and investments at August 31, 2006 and 2005 are:

	<u>2006</u>	<u>2005</u>
Equity in pooled cash and investments	<u>\$13,798,025</u>	<u>38,283,559</u>

#### ***Investment Income***

Investment income for the years ended August 31, 2006 and 2005 consisted of:

	<u>2006</u>	<u>2005</u>
Interest and dividend income	\$1,229,753	1,242,351
Increase (decrease) in fair value of investments	<u>78,062</u>	<u>(351,387)</u>
	<u>\$1,307,815</u>	<u>890,964</u>

(Continued)

**LINCOLN WASTEWATER SYSTEM**

Notes to Financial Statements

August 31, 2006 and 2005

**(3) Utility Plant**

Utility plant is summarized by major classification at August 31, 2006 as follows:

Asset Class	Capital Assets			Accumulated Depreciation			Net Capital Assets	
	August 31, 2005	Increases	Decreases	August 31, 2005	Increases	Decreases	August 31, 2006	August 31, 2006
Structures and improvements	\$ 54,243,731	317,940	(2,592,344)	(17,207,488)	(1,378,737)	2,592,344	(15,993,881)	35,975,446
Line equipment	10,159	-	-	(6,325)	(612)	-	(6,937)	3,222
Treatment equipment	27,970,003	17,023,132	(16,570)	(8,124,205)	(1,774,139)	16,570	(9,881,774)	35,094,791
Transmission mains	132,421,042	14,298,114	-	(32,178,243)	(2,181,160)	-	(34,359,403)	112,359,753
Environmental equipment	262,610	-	(6,859)	(100,216)	(40,080)	6,859	(133,437)	122,314
Office furniture and equipment	397,394	-	-	(181,723)	(23,113)	-	(204,836)	192,558
Shop equipment	265,170	33,522	-	(97,719)	(28,678)	-	(126,397)	172,295
Communications system	54,621	-	-	(51,158)	(2,712)	-	(53,870)	751
Laboratory equipment	473,946	25,535	(24,713)	(295,517)	(57,258)	24,713	(328,062)	146,706
Injection system	658,907	-	-	(308,148)	(14,721)	-	(322,869)	336,038
Pond and liner	520,132	-	-	(360,988)	(14,468)	-	(375,456)	144,676
Sludge injection equipment	43,906	-	-	(31,230)	(4,091)	-	(35,321)	8,585
Transmission/work equipment	236,322	-	-	(151,245)	(4,726)	-	(155,971)	80,351
Meters	3,210,591	400,000	-	(695,034)	(180,530)	-	(875,564)	2,735,027
Vehicles	2,149,617	140,757	(53,123)	(1,299,488)	(135,810)	47,530	(1,387,768)	849,483
<b>Total depreciable assets</b>	<b>222,918,151</b>	<b>32,239,000</b>	<b>(2,693,609)</b>	<b>(61,088,727)</b>	<b>(5,840,835)</b>	<b>2,688,016</b>	<b>(64,241,546)</b>	<b>188,221,996</b>
Land and land rights	2,778,024	83,545	-	-	-	-	-	2,861,569
Construction in progress	30,139,360	31,955,541	(27,099,872)	-	-	-	-	34,995,029
<b>Total nondepreciable assets</b>	<b>32,917,384</b>	<b>32,039,086</b>	<b>(27,099,872)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37,856,598</b>
<b>Total capital assets</b>	<b>\$ 255,835,535</b>	<b>64,278,086</b>	<b>(29,793,481)</b>	<b>(61,088,727)</b>	<b>(5,840,835)</b>	<b>2,688,016</b>	<b>(64,241,546)</b>	<b>226,078,594</b>

During 2006, Lincoln Wastewater System incurred \$3,036,138 of interest cost. Interest capitalized into construction in progress during 2006 was \$2,468,254. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 2.31% in 2006.

# LINCOLN WASTEWATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

### (3) Utility Plant

Utility plant is summarized by major classification at August 31, 2005 as follows:

Asset Class	Capital Assets			Accumulated Depreciation			Net Capital Assets	
	August 31, 2004	Increases	Decreases	August 31, 2004	Increases	Decreases	August 31, 2005	August 31, 2005
Structures and improvements	\$ 49,837,322	6,549,868	(2,143,459)	(18,021,360)	(1,329,587)	2,143,459	(17,207,488)	37,036,243
Line equipment	26,677	-	(16,518)	(22,231)	(612)	16,518	(6,325)	3,834
Treatment equipment	20,797,554	7,625,509	(453,060)	(7,172,981)	(1,404,284)	453,060	(8,124,205)	19,845,798
Transmission mains	106,429,665	26,050,936	(59,559)	(30,548,881)	(1,688,921)	59,559	(32,178,243)	100,242,799
Environmental equipment	324,839	14,318	(76,547)	(133,670)	(43,093)	76,547	(100,216)	162,394
Office furniture and equipment	1,291,313	9,510	(903,429)	(1,059,293)	(25,859)	903,429	(181,723)	215,671
Shop equipment	797,226	38,886	(570,942)	(642,436)	(26,225)	570,942	(97,719)	167,451
Communications system	553,430	-	(498,809)	(545,170)	(4,797)	498,809	(51,158)	3,463
Laboratory equipment	1,256,966	117,238	(900,258)	(1,126,017)	(69,758)	900,258	(295,517)	178,429
Injection system	843,723	6,788	(191,604)	(486,162)	(13,590)	191,604	(308,148)	350,759
Pond and liner	520,428	-	(296)	(346,817)	(14,467)	296	(360,988)	159,144
Sludge injection equipment	339,637	-	(295,731)	(322,570)	(4,391)	295,731	(31,230)	12,676
Transmission/work equipment	247,198	-	(10,876)	(157,395)	(4,726)	10,876	(151,245)	85,077
Meters	2,810,591	400,000	-	(534,504)	(160,530)	-	(695,034)	2,515,557
Vehicles	2,224,293	-	(74,676)	(1,218,386)	(155,778)	74,676	(1,299,488)	850,129
<b>Total depreciable assets</b>	<b>188,300,862</b>	<b>40,813,053</b>	<b>(6,195,764)</b>	<b>(62,337,873)</b>	<b>(4,946,618)</b>	<b>6,195,764</b>	<b>(61,088,727)</b>	<b>161,829,424</b>
Land and land rights	2,280,164	497,860	-	-	-	-	-	2,778,024
Construction in progress	32,311,329	34,642,375	(36,814,344)	-	-	-	-	30,139,360
<b>Total nondepreciable assets</b>	<b>34,591,493</b>	<b>35,140,235</b>	<b>(36,814,344)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,917,384</b>
<b>Total capital assets</b>	<b>\$ 222,892,355</b>	<b>75,953,288</b>	<b>(43,010,108)</b>	<b>(62,337,873)</b>	<b>(4,946,618)</b>	<b>6,195,764</b>	<b>(61,088,727)</b>	<b>194,746,808</b>

During 2005, Lincoln Wastewater System incurred \$2,376,839 of interest cost. Interest capitalized into construction in progress during 2005 was \$1,370,562. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 2.22% in 2005.

# LINCOLN WASTEWATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

### (4) Long-term Debt

Long-term debt of Lincoln Wastewater System at August 31, 2006 and 2005 is summarized below:

Type of Debt	August 31, 2005	Additions	Reductions	August 31, 2006	Due Within One Year
2.0%-5.0% Wastewater Revenue & Refunding Bonds, Series 2004, due in annual principal installments on June 15, increasing from \$1,545,000 in 2007 to the final payment of \$3,450,000 in 2028.	\$51,750,000	—	1,520,000	50,230,000	1,545,000
4.0%-5.0% Wastewater Revenue Bonds Series 2005, due in annual principal installments on June 15, increasing from \$460,000 in 2007 to the final payment of \$1,130,000 in 2030.	\$18,000,000	—	545,000	17,455,000	460,000
Unamortized premium on bonds	<u>2,168,810</u>	<u>—</u>	<u>93,579</u>	<u>2,075,231</u>	<u>—</u>
	<u>\$71,918,810</u>	<u>—</u>	<u>2,158,579</u>	<u>69,760,231</u>	<u>2,005,000</u>

Type of Debt	August 31, 2004	Additions	Reductions	August 31, 2005	Due Within One Year
2.0%-5.0% Wastewater Revenue & Refunding Bonds, Series 2004, due in annual principal installments on June 15, increasing from \$1,520,000 in 2006 to the final payment of \$3,450,000 in 2028.	\$53,250,000	—	1,500,000	51,750,000	1,520,000
4.0%-5.0% Wastewater Revenue \$ Bonds Series 2005, due in annual principal installments on June 15, increasing from \$545,000 in 2006 to the final payment of \$1,130,000 in 2030.	—	18,000,000	—	18,000,000	545,000
Unamortized premium on bonds	<u>1,928,302</u>	<u>322,213</u>	<u>81,705</u>	<u>2,168,810</u>	<u>—</u>
	<u>\$55,178,302</u>	<u>18,322,213</u>	<u>1,581,705</u>	<u>71,918,810</u>	<u>2,065,000</u>

(Continued)

# LINCOLN WASTEWATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

### (4) Long-term Debt (continued)

Maturities and sinking fund requirements on long-term debt at August 31, 2006, are shown below.

Years ending August 31	Principal	Interest	Total
2007	2,005,000	3,082,787	5,087,787
2008	2,055,000	3,024,457	5,079,457
2009	2,110,000	2,965,956	5,075,956
2010	2,165,000	2,897,756	5,062,756
2011	2,235,000	2,794,557	5,029,557
2012-2016	12,390,000	12,516,781	24,906,781
2017-2021	15,020,000	9,321,817	24,341,817
2022-2026	18,725,000	5,372,250	24,097,250
2027-2030	10,980,000	996,650	11,976,650
<b>Total</b>	<b>\$67,685,000</b>	<b>42,973,011</b>	<b>110,658,011</b>

### (5) Commitments and Contingencies

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$12,600,000 at August 31, 2006.

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 one year.

The Lincoln Wastewater System has entered into various agreements with developers to be reimbursed for eligible infrastructure construction. After construction is substantially complete, the developer will be reimbursed by the System on a quarterly basis from impact fee dollars collected within that development area. These agreements project construction costs and impact fee revenue based on the final plat at the time of acceptance of the agreement. As of August 31, 2006, the System's commitment to these developers is estimated to be \$1,300,000.

(Continued)

# LINCOLN WASTEWATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

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### (6) Disclosure About the Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

- *Cash, accounts receivable and accounts payable* - The carrying amount approximates fair value because of the short maturity of these instruments.
- *Long-term debt* - The estimated fair value of the System's long-term debt is approximately \$72,900,000 as of August 31, 2006.
- *Investments* - The fair values of investments are based on quoted market prices for those investments as shown in Note 2.

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.

### (7) Related Party Transactions

Lincoln Wastewater participates in an automated meter reading system equipment purchasing arrangement with Lincoln Water System. Under terms of this arrangement Lincoln Water System purchases automated meter reading system equipment on behalf of Lincoln Wastewater System and bills Lincoln Wastewater System for approximately 40% of the costs of the equipment. Amounts paid to Lincoln Water System for this equipment amounted to \$400,000 for each of the years ended August 31, 2006 and 2005.

The City billed the Wastewater System approximately \$470,000 and \$393,000 for administrative services during 2006 and 2005, respectively.

A special revenue fund of the City collects and holds impact fees until they are distributed in accordance with City ordinance. The Lincoln Wastewater System was due impact fees of \$471,616 and \$259,888 as of August 31, 2006 and 2005, respectively.

During 2006, the City of Lincoln general fund borrowed moneys from the pooled cash and investment account. The Wastewater System's allocated share of the borrowing was \$1,213,253 and \$2,834,928 as of August 31, 2006 and 2005, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the balance sheet.

(Continued)

**APPENDIX C**

**SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE**

## SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

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

### Definitions

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

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

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

**“Aggregate Debt Service”** for any period means, as of any date of calculation, the sum of the amounts of Debt Service for such period with respect to all Bonds.

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

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

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

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

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

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

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

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

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

(f) Obligations of any state of the United States of America, or of any agency, instrumentality or local government unit of any such state which are, at the time of purchase, rated by Moody's Investors Service ("Moody's") and Standard & Poor's Corporation ("S & P") in either of its two highest whole rating categories, for comparable types of debt obligations;

(g) Certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Registrar) or any savings and loan association, in each case, which is an insured depository institution (as defined in 12 U.C.C. §§ 1801 et seq.) provided that the aggregate principal amount of all certificates of deposit issued by any such bank, trust company, national banking association or savings and loan association which are purchased with monies held in any fund or account under the Ordinance shall be (1) fully insured by the Federal Deposit Insurance Corporation or (2) secured, to the extent not insured by the Federal Deposit Insurance Corporation, by such securities as are described in subsection (a) to (f) or subsection (h) subsection (l) of this definition having market value (exclusive of accrued interest, other than accrued interest paid in connection with the purchase of such securities) at least equal to the principal amount of such certificates of deposit (or portion thereof not insured by the Federal Deposit Insurance Corporation) which shall be lodged with the Registrar or another fiduciary, as custodian, by such bank, trust company, national banking association or savings and loan association shall furnish the Registrar or the City Treasurer, as the case may be, with an undertaking satisfactory to him or it that the aggregate market value of all such obligations securing such certificates of deposit will at all times be an amount which meets the requirements of this clause (2) and the City Treasurer or the Registrar, as the case may be, shall be entitled to rely on each such undertaking;

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

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

(j) Any repurchase agreement which is secured by any one or more of the securities described in subsections (a) to (e) above;

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

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

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

**“Bond Fund”** means the City of Lincoln, Nebraska Sanitary Sewer Revenue Bond Fund established pursuant to the Ordinance.

**“Bond Obligation”** means, as of any date of calculation, (a) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, (b) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date), and (c) with respect to any Outstanding Deferred Income Bond, the Appreciated Value thereof as of the date on which interest on such Deferred Income Bond is computed next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case as of such date).

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

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

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

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

the System and shall include reimbursements to the City for any of the above items theretofore paid by or on behalf of the City.

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

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

**“Current Interest Commencement Date”** means with respect to any particular Deferred Income Bonds, the date determined in accordance with the Series Ordinance authorizing such Deferred Income Bonds (which date must be prior to the maturity date for such Deferred Income Bonds) after which interest accruing on such Deferred Income Bonds shall be payable periodically on dates determined in accordance with such Series Ordinance, with the first such payment date being the first such periodic date immediately succeeding such Current Interest Commencement Date.

**“Debt Service”** for any period means, as of any date of calculation and with respect to any Series of Bonds, an amount equal to the sum of (a) interest accruing during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits in the Bond Fund made from the proceeds of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City (including amounts, if any, transferred thereto from the Construction Fund) and (b) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for Bonds of such Series (or, if (1) there shall be no such preceding Principal Installment due date or (w) such preceding Principal Installment due date is more than one year prior to the due date of such Principal Installment, then, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever date is later). Such interest and Principal Installments for Bonds of such Series shall be calculated on the assumption that (x) no Bonds (except for Option Bonds actually tendered for payment prior to the stated maturity thereof) of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof, and (y) the principal amount of Option Bonds tendered for payment before the stated maturity thereof shall be deemed to accrue on the date required to be paid pursuant to such tender.

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

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

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

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

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

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

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

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

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

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

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

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

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

**“Outstanding”** means when used as of any particular time with reference to Bonds (subject to the provisions of the Ordinance), all Bonds theretofore, or thereupon being, authenticated and delivered

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

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

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

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

**“Principal Installment”** means, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (a) the principal amount of Bonds (including the principal amount of any Option Bonds tendered for payment prior to the stated maturity thereof) of such Series due (or so tendered for payment) on a certain future date for which no Sinking Fund Installments have been established, or (b) the unsatisfied balance (determined as provided in the Ordinance) of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bond on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

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

**“Prudent Utility Practice”** means any of the practices, methods and acts (including, but not limited to, any practices, methods and acts engaged in or approved by a significant portion of the sanitary waste disposal utility industry prior thereto) which, in the exercise of reasonable judgment, in the light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at reasonable cost consistent with reliability, safety and expediency. In applying the standard of

Prudent Utility Practice to any matter under the Ordinance, equitable consideration shall be given to the circumstances, requirements and obligations of the City, and there shall be taken into account the fact that the City is a political subdivision of the State with prescribed statutory powers, duties and responsibilities. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at reasonable cost consistent with reliability, safety and expediency. Prudent Utility Practice includes due regard for manufactures' warranties and the requirements of governmental agencies which have jurisdiction.

**"Rebate Fund"** means the Rebate Fund established the City pursuant to the Ordinance.

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

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

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

**"Revenue Fund"** means the Sanitary Sewer Revenue Fund created with the City in Section 24 of the Prior Lien Bond Ordinance and continued pursuant to the provisions of the Ordinance, into which all of the Revenues of the System shall be deposited.

**"Revenues"** means (a) total operating revenues, plus (b) interest income, plus (c) tap fees, plus (d) impact fees, if any, allocable to the System, plus (e) such other revenues and income as shall be determined to be appropriate in accordance with generally accepted accounting principles for proprietary governmental operations such as the System.

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

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

**"Surplus Fund"** means the Surplus Fund established with the City pursuant to the provisions of the Ordinance.

**"System"** means all properties and assets, and interests in properties and assets, real and personal and tangible and intangible, of the City now or hereafter existing used for or pertaining to collecting,

transmitting, distributing and treating sanitary sewerage, and shall be broadly construed to encompass and include all Projects, now existing and hereafter acquired by lease, contract, purchase or otherwise or constructed by the City, including any interest or participation of the City in any such facilities or any rights to the output or capacity thereof, together with all additions, betterments, extensions and improvements to said sanitary sewer system or any part thereof hereafter made and together with all lands, easements and rights of way of the City and all other works, property or structures of the City and contract rights and other tangible and intangible assets of the City used or useful in connection with or related to said sanitary sewer system.

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

### **Pledge**

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

### **Application of Revenues**

The Revenues are pledged by the Ordinance to secure the payment of the principal of and interest and redemption premium on the Bonds of all Series, subject to the provisions of the Ordinance permitting application for other purposes. The Ordinance requires that all Revenues of the System be collected on each Business Day of the City by or for the account of the City and deposited as promptly as practicable after the receipt thereof in the Revenue Fund. The Revenue Fund and the moneys deposited therein shall be used and applied only in the manner and for the purposes provided in the Ordinance.

### **Funds**

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

- (a) Operation and Maintenance Account in the Revenue Fund;
- (b) Bond Fund;

(c) Reserve Fund, in which there shall be established an account for each Series of Bonds issued pursuant to the Ordinance;

(d) Capital Improvement Fund;

(e) Rebate Fund;

(f) Surplus Fund; and

(g) Construction Fund

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

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

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

(a) *Operation and Maintenance.* There shall first be deposited and credited to the Operation and Maintenance Account as a first charge against the Sanitary Sewer Revenue Fund an amount sufficient to pay the estimated Operation and Maintenance Expenses during the current calendar month and the next succeeding calendar month as the same become due and payable .

(b) *Bond Fund.* There shall next be paid and credited monthly to the Bond Fund, an amount such that if the same amount were deposited on the first day of each month thereafter, the balance of the Bond Fund would be sufficient to pay the interest on and principal of, Accreted Value or Appreciated Value, on the next succeeding Payment Date. Any amounts deposited in the Bond Fund as accrued interest or as capitalized interest in accordance with a Series Ordinance shall be credited against the City's payment obligations as set forth in the Ordinance.

(c) *Reserve Fund.* After all payments and credits required at the time to be made under the provisions of subsections (a) and (b) above have been made, there shall next be paid and credited to each Account established in the Reserve Fund, all remaining Revenues until the amount on deposit in each Account in the Reserve Fund aggregates the Reserve Requirement for the Series of Bonds for which such Account was established. So long as each Account in the Reserve Fund aggregates the Reserve Requirement with respect to the Series of Bonds for which such Account was established, no further payments into said Account shall be required, but if the

City is ever required to expend and use a part of the moneys in said Account for the purpose authorized in the Ordinance and such expenditure reduces the amount of said Account below the Reserve Requirement for the Series of Bonds for which such Account was established, the City shall resume and continue said monthly payments into said Account until said Account shall again aggregate the Reserve Requirement with respect to the Series of Bonds for which such Account was established.

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

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

#### **Bond Fund.**

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

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

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

#### **Reserve Fund.**

(a) The Ordinance required that the City establish a debt service reserve account within the Reserve Fund for each Series of Bonds issued pursuant to the Ordinance which shall be for the benefit and security such Series of Bonds. The City shall hold any such Account and shall deposit therein from

the proceeds of the Series of Bonds for which such Account is established or from other funds of the City legally available therefore, an amount equal to the Reserve Requirement for such Series of Bonds.

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

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

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

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

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

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

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

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

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

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

### **Capital Improvement Fund.**

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

### **Rebate Fund.**

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

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

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

### **Surplus Fund.**

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

- (a) Paying extraordinary costs of the operation, maintenance and repair of the System;
- (b) Making deposits to the Capital Improvement Fund for the purpose of paying the cost of extending, enlarging or improving the System;
- (c) Preventing default in, anticipating payments into or increasing the amounts in the Bond Fund or any Account in the Reserve Fund referred to in paragraphs (b) and (c) of this Section;
- (d) Calling, redeeming and paying prior to maturity thereof, or, at the option of the City, purchasing in the open market at the best price obtainable not exceeding the redemption price (if any bonds are callable), any Bonds, including principal, interest and redemption premium, if any;
- (e) Paying Debt Service with respect to Subordinated Indebtedness; or
- (f) Any other lawful purpose in connection with the operation of the System and benefiting the System.

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

**Construction Fund.**

- (a) There shall be paid into the Construction Fund such amounts from the proceeds of a Series of Bonds as may be required by the provisions of the Ordinance and any Series Ordinance. Amounts in the Construction Fund shall be applied to pay the Costs of the System in the manner provided in this Section.
- (b) The proceeds of insurance maintained pursuant to the Ordinance against physical loss of or damage to any portion of the System, or of contractors' performance bonds with respect thereto, pertaining to the period of construction thereof, shall, upon receipt by the City, be paid into the Construction Fund.
- (c) The City shall make payments from the Construction Fund in the amounts, at the times, in the manner and on the other terms and conditions established by the City.
- (d) Notwithstanding any of the other provisions regarding the Construction Fund, to the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal, Accreted Value or Appreciated Value of and interest on Bonds when due.
- (e) Amounts credited to the Construction Fund which the City at any time determines to be in excess of the amounts required for the purposes thereof shall be transferred to the Capital Improvement Fund; provided, however, that the amount of any such credit to the Capital Improvement Fund shall not constitute or be deemed to constitute Revenues for any purpose of the Ordinance.
- (f) Nothing in the Ordinance shall be construed to prevent the City from permanently discontinuing the acquisition or construction of any portion of the System, the Costs of which are at the

time being paid out of the Construction Fund, if the City determines that such discontinuance is necessary or desirable in the conduct of the business of the City and not disadvantageous to the Owners of the Bonds.

### **Subordinated Indebtedness.**

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

### **Investment of Funds.**

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

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

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

### **Covenant as to Rates, Fees and Charges.**

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

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

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

#### **Additional Bonds.**

(a) So long as any of the Bonds remain Outstanding, the City will not issue any additional bonds or incur or assume any other debt obligations appearing as liabilities on the balance sheet of the City for the payment of moneys determined in accordance with generally accepted accounting principles including capital leases as defined by generally accepted accounting principles, payable out of the Revenues of the System or any part thereof which are superior to the Bonds.

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

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

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

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

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

economically feasible and reasonably considered necessary based on projected operations of the System.

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

#### **Certain Other Covenants.**

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

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

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

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

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

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

Maintenance of Insurance. The City will carry and maintain insurance with respect to the System and its operations against such casualties, contingencies and risks (including but not limited to property and casualty, fire and extended coverage insurance upon all of the properties forming a part of the System insofar as the same are of an insurable nature, public liability, business interruption or use and occupancy

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

Application of Insurance Proceeds. (a) If any useful portion of the System shall be damaged or destroyed, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. The proceeds of insurance covering such property, together with any other funds available for such purpose as the City in its sole discretion shall determine, shall be used to repair the property damaged or replace the property destroyed; provided, however, if the insurance proceeds and other funds that might be lawfully appropriated therefore are insufficient to repair or replace the damaged property, then such insurance proceeds received for the damaged or destroyed property shall be deposited to the credit of a special insurance account or fund until other funds become available which, together with funds on deposit to the credit of such special insurance account, will be sufficient to make the repairs or replacements to the property damaged or destroyed that resulted in such insurance proceeds or make other improvements to the System.

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

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

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

(d) For so long as Rule 15c2-12(b) of the Securities and Exchange Commission (the "Rule") is applicable, the City covenants and agrees that it will comply with and carry out all of the provisions of each undertaking entered into by it to satisfy the requirements of the Rule with respect to each Series of

Bonds issued pursuant to the Ordinance. Notwithstanding any other provision of the Ordinance, failure of the City to comply with such undertaking shall not be considered an Event of Default; however, the Owner or Beneficial Owner of any Bond may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this subsection. For purposes of this subsection, "Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

#### **Amendment of Ordinance.**

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

(2) No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of Bond Obligation thereof, or extend the time of payment or reduce the amount of any Sinking Fund Installment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, (2) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under the Ordinance prior to or on a parity with the lien created by the Ordinance, or deprive the Owners of the Bonds of the lien created by the Ordinance on such Net Revenues and other assets (in each case, except as expressly provided in the Ordinance), without the consent of the Owners of all of the Bonds then Outstanding, or (c) modify any rights or duties of any Fiduciary without its consent.

(3) It shall not be necessary for the consent of the Owners to approve the particular form of any Supplemental Ordinance, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the adoption by the City of any Supplemental Ordinance pursuant to this subsection (1), the Registrar shall mail a notice provided by the Ordinance, setting forth in general terms the substance of such Supplemental Ordinance to the Owners of the Bonds at the addresses shown on the registration books of the Registrar. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Ordinance.

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

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

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

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

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Ordinance, or in regard to matters or questions arising under the Ordinance, as the City may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Owners in the determination of the City;

(3) to modify, amend or supplement the Ordinance in such manner as to permit the qualification of the Ordinance under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Owners;

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

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

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

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

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

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

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

#### **Defeasance.**

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

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

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

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

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

Whenever in the Ordinance it is provided or permitted that there be deposited with or held in trust by the Paying Agent, an escrow agent or other fiduciary, money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or

securities held by the Paying Agent in the funds and accounts established pursuant to the Ordinance and shall be one or more of the following:

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

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

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

#### **Events of Default; Remedies.**

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

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

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

(c) Failure of the City to observe and perform any of its other covenants, conditions or agreements under the Ordinance or in the Bonds for a period of 90 days after written notice from the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of the City to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;

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

making by the City of any assignment for the benefit of creditors, or (5) taking of corporate action by the City in furtherance of any of the foregoing;

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

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

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

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

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

any power granted in the Ordinance or for the enforcement of any proper legal or equitable remedy, all as the Receiver, being advised by counsel, shall deem most effectual to protect and enforce such rights.

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

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

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

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

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

(2) If the principal of all the Bonds shall have become due and payable, all such moneys shall be applied to the payment of the principal Accreted Value, Appreciated Value or Redemption Price or interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bonds over any other Bonds, ratable, according to the amounts due, respectively, for principal or interest to the persons entitled thereto without any

discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

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

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

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

**EXHIBIT D**

**DISCLOSURE DISSEMINATION AGENT AGREEMENT**

## DISCLOSURE DISSEMINATION AGENT AGREEMENT

This **DISCLOSURE DISSEMINATION AGENT AGREEMENT** (the “**Disclosure Agreement**”), dated \_\_\_\_\_, 2007, is executed and delivered by **THE CITY OF LINCOLN, NEBRASKA**, (the “**Issuer**”) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the “**Disclosure Dissemination Agent**” or “**DAC**”) for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “**Rule**”).

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

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

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

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

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

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

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

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

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

“**Holder**” means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

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

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

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

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

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

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

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

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

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

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

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

## **Section 2. Provision of Annual Reports.**

(a) The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than 30 days prior to the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to each National Repository and the State Depository (if any) not later than May 1 of each year commencing May 1, 2008. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross reference other information as provided in **Section 3**.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to **Section 2(a)**. Upon such reminder, the Disclosure Representative shall either (1) provide the Disclosure

Dissemination Agent with an electronic copy of the Annual Report and the Certification) no later than two (2) business days prior to the Annual Filing Date, or (2) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required hereunder, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Notice Event as described in **Section 4(a)(12)** has occurred and to immediately send a notice to each National Repository or the MSRB and the State Depository (if any) in substantially the form attached as **Exhibit B**.

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

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

(e) The Disclosure Dissemination Agent shall:

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

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

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

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

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

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

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

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

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

F. "Adverse tax opinions or events affecting the tax-exempt status of the security," pursuant to **Sections 4(a)(6) and 4(c)**;

G. "Modifications to rights of securities holders," pursuant to **Sections 4(a)(7) and 4(c)**;

H. "Bond calls," pursuant to **Sections 4(a)(8) and 4(c)**;

I. "Defeasances," pursuant to **Sections 4(a)(9) and 4(c)**;

J. "Release, substitution, or sale of property securing repayment of the securities," pursuant to **Sections 4(a)(10) and 4(c)**;

K. "Ratings changes," pursuant to **Sections 4(a)(11) and 4(c)**;

L. "Failure to provide annual financial information as required," pursuant to **Section 2(b)(ii) or Section 2(c)**, together with a completed copy of **Exhibit B** to this Disclosure Agreement;

M. "Other material event notice (specify)," pursuant to **Section 7**, together with the summary description provided by the Disclosure Representative.

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

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

### **Section 3. Content of Annual Reports.**

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

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

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer is an "obligated person" (as defined by the Rule), which have been previously filed with each of the National Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official

statement, it must be available from the MSRB. The Issuer will clearly identify each such document so incorporated by reference.

#### **Section 4. Reporting of Notice Events.**

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

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

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

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

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

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

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

**Section 7. Voluntary Reports.**

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

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

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

**Section 9. Disclosure Dissemination Agent.** The Issuer has appointed DAC as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC’s services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any

replacement or appointment of a successor, the Issuer shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

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

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

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

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

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

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

**Section 12. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is

supported by an opinion of counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

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

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

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

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

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

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

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**THE CITY OF LINCOLN, NEBRASKA, Issuer**

By: \_\_\_\_\_  
Name: Don Herz  
Title: Finance Director

**EXHIBIT B**  
**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Issuer: **The City of Lincoln, Nebraska**  
Name of Bond Issue: **Sanitary Sewer Revenue Bonds, Series 2007**  
Date of Issuance: **April 18, 2007**

**NOTICE IS HEREBY GIVEN** that the Issuer has not provided an Annual Report with respect to the above named Bonds as required by the Disclosure Agreement, dated as of \_\_\_\_\_, 2007 between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

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

cc: Issuer

**APPENDIX E**

**BOOK-ENTRY SYSTEM**

## BOOK-ENTRY SYSTEM

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2007 Bonds. The Series 2007 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Series 2007 Bonds in the aggregate principal amount of such maturity and will be deposited with DTC.

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

3. Purchases of Series 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2007 Bond (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2007 Bonds, except in the event that use of the book-entry system for the Series 2007 Bonds is discontinued.

4. To facilitate subsequent transfers, all Series 2007 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2007 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the

Series 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2007 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2007 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series 2007 Bonds may wish to ascertain that the nominee holding the Series 2007 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Series 2007 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Series 2007 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Registrar on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the City or the Registrar, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Series 2007 Bonds at any time by giving reasonable notice to the City or the Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

10. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

*The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from sources that the City, Ameritas and the Underwriter believe to be reliable, but the City and the Underwriter take no responsibility for the accuracy thereof, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

*None of the City, Ameritas or the Underwriter will have any responsibility or obligation to any Direct Participants or Indirect Participants or the persons for whom they act with respect to (a) the accuracy of any records maintained by DTC or any such Direct Participant or Indirect Participant; (b) the payment by any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Series 2007 Bonds; (c) the delivery by any such Direct Participant or Indirect Participant of any notice to any Beneficial Owner that is required or permitted under the terms of the Ordinance to be given to registered owners of the Series 2007 Bonds; (d) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2007 Bonds; or (e) any consent given or other action taken by DTC as the registered owner of the Series 2007 Bonds.*

**EXHIBIT F**

**FORM OF BOND COUNSEL OPINION**

\_\_\_\_\_, 2007

Mayor and City Council  
Lincoln, Nebraska

Re: \$20,460,000 The City of Lincoln, Nebraska Sanitary Sewer Revenue Bonds, Series 2007

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Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by The City of Lincoln, Nebraska (the "Issuer"), of the above-captioned bonds (the "Bonds"), pursuant to Ordinance Nos. 18171 adopted by the Issuer on May 5, 2003, as amended and supplemented by Ordinance No. 18900 adopted by the Issuer on March 26, 2007 (collectively, the "Ordinance"). Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Ordinance.

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

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

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

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

3. The interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal and Nebraska income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted however, that for the purpose of computing the alternative minimum tax

imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the Issuer 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 Issuer has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal and Nebraska income tax purposes retroactive to the date of issuance of the Bonds. The Bonds have not been designated as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Code. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

The rights of the owners of the Bonds and the enforceability of the Bonds and the Ordinance may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent applicable and their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

**APPENDIX G**

**SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY**

# FINANCIAL GUARANTY INSURANCE POLICY

## MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

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

[PAR]  
[LEGAL NAME OF ISSUE]

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

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

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

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

MBIA Insurance Corporation

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Assistant Secretary

**SPECIMEN**

**ADDENDUM TO OFFICIAL STATEMENT DATED APRIL 4, 2007**

**\$20,460,000  
CITY OF LINCOLN, NEBRASKA  
SANITARY SEWER REVENUE BONDS  
SERIES 2007**

**Mandatory Redemption of Bonds Maturing June 15, 2032**

The Bonds maturing June 15, 2032 are subject to redemption prior to maturity in part by lot by operation of a mandatory sinking fund on June 15 in each of the following years and in the following amounts, upon payment of the principal amount thereof plus accrued interest to such date of redemption, but without premium. Selection of any Bonds maturing June 15, 2032, or portions thereof to be redeemed shall be in the sole discretion of the Registrar.

<u>Year</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount</u>
2030	\$1,195,000
2031	1,250,000
2032*	1,305,000

\*Final Maturity