

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: Moody's: "Aa2"
S&P: "AA+"
See "RATINGS" herein

In the opinion of Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Series 2005 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 2005 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."

OFFICIAL STATEMENT
\$18,000,000
CITY OF LINCOLN, NEBRASKA
SANITARY SEWER REVENUE BONDS
SERIES 2005

Dated: date of delivery

Due: June 15, as shown on inside cover

The Series 2005 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 2005 Bonds. Purchases of the Series 2005 Bonds will be originally made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC participants. Beneficial owners of the Series 2005 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 2005 Bonds. So long as DTC or its nominee is the registered owner of the Series 2005 Bonds, payments of the principal or redemption price of and interest on the Series 2005 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, 2005. Wells Fargo Bank, National Association is bond registrar and paying agent for the Series 2005 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 2005 BONDS - Book-Entry System."

The Series 2005 Bonds maturing on or after June 15, 2016 are subject to optional redemption prior to maturity at any time on or after June 15, 2015 as set forth herein. See "THE SERIES 2005 BONDS - Optional Redemption."

The Series 2005 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 2005 Account established in the Reserve Fund established with respect to the Series 2005 Bonds, and (c) paying expenses incident to the issuance of the Series 2005 Bonds. The Series 2005 Bonds, together with \$51,750,000 outstanding aggregate principal amount of the City's Sanitary Sewer Revenue and Refunding Bonds, Series 2003, dated July 31, 2003 (the "Series 2003 Bonds") and all additional bonds (collectively, the "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 2005 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 2005 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 2005 BONDS DO NOT CONSTITUTE A DEBT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION UNDER THE LAWS OF THE STATE. THE SERIES 2005 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 2005 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 2005 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 2005 Bonds will be available for delivery through DTC on or about August 3, 2005.

PRAGER, SEALY & CO., LLC

AMERITAS INVESTMENT CORP.
Has acted as Financial Advisor

The date of this Official Statement is July 20, 2005

MATURITY SCHEDULE

\$18,000,000

CITY OF LINCOLN, NEBRASKA

SANITARY SEWER REVENUE BONDS

SERIES 2005

<u>Maturity (June 15)</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>	<u>Yield</u>	<u>Price</u>
2006	\$ 545,000	4.00%	2.70%	101.103%
2007	460,000	4.00	2.85	102.073
2008	475,000	4.00	3.01	102.696
2009	490,000	4.00	3.14	103.105
2010	505,000	4.00	3.28	103.211
2011	525,000	4.00	3.42	103.056
2012	540,000	5.00	Not Reoffered	
2013	560,000	5.00	Not Reoffered	
2014	580,000	5.00	Not Reoffered	
2015	605,000	5.00	Not Reoffered	
2016	625,000	4.00	Not Reoffered	
2017	650,000	4.00	3.99*	100.077
2018	675,000	4.25	Not Reoffered	
2019	700,000	4.25	Not Reoffered	
2020	730,000	4.25	4.20*	100.396
2021	760,000	4.50	Not Reoffered	
2022	795,000	4.50	Not Reoffered	
2023	830,000	4.50	Not Reoffered	
2024	865,000	4.25	4.40	98.086
2025	905,000	4.25	4.43	97.633
2026	945,000	4.50	4.43*	100.549
2027	990,000	4.50	4.46*	100.311
2028	1,035,000	4.50	4.49*	100.074
2029	1,080,000	4.50	Not Reoffered	
2030	1,130,000	4.50	Not Reoffered	

*Yield to first date of optional redemption.

**CITY OF LINCOLN, NEBRASKA
CITY OFFICIALS**

Coleen J. Seng, Mayor

City Council Members

Ken Svoboda (Chair)

Jon Camp
Jonathan Cook
Robin Eschliman

Dan Marvin
Annette McRoy
Patte Newman

City Department Heads

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

Peggy Watchorn, City Controller

Financial Advisor

Ameritas Investment Corp.

Bond Counsel

Gilmore & Bell, P.C.

Registrar and Paying Agent

Wells Fargo Bank, National Association

Independent Auditors

BKD LLP

No broker, dealer, sales representative or other person has been authorized by the City of Lincoln, Nebraska (the “City”) or Ameritas Investment Corp. (the “Financial Advisor”), to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2005 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the City and other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Financial Advisor. The Underwriter has provided the following sentence for inclusion in this Official Statement: “The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.” The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstance, create any implication that there has been no change in the affairs of the City since the date hereof.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2005 Bonds. Statements contained in this Official Statement that involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The Underwriter intends to offer the Series 2005 Bonds initially at the offering prices set forth on the cover page of this Official Statement, which may subsequently change without any requirement of prior notice.

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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 2005 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2005 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

OFFICIAL STATEMENT

\$18,000,000
CITY OF LINCOLN, NEBRASKA
SANITARY SEWER REVENUE BONDS
SERIES 2005

INTRODUCTION

This Official Statement is provided by the City of Lincoln (the “**City**”) to furnish information about the City, its municipally owned and operated sanitary sewer collection and treatment system (the “**System**”), and its \$18,000,000 Sanitary Sewer Revenue Bonds, Series 2005 (the “**Series 2005 Bonds**”). The Series 2005 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. 18572 passed by the Council on July 18, 2005 and approved by the Mayor on July 19, 2005 (collectively, the “**Ordinance**”). The Series 2005 Bonds, together with \$51,750,000 aggregate principal amount of the City’s Sanitary Sewer Revenue and Refunding Bonds, Series 2003, dated July 31, 2003 (the “**Series 2003 Bonds**”), and all additional sanitary sewer revenue bonds or sanitary sewer revenue refunding bonds hereinafter issued by the City pursuant to the Ordinance and outstanding thereunder are payable solely from and secured by a pledge of the Net Revenues (as defined below) of the System. The City will use the proceeds of the Series 2005 Bonds, together with other legally available funds of the City (a) to pay the costs of additional improvements to the System (the “**2005 Project**”), (b) to make a deposit into the 2005 Account in the Reserve Fund established pursuant to the Ordinance, and (c) to pay the costs of issuing the Series 2005 Bonds. The Series 2005 Bonds will be secured by and payable from a first lien on the Net Revenues of the System, as defined below.

The Ordinance defines “**Net Revenues**” as Revenues less Operation and Maintenance Expenses plus Depreciation, determined in accordance with generally accepted accounting principles for proprietary governmental operations such as the System. “**Revenues**” are defined in the Ordinance as (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. “**Operation and Maintenance Expenses**” are defined in the Ordinance 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 “**Depreciation**” is defined in the Ordinance 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.

AUTHORITY

The Series 2005 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 and the Series 2005 Bonds. See “**APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Refunding Bonds**” and “**- Additional Bonds.**”

SECURITY

The Series 2003 Bonds and the Series 2005 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 full faith and credit of the City is not pledged to the payment of the Bonds.**

The Ordinance establishes a 2005 Reserve Account for the Series 2005 Bonds and requires the deposit therein of an amount equal to the Reserve Requirement for the Series 2005 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.

The foregoing and other material covenants of the City, including provisions as to rates and charges for sanitary sewage disposal and treatment provided through the System, the issuance of Additional Bonds or Refunding Bonds, annual independent audits of records, disposition of properties of the System, as contained in the Ordinance for the security of the registered owners of the Bonds, are set forth in “**APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE.**”

ESTIMATED SOURCES AND USES OF FUNDS

SOURCES OF FUNDS:

Principal Amount of Series 2005 Bonds	\$18,000,000.00
Plus: Net Original Issue Premium	<u>322,213.20</u>
TOTAL SOURCES:	<u>\$18,322,213.20</u>

USES OF FUNDS:

2005 Project Costs	16,985,287.87
2005 Account in Reserve Fund	1,229,980.83
Costs of Issuance (including Underwriters' discount)	<u>106,944.50</u>
TOTAL USES:	<u>\$18,322,213.20</u>

DEBT SERVICE REQUIREMENTS

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

<u>Year</u>	<u>Outstanding Bonds</u>		<u>Series 2005 Bonds</u>		
	<u>Annual Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service</u>	<u>Aggregate Debt Service</u>
2006	\$3,878,518.76	\$ 545,000.00	\$684,980.83	\$1,229,980.83	\$5,108,499.59
2007	3,857,918.76	460,000.00	768,562.50	1,228,562.50	5,086,481.26
2008	3,854,293.76	475,000.00	750,162.50	1,225,162.50	5,079,456.26
2009	3,854,793.76	490,000.00	731,162.50	1,221,162.50	5,075,956.26
2010	3,846,193.76	505,000.00	711,562.50	1,216,562.50	5,062,756.26
2011	3,813,193.76	525,000.00	691,362.50	1,216,362.50	5,029,556.26
2012	3,813,343.76	540,000.00	670,362.50	1,210,362.50	5,023,706.26
2013	3,801,968.76	560,000.00	643,362.50	1,203,362.50	5,005,331.26
2014	3,793,968.76	580,000.00	615,362.50	1,195,362.50	4,989,331.26
2015	3,769,468.76	605,000.00	586,362.50	1,191,362.50	4,960,831.26
2016	3,746,468.76	625,000.00	556,112.50	1,181,112.50	4,927,581.26
2017	3,724,718.76	650,000.00	531,112.50	1,191,112.50	4,905,831.26
2018	3,703,968.76	675,000.00	505,112.50	1,180,112.50	4,884,081.26
2019	3,683,968.76	700,000.00	476,425.00	1,176,425.00	4,860,393.76
2020	3,674,468.76	730,000.00	446,675.00	1,176,675.00	4,851,143.76
2021	3,664,718.76	760,000.00	415,650.00	1,175,650.00	4,840,368.76
2022	3,654,468.76	895,000.00	381,450.00	1,176,450.00	4,830,918.76
2023	3,648,468.76	830,000.00	345,675.00	1,175,675.00	4,824,143.76
2024	3,636,218.76	865,000.00	308,325.00	1,173,325.00	4,809,543.76
2025	3,638,481.26	905,000.00	271,562.50	1,176,562.50	4,815,043.76
2026	3,639,500.00	945,000.00	233,100.00	1,178,100.00	4,817,600.00
2027	3,632,250.00	990,000.00	190,575.00	1,180,575.00	4,812,825.00
2028	3,622,500.00	1,035,000.00	146,025.00	1,181,025.00	4,803,525.00
2029		1,080,000.00	99,450.00	1,179,450.00	1,179,450.00
2030		<u>1,130,000.00</u>	<u>50,850.00</u>	<u>1,180,850.00</u>	<u>1,180,850.00</u>
TOTALS:	<u>\$85,953,862.70</u>	<u>\$18,000,000.00</u>	<u>\$11,811,343.33</u>	<u>\$29,811,343.33</u>	<u>\$115,765,206.03</u>

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CITY OF LINCOLN SANITARY SEWER SYSTEM

**FIVE-YEAR STATEMENT OF HISTORICAL OPERATIONS
AND DEBT SERVICE COVERAGE**

<u>Fiscal Year Ending August 31</u>	<u>Annual Consumption in H.C.F.⁽¹⁾</u>	<u>Revenue⁽²⁾ Per H.C.F.⁽¹⁾</u>	<u>Revenue From Wastewater Charges</u>	<u>Net Operating Costs⁽³⁾</u>	<u>Net Operating Revenue</u>	<u>Debt Service Requirement</u>	<u>Debt Service Coverage</u>
2000	13,097,050	\$1.14	\$14,987,581	\$ 7,707,242	\$7,280,339	\$1,323,597	5.50
2001	13,229,340	1.13	14,945,415	8,087,688	6,857,727	1,318,777	5.20
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

⁽¹⁾H.C.F. = Hundred Cubic Feet

⁽²⁾Operating Revenue only

⁽³⁾Depreciation not included

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**

Fiscal Year Ending August 31	Annual Discharge H.C.F. ⁽¹⁾	Revenue ⁽²⁾ Per H.C.F. ⁽¹⁾	Revenues ⁽²⁾	Net Operating Costs ⁽³⁾	Net Operating Revenue	Debt Service Requirement	Debt Service Coverage
2005	13,495,249	1.33	17,738,000 ^(a)	10,150,956	7,587,044	3,903,519	1.94
2006	13,630,201	1.45	19,472,000 ^(b)	11,191,434	8,280,566	5,387,434 ^(g)	1.54
2007	13,766,504	1.58	21,327,000 ^(c)	11,359,306	9,967,694	5,777,210 ^(h)	1.73
2008	13,904,169	1.70	23,164,000 ^(d)	11,529,695	11,634,305	6,359,757 ⁽ⁱ⁾	1.83
2009	14,043,210	1.81	24,953,000 ^(e)	11,702,641	13,250,359	7,687,681 ^(j)	1.72
2010	14,183,642	1.93	26,886,000 ^(f)	11,878,180	15,007,820	8,957,552 ^(k)	1.68

⁽¹⁾ H.C.F. = Hundred Cubic Feet

⁽²⁾ Revenues are (a) total operating revenues, plus (b) interest income, plus (c) tap fees, plus (d) impact fees allocable to the System, the use of which by the City is unrestricted, 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. While impact fees allocable to the System are included in the definition of "Revenues" in the Ordinance, the imposition of impact fees have been challenged by certain parties and such impact fees have not been included in the above table. The imposition of impact fees was upheld by the Lancaster County District Court and the case is currently pending on appeal in the Nebraska Supreme Court. Historically, impact fees have constituted approximately 1% of System Revenues.

⁽³⁾ Depreciation not included.

^(a) 7.00% Average rate increase for the Fiscal Year ended 2005.

^(b) 9.00% Average rate increase proposed for the Fiscal Year ended 2006.

^(c) 9.00% Average rate increase proposed for the Fiscal Year ended 2007.

^(d) 7.00% Average rate increase proposed for the Fiscal Year ended 2008.

^(e) 7.00% Average rate increase proposed for the Fiscal Year ended 2009.

^(f) 7.00% Average rate increase proposed for the Fiscal Year ended 2010.

^(g) Increase due to \$18,000,000 bond issue in Fiscal Year ended 2005.

^(h) Increase due to estimated \$5,000,000 bond issue proposed in Fiscal Year ended 2006.

⁽ⁱ⁾ Increase due to estimated \$7,000,000 bond issue in proposed Fiscal Year ended 2007.

^(j) Increase due to estimated \$16,000,000 bond issue in proposed Fiscal Year ended 2008.

^(k) Increase due to estimated \$15,000,000 bond issue in proposed Fiscal Year ended 2009.

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 and a historical inflationary increase in operation and maintenance costs of 1½% annually. Neither Proposed rate increases for years ending 2006 through 2010 nor the proposed bond issues for the fiscal years ending 2006 through 2009 have been approved by the City Council.

SUMMARY OF PROJECT COSTS

The proceeds of the Series 2005 Bonds will be used to pay (a) a portion of the costs of Theresa Street Wastewater Treatment Plant improvements (\$2,560,000), (b) designing and constructing process capacity and grit removal facility improvements at the Northeast Wastewater Treatment Plant (\$12,000,000), and (c) designing and constructing other major trunk sewers in the Salt Creek and Stevens Creek basins (\$3,440,000). Accumulated revenues will be used to pay the remaining costs of the project in excess of the proceeds of the Series 2005 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 7.00% increase effective November 15, 2003, and a 7.00% increase effective November 15, 2004.

(a) The basic sanitary sewer use unit charge is \$1.20½.

(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, 2004)

<u>User</u>	<u>Hundred Cubic Feet</u>	<u>Revenue</u>	<u>Percentage of Total Revenue</u>
University of Nebraska	463,300	\$540,572	3.4%
State of Nebraska	214,983	252,489	1.6
Archer-Daniels Midland Co.	147,499	178,143	1.1
BryanLGH Medical Center	109,374	128,883	0.8
ConAgra Refrigerator Foods	109,087	130,965	0.8
Pfizer Animal Health	94,191	115,397	0.7
Lincoln Public Schools	93,007	117,880	0.7
Lincoln Housing Authority	90,694	125,873	0.8
Goodyear Tire & Rubber	85,199	103,179	0.6
Kawasaki	78,775	95,153	0.6

These users accounted for approximately 11% of the System's Revenues for the fiscal year ended August 31, 2004.

NUMBER OF SANITARY SEWER CUSTOMERS

Fiscal Year Ended (August 31)	Number of Customers
1999-00	66,665
2000-01	67,916
2001-02	69,292
2002-03	70,651
2003-04	72,753

GENERAL INFORMATION

The City limits cover about 82 square miles, incorporating an estimated population of 238,750 as of August 31, 2004 (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 958 miles of pipeline, 14 wastewater lift stations, 2 wastewater treatment facilities, and serves 72,753 residential, commercial, industrial, and institutional accounts.

Wastewater Collection

The existing System provides service to 13 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 25 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 250 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 1,200 industrial sanitary sewer samples;
- performing 12,600 industrial analyses;
- 3,000 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.

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 June of 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 completion and startup is scheduled for June of 2007).

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 represented by any bargaining unit, are represented by either the National Association of Governmental Employees or by the City Employees Association. In addition to Social Security, the City has a contributory retirement plan for its employees, including employees of the System. The plan is a straight money purchase plan. Employee forfeitures are used to reduce the employer's contribution. All past service costs and vested benefits are fully funded. The total retirement expense for employees of the System, including Social Security, was \$405,000 for the Fiscal Year ended August 31, 2004.

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 Age: 41 Years of Related Experience: 1 Years with City of Lincoln: 2
Margaret Remmenga	Public Works & Utilities Business Manager Age: 60 Years of Related Experience: 29 Years with City of Lincoln: 37
R. Steven Masters	Public Utilities Administrator Age: 57 Years of Related Experience: 24 Years with City of Lincoln: 26
Gary Brandt	Chief Engineer of Wastewater Collection & Treatment Age: 58 Years of Related Experience: 18 Years with City of Lincoln: 18

THE SERIES 2005 BONDS

General

The Series 2005 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, 2005, 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 (except the final interest installment) shall be payable by check or draft mailed by Wells Fargo Bank, National Association, as the bond registrar and paying agent for the Series 2005 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 2005 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 2005 Bond, and the final installment of interest thereon, shall be payable only upon the surrender of such Series 2005 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 2005 Bonds. The ownership of one fully registered Series 2005 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 2005 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 2005 Bonds may experience some delay in their receipt of distributions of the principal or redemption price of and interest on the Series 2005 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 2005 Bonds can only be effected through DTC, DTC Participants and certain banks, the ability of a Beneficial Owner to pledge Series 2005 Bonds to persons or entities that do not participate in the Book-Entry System, or otherwise to take actions in respect of such Series 2005 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 2005 Bonds maturing on or prior to June 15, 2015 are not subject to redemption prior to their stated maturities. Series 2005 Bonds maturing on or after June 15, 2016 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, 2015 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 2005 Bonds, all or a portion of which is called for redemption. Each notice of redemption shall designate the Series 2005 Bonds to which such notice

relates, the Date of Original Issue of such Series 2005 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 2005 Bonds of such maturity to be redeemed and, in the case of any Series 2005 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 2005 Bonds the redemption price thereof or such specified portion of the principal amount thereof in the case of a Series 2005 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 2005 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 2005 Bonds, the Registrar will provide the notices of Series 2005 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 2005 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 2005 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 2005 Bonds is exercised, the City shall execute and the Registrar shall deliver the Series 2005 Bonds in accordance with the Ordinance. For every such transfer or exchange of Series 2005 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 2005 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 2005 Bonds, after notice of the redemption of such Series 2005 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 2005 BONDS - Book-Entry System**” herein so long as the Series 2005 Bonds are held in book-entry format.

RATINGS

Moody’s Investors Service has assigned the Series 2005 Bonds the rating of “Aa2” and Standard & Poor’s, a division of The McGraw-Hill Companies, has assigned the Series 2005 Bonds the 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 2005 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 2005 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 2005 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 2005 Bonds in gross income for federal and Nebraska income tax purposes retroactive to the date of issuance of the Series 2005 Bonds. The Series 2005 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 2005 Bond maturing in the years 2024, 2025 and 2030 (the "**OID Bonds**"), to the extent properly allocable to each owner of such Series 2005 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 2005 Bonds maturing in the years 2005 to 2023, inclusive, and 2026 to 2028, inclusive, have an initial offering price that exceeds the stated redemption price of such Series 2005 Bond at maturity. The excess of the purchase price of a Series 2005 Bond over its stated redemption price at maturity constitutes premium on such Series 2005 Bond. A purchaser of a Series 2005 Bond must amortize any premium over such Series 2005 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 2005 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 2005 Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed.

Purchasers of any Series 2005 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 2005 Bonds.

Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Series 2005 Bonds.

Other Tax Consequences

Prospective purchasers of the Series 2005 Bonds should be aware that there may be tax consequences of purchasing the Series 2005 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 2005 Bonds, or in the case of a financial institution, that portion of such institution's interest expense allocable to interest on the Series 2005 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 2005 Bonds;
- (c) interest on the Series 2005 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 2005 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 2005 Bonds.

Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of Series 2005 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 2005 Bonds to provide certain financial information and operating data relating to the City by not later than May 1 of each year (the “**Annual Report**”), commencing with the report for the 2004-2005 fiscal year of the City and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository. Notices of material events will be filed by the City with the Municipal Securities Rulemaking Board. The proposed form of the Continuing Disclosure Certificate of the City is attached to this Official Statement as “**APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE.**” These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5) (the “**Rule**”).

A failure by the City to comply with the Continuing Disclosure Certificate will not constitute a default under the 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 2005 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2005 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 2005 Bonds or questioning or affecting the validity of the Series 2005 Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the City, nor the title of the members of the Council or other officers of the City to their respective offices is being contested or questioned.

There is no litigation pending that in any manner questions the right of the City to pass the Ordinance pursuant to which the Series 2005 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 2005 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 2005 Bonds and provided other advice. Ameritas will not participate as an underwriter in any offer to purchase the Series 2005 Bonds.

LEGAL MATTERS

All legal matters incident to the authorization and issuance of the Series 2005 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

APPENDIX A

CITY OF LINCOLN, NEBRASKA

THE CITY OF LINCOLN

General

Lincoln, the capital of Nebraska, is located in southeastern Nebraska near the center of population of the state. The City was originally incorporated in 1869. It is approximately midway between Chicago and Denver. It has an area of 79.61 square miles, and in its growth and development has annexed five other municipalities so that the City includes most of the urban area of Lancaster County. It enjoys a unique position in Nebraska as the center of the state governmental and educational activities. It is currently one of the fastest growing non-Sunbelt cities in the U.S. and one of the fastest growing metro areas in the Midwest.

Population

The 1960 population of the City was 128,521; the 1970 population was 149,510; the 1980 population was 171,932; the 1990 population was 191,972; and the 2000 population was 225,588, a 17.5 percent increase over the 1990 count. The 2000 count represents approximately 90 percent of the population of Lancaster County, the county in which the City is located. The estimated 2004 population is 238,750.

City Government

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

City government has a broad range of responsibilities, including electric, water, and sanitary sewer systems, and an impressive park and playground system of over 5,891 acres maintained for public use, eleven public swimming pools, and five public golf courses. The City has cooperated actively with the county government in several joint governmental buildings, and in other specific areas of responsibility, including health, planning, civil defense, data processing, tax collection, parks, and jail facilities. There are cooperative agreements with the United States government on parks and flood control, with the University of Nebraska on planning and property transfer, with the area Watershed District on flood control, and with the Lincoln School District on recreation.

Transportation

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

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

Railroad transportation facilities include those of Burlington Northern & Santa Fe, Union Pacific, and AMTRAK; and bus transportation is furnished by one carrier.

Government Center

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

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

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

Education

The University of Nebraska, with approximately 21,792 students, Nebraska Wesleyan University, with approximately 1,500 students, Union College with approximately 937 students, and Southeast Community College, with a number of facilities for both full-time and part-time occupational training, are in the City of Lincoln. The City's modern and progressive school system, with an enrollment of over 32,270 is served by 6 senior high schools, 11 middle schools, and 36 elementary schools. There are also 32 private and parochial schools in the City with an enrollment of approximately 6,680 students.

Building Permits and Property Values

LAST TEN YEARS

FISCAL YEAR	COMMERCIAL 1 CONSTRUCTION		RESIDENTIAL 1 CONSTRUCTION		PROPERTY VALUE 2		TOTALS
	# PERMITS	VALUE	# PERMITS	VALUE	COMMERCIAL	RESIDENTIAL	
2004	1,061	\$ 258,670,339	3,846	\$ 321,126,701	\$ 3,694,097,147	\$ 9,444,419,079	\$ 13,138,516,226
2003	1,036	269,298,229	3,913	315,666,242	3,598,787,015	8,402,403,364	12,001,190,379
2002	1,013	245,476,386	3,405	262,293,941	3,094,988,486	7,255,640,292	10,350,628,778
2001	1,017	215,856,679	3,212	231,390,626	2,855,200,333	7,048,688,380	9,903,888,713
2000	1,069	181,983,107	3,385	225,622,611	2,540,905,431	6,273,610,610	8,814,516,041
1999	1,148	186,569,754	3,235	206,065,342	2,356,367,014	6,067,493,386	8,423,860,600
1998	1,093	119,532,867	3,109	185,894,741	2,132,780,337	5,726,511,673	7,859,292,010
1997	1,107	90,599,429	3,284	191,975,903	1,986,422,642	4,863,604,491	6,850,027,133
1996	1,212	148,033,633	2,976	167,561,114	1,840,136,792	4,676,645,258	6,516,782,050
1995	1,140	110,994,400	2,739	146,598,151	1,734,716,053	4,508,422,380	6,243,138,433

¹ City of Lincoln, Building and Safety Department.

² Lancaster County Assessor.

Police and Fire Protection

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

City Employee Information

For the 2004-2005 fiscal year, contracts have been signed with all of our unions. Unions include: the Lincoln Police Union (LPU) representing police officers; the International Association of Firefighters (IAF) representing firefighters, the Amalgamated Transit Union (ATU) representing transit workers, the National Association of Government Employees (NAGE) representing labor, trades, and clerical personnel, and the City Employees Association (CEA) representing supervisory, highly technical, and professional personnel. The LPU, CEA and NAGE contracts expire at the end of August, 2005; the ATU contract expires at the end of August, 2006; and the IAF contract expires at the end of August, 2008.

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

Industrial and Business Activity

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

Currently, there are more than 200 firms representing over 120 types of manufacturing, evidence of Lincoln's diversified industrial interests. These include printing and publishing, metal fabrication firms, grain storage and feed manufacturers, planing mills, fire protection systems, pharmaceuticals, electrical and electronic goods and many others. Lincoln is the home office of 20 insurance companies, whose combined assets are over \$2 billion. The financial interests of Lincoln are served by 15 banks with over \$9 billion in total assets and 7 Savings & Loans with over \$7 billion in total assets.

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

SELECTED ECONOMIC INDICATORS

LINCOLN SMSA (LANCASTER COUNTY) NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

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

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

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

STATE OF NEBRASKA

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

Source: State of Nebraska, Department of Labor

**DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

<u>Year</u>	<u>Population 1</u>	<u>Per Capita Income 2</u>	<u>School Enrollment 3</u>
2004	238,750	\$	32,270
2003	235,565		31,889
2002	231,800	30,192	31,867
2001	225,588	29,383	31,581
2000	218,497	28,752	31,354
1999	217,537	28,493	31,052
1998	215,000	27,487	31,000
1997	209,192	24,602	30,924
1996	206,100	23,591	30,779
1995	203,076	22,446	30,693

Sources:

1 Lincoln/Lancaster Planning Department.

2 University of Nebraska Bureau of Business Research - U.S. Dept. of Commerce, Bureau of Economic Analysis. Per Capita Income for 2003 and 2004 is unavailable.

3 Lincoln Public Schools.

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

**LINCOLN UTILITY CUSTOMERS
LAST TEN YEARS**

<u>Year</u>	<u>Water Customers</u>	<u>Gas Customers</u>	<u>Electricity Customers</u>
2004	73,059	91,046	121,508
2003	72,260	89,642	119,456
2002	69,704	89,085	116,974
2001	68,187	87,749	114,388
2000	66,956	86,501	112,817
1999	65,823	85,156	110,524
1998	64,423	80,770	107,701
1997	63,905	79,490	105,970
1996	62,828	78,488	103,603
1995	61,500	77,470	101,277

Source: Indicated Utility Companies

SELECTED FINANCIAL STATISTICS

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION ¹ LAST TEN FISCAL YEARS

Fiscal Year	General Government	Public Safety	Streets And Highways	Culture And Recreation	Economic Opportunity	Health And Welfare	Mass ² Transit	Debt Service	Totals
2004	\$ 30,884,544	55,272,920	13,633,902	22,298,283	14,728,510	17,068,105	10,525,090	7,914,521	172,325,875
2003	28,938,852	50,933,285	12,317,663	19,918,793	16,469,645	15,706,918	7,996,019	8,507,223	160,788,398
2002	27,237,134	49,913,169	10,833,055	16,974,798	14,017,601	15,513,515	12,691,837	7,411,878	154,592,987
2001	23,821,580	48,122,074	11,175,059	14,806,760	12,559,336	14,232,879	-	7,742,690	132,460,378
2000	23,529,495	44,042,882	9,039,840	13,958,414	11,204,029	12,589,907	-	7,924,295	122,288,862
1999	21,891,174	41,555,922	9,406,531	13,254,994	10,215,261	11,226,029	-	6,937,983	114,487,894
1998	30,170,768	41,140,827	8,992,439	13,111,328	12,009,990	10,979,131	-	7,317,239	123,721,722
1997	17,791,275	35,073,010	10,348,129	12,655,548	8,581,741	9,491,687	-	7,807,532	101,748,922
1996	21,642,981	35,208,168	8,204,830	12,475,318	8,638,263	8,874,148	-	7,468,367	102,512,075
1995	19,324,778	32,268,654	7,707,436	11,546,106	9,027,752	7,838,386	-	7,161,326	94,874,438

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

² StarTran added as a Special Revenue Fund in 2002.

GENERAL REVENUES BY SOURCE ¹ LAST TEN FISCAL YEARS

Fiscal Year	Taxes And Special Assessment	Inter-Governmental	Permits And Fees	Reimbursement For Services	Investment Earnings	Other	Totals
2004	\$ 107,138,062	58,198,328	15,593,326	6,322,870	2,092,341	8,812,613	198,157,540
2003	100,343,159	52,362,560	12,679,623	6,097,336	1,464,594	7,411,164	180,358,436
2002 ²	98,375,135	58,762,476	12,449,879	5,605,557	2,018,695	10,548,354	187,760,096
2001	89,503,325	48,369,359	9,638,476	3,685,621	4,072,585	9,668,449	164,937,815
2000	86,831,572	35,469,904	9,838,028	3,360,901	3,955,026	9,228,060	148,683,491
1999	82,998,188	34,847,767	8,690,565	306,506	3,328,425	8,894,527	139,065,978
1998	79,200,331	40,261,744	8,040,655	2,603,350	3,525,748	10,363,736	143,995,564
1997	78,164,628	26,909,591	7,903,461	3,841,495	3,203,760	8,414,170	128,437,105
1996	75,624,598	27,398,828	7,587,645	3,012,387	2,891,696	9,518,249	126,033,403
1995	71,429,314	24,447,377	6,325,774	3,211,819	2,636,591	9,503,980	117,554,855

¹ Includes General, Special Revenue and Debt Service Funds.

² StarTran added as a Special Revenue Fund in 2002.

**SPECIAL ASSESSMENT COLLECTIONS
LAST TEN YEARS ¹**

Fiscal Year Ended <u>August 31</u>	Special Assessment Collections <u>Including Interest</u>
2004	\$ 2,104,925
2003	1,814,191
2002	1,867,653
2001	1,796,924
2000	1,948,791
1999	2,359,812
1998	2,104,022
1997	2,390,085
1996	2,484,416
1995	2,337,275

¹ Special assessment collections are not tracked by levy year, therefore the portion of collections during any year which apply to any particular levy cannot be determined.

Authority to Levy Taxes

Article IX, Section 3 of the Home Rule Charter of the City provides that the City shall have power to levy a tax each year for general revenue purposes upon all property subject to taxation; provided that the maximum amount of taxes that can be levied by the City in any one year for general revenue purposes shall not exceed an amount known as the City tax limit. The City tax limit is a tax ceiling established by using the September 1, 1966 City dollar tax limit as an initial tax limit, and increasing that tax limit each year following 1966 by 7% so that in each fiscal year thereafter, the amount of the City tax limit shall be the amount of the city tax limit for the previous year, plus 7% thereof. In addition, the City also has the power to levy taxes each year sufficient to pay any judgment existing against the City and the interest on bonded debt and the principal on any bonded debt maturing during the fiscal year or within six months thereafter, as well as taxes authorized by state law. The City is also authorized to receive all taxes collected and distributed pursuant to state law and in lieu of tax payments imposed by law. The 2004 tax levy for the 2004-2005 fiscal year is \$56,077,695 below the legal limit, a tax rate per \$100 valuation of .29498. The assessed value upon which the 2004 levy is based is \$13,138,516,226. Only 90% of the property tax levy may be appropriated, by charter.

For the 2004-2005 fiscal year the City is subject to a state imposed lid on the appropriation of "restricted funds", which are revenues received from property tax, sales tax, state aid, in-lieu of tax, municipal infrastructure redevelopment fund (MIRF), and highway allocation fees. Bonded indebtedness, capital improvements, and costs associated with interlocal agreements are exempt from the lid. For 2004-2005 the City can also use authority equal to the amount of real growth in the tax base of 3.1%. An additional 1% can be authorized by a 75% vote of the City Council but was not utilized for the 2004-2005 budget. The 2004-2005 budget is approximately \$12.0 million below the state imposed lid limit.

**PROPERTY TAX LEVIED AND COLLECTED
LAST TEN YEARS**

The fiscal year of the City begins September 1 and ends August 31. Taxes are levied in October. First installments of real estate taxes are delinquent the following April 1, second installments delinquent August 1; personal property taxes are delinquent April 1 and August 1. Delinquent taxes bear 14 percent interest. The figures below include interest and penalties.

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

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

TEN LARGEST TAXPAYERS

Listed below are the ten largest taxpayers in the City of Lincoln as reported by the County Assessor. These taxpayers each pay less than five percent of the total taxes levied.

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

CITY SALES TAX INFORMATION

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

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

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

**GENERAL FUND TAX COLLECTIONS
LAST TEN YEARS**

<u>Fiscal</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>
2004	\$ 24,546,532	51,869,477		9,263	1,144,747	9,037,781	86,607,800
2003	22,780,085	48,657,268		10,876	1,199,507	8,831,712	81,479,448
2002	23,353,414	45,393,491		8,403	1,163,468	9,097,442	79,016,218
2001	20,284,364	44,486,127		8,497	1,107,183	5,889,097	71,775,268
2000	19,487,198	43,608,313		8,522	1,043,287	5,651,371	69,798,691
1999	20,741,154	41,642,771		17,516	1,080,495	5,721,321	69,203,257
1998	18,953,860	37,479,413	889,226	8,647	944,612	4,743,649	63,019,407
1997	19,642,898	36,549,194	921,550	14,903	960,260	4,783,841	62,872,646
1996	19,407,255	33,543,308	984,537	15,438	978,909	4,437,038	59,366,485
1995	19,565,473	31,420,946	958,656	20,132	943,930	5,311,487	58,220,624

**TAXABLE ASSESSED VALUATION
LAST TEN YEARS ¹**

Tax Year	Real Estate	All Other	Motor Vehicle	Total
2004	\$ 12,421,799,720	716,716,506	-	13,138,516,226
2003	12,001,190,379	742,915,013	-	12,744,105,392
2002	10,350,628,778	779,959,389	-	11,130,588,167
2001	9,903,888,713	820,797,124	-	10,724,685,837
2000	8,814,516,041	806,431,814	-	9,620,947,855
1999	8,423,860,600	716,780,457	-	9,140,641,057
1998	7,859,292,010	660,609,204	-	8,519,901,214
1997	6,850,027,133	637,669,384	-	7,487,696,517
1996	6,516,782,050	525,762,951	706,470,078	7,749,015,079
1995	6,243,138,433	442,913,618	639,647,617	7,325,699,668

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

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

	Tax Year									
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
City Of Lincoln	0.2950	0.2903	0.3145	0.3145	0.3239	0.3239	0.3239	0.3581	0.3837	0.3996
School District No. 1	1.3141	1.3041	1.2830	1.2732	1.3684	1.3813	1.3050	1.6308	1.6260	1.5946
Lancaster County	0.2797	0.2683	0.2683	0.2583	0.2643	0.2584	0.2782	0.2966	0.3106	0.3169
Educational Service Unit #18	0.0150	0.0150	0.0150	0.0150	0.0150	0.0150	0.0149	0.0089	0.0081	0.0082
Community Technical College	0.0655	0.0655	0.0655	0.0636	0.0295	0.0334	0.0696	0.0782	0.0840	0.0864
Lower Platte South Natural Res. Dist.	0.0323	0.0323	0.0359	0.0365	0.0367	0.0372	0.0389	0.0365	0.0346	0.0346
Railroad Transportation Safety Dist.	0.0260	0.0248	0.0220	0.0221	0.0260	0.0260	0.0260	0.0260	0.0091	0.0096
Agricultural Society Of Lancaster County	0.0020	0.0030	0.0012	0.0024	0.0073	0.0032	0.0013	0.0364	0.0364	0.0014
Lancaster County Fairgrounds	0.0042	0.0043	0.0050	0.0052	-	-	-	-	-	-
Public Building Commission	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0169	0.0170
	<u>2.0508</u>	<u>2.0246</u>	<u>2.0274</u>	<u>2.0078</u>	<u>2.0881</u>	<u>2.0954</u>	<u>2.0748</u>	<u>2.4885</u>	<u>2.5094</u>	<u>2.4683</u>

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

DEBT MANAGEMENT
OUTSTANDING INDEBTEDNESS AS OF AUGUST 31, 2004
Long-term debt is comprised of the following individual issues (in thousands of dollars):

Original Amount	Issued	Issue	Interest Rate	When Due	Date Callable	Interest Date	Outstanding
General Obligation Bonds:							
General Bonds:							
8,250	08/15/97	Storm Sewer and Drainage	4.500 - 5.125	Ser. '99 to '17	2005	Semiannually	\$ 6,735
14,435	03/01/99	Various Purpose Series A	3.000 - 4.600	Ser. '00 to '14	2009	"	10,555
7,365	03/01/99	Various Purpose Series A	4.750	Term '15 to '19	2009	"	7,365
8,220	03/01/99	Various Purpose Series B	3.000 - 4.250	Ser. '99 to '11	2007	"	4,530
7,500	05/29/02	Storm Sewer and Drainage	3.000 - 5.000	Ser. '04 to '22	2010	"	7,500
15,595	06/24/03	Various Purpose	3.000 - 3.750	Ser. '04 to '17	2013	"	14,255
3,710	06/24/03	Various Purpose	4.000 - 4.125	Term '18 to '23	2013	"	3,710
35,000	03/03/04	Highway Allocation Fund	2.000 - 5.000	Term '07 to '23	2014	"	35,000
Total General Bonds							<u>\$ 89,650</u>
Municipal Infrastructure Redevelopment Bonds:							
3,200	06/13/00	Municipal Infrastructure Redevelopment	4.750 - 5.100	Ser. '01 to '09	2005	Semiannually	\$ 2,090
Tax Allocation Bonds:							
1,310	11/15/92	Tax Allocation Bonds	3.250 - 6.200	Ser. '93 to '06	1997	Semiannually	\$ 225
105	11/15/92	Tax Allocation Bonds	6.350	Term '93 to '06	1997	"	35
90	11/15/92	Tax Allocation Bonds	6.300	Term '93 to '05	1997	"	25
303	10/18/94	Tax Allocation Bonds	8.000	Term '95 to '05	Anytime	"	59
232	04/21/00	Tax Allocation Bonds	6.390	Ser. '00 to '10	2000	"	156
42	06/01/03	Tax Allocation Bonds	4.060	Ser. '04 to '11	Anytime	"	40
1,035	04/06/04	Tax Allocation Bonds	2.000 - 3.200	Ser. '04 to '11	2008	"	1,035
5,500	04/07/04	Tax Allocation Bonds	3.000 - 4.800	Ser. '04 to '15	2010	"	5,500
Total Tax Allocation Bonds							<u>\$ 7,075</u>
Total General, MIRF, And Tax Allocation Bonds							<u>\$ 98,815</u>
Special Assessment Bonds:							
3,860	11/15/89	Special Assessment Revolving	5.900 - 6.850	Ser. '90 to '04	1996	Semiannually	\$ 100
TOTAL GENERAL OBLIGATION BONDS							<u>\$ 98,915</u>
Tax-Supported Revenue Bonds:							
11,080	2/27/02	Antelope Valley Project	1.500 - 5.000	Ser. '02 to '16	2012	Semiannually	\$ 10,255
Revenue Bonds:							
11,850	11/22/02	Water Revenue	2.750 - 5.000	Ser. '05 to '17	2012	Semiannually	\$ 11,850
6,660	11/22/02	Water Revenue	5.000	Term '18 to '22	2012	"	6,660
32,180		Water Revenue	5.000	Ser. '04 to '12	-	"	29,065
Total Water Bonds							<u>\$ 47,575</u>
15,765	08/01/03	Wastewater Revenue	2.000 - 5.000	Ser. '04 to '23	2013	Semiannually	\$ 14,015
39,235	08/01/03	Wastewater Revenue	4.625 - 5.000	Ser. '04 to '28	2013	Semiannually	39,235
							<u>\$ 53,250</u>
6,815	09/08/99	Parking Revenue Series A	4.000 - 5.000	Ser. '00 to '09	2009	Semiannually	\$ 5,055
6,695	09/08/99	Parking Revenue Series A	5.375	Term '10 to '14	2009	"	6,695
6,000	12/05/01	Parking Revenue	3.750 - 5.125	Ser. '02 to '21	2011	"	5,290
Total Parking Bonds							<u>\$ 17,040</u>
3,165	10/23/01	Golf Course Revenue Refunding	2.300 - 4.050	Ser. '02 to '11	2008	Semiannually	\$ 2,290
45,560	02/15/98	Electric Revenue Bonds '98 Series A	4.500 - 5.000	Ser. '98 to '18	2008	"	36,555
141,150	08/15/01	Electric Revenue Bonds '01	4.000 - 5.250	Ser. '06 to '20	2011	"	141,150
148,190	10/01/02	Electric Revenue Bonds '02	4.000 - 5.000	Ser. '04 to '25	2012	"	148,190
93,045	10/01/03	Electric Revenue Bonds '03	3.000 - 5.000	Ser. '04 to '26	2014	"	93,045
33,265	10/01/03	Electric Revenue Bonds '03	4.750	Term '28	2014	"	33,265
Total Electric Bonds							<u>\$ 452,205</u>
TOTAL REVENUE BONDS							<u>\$ 572,360</u>

The annual requirements to pay principal and interest on all outstanding debt are as follows (in thousands of dollars):

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

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

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

Net assets of \$6,910,648, \$3,187,150, \$5,233,865, and \$7,344,884 are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, Tax Allocation Bonds, and Special Assessment Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

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

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

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

Established by City Ordinance, LES may borrow up to \$125 million under a commercial paper note program. At December 31, 2003, LES had \$90.2 million of tax exempt commercial paper notes outstanding. The notes mature at various dates but not more than 270 days after the date of issuance. The weighted-average interest rate for the year ended December 31, 2003, was 1.1 percent. The annual requirement to pay interest on this outstanding debt is approximately \$992,000. The outstanding commercial paper notes are secured by a revolving credit agreement which provides for borrowings up to \$125 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement LES refinances the commercial paper upon maturity.

The general obligation debt of all local governmental units which provide services within the City's boundaries and which debt must be borne by properties in the City (commonly called overlapping debt) as of August 31, 2004, is summarized below (unaudited):

Units	Net Debt Outstanding	Percentage Applicable To The City	Direct And Overlapping Debt To The City
Direct:			
City	\$ 78,406,000	100.0 %	\$ 78,406,000
Overlapping:			
School District #1	110,610,000	97.2	107,513,000
Airport Authority	5,358,000	100.0	5,358,000
Lancaster County	11,481,000	84.6	9,713,000
Public Building Commission	37,815,000	84.6	31,991,000
Southeast Community College	None	35.9	None
	<u>165,264,000</u>		<u>154,575,000</u>
Total	\$ <u>243,670,000</u>		\$ <u>232,981,000</u>

The City has no direct liability for the School District, Airport Authority, Lancaster County, or Southeast Community College debt summarized above. This results in a per capita direct City debt of \$328.40; a per capita direct and overlapping debt of \$975.84; a ratio of direct City debt to 2004 actual valuation of .60 percent; and a ratio of direct and overlapping debt to 2004 actual valuation of 1.77 percent.

Debt Payment Record

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

Contingencies

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

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES LAST TEN FISCAL YEARS ²

Fiscal Year	Principal	Interest ³	Total Debt Service	Total General Governmental Expenditures ^{1,4}	Ratio Of Debt Service To Total General Expenditures
2004	\$ 4,934,224	\$ 2,893,437	\$ 7,827,661	\$ 172,325,875	4.54 %
2003	5,435,370	2,986,634	8,422,004	160,788,398	5.24
2002	4,921,172	2,421,303	7,342,475	154,592,987	4.75
2001	4,966,405	2,753,247	7,719,652	132,460,378	5.83
2000	5,125,296	2,772,021	7,897,317	122,288,862	6.46
1999	4,209,267	2,301,745	6,511,012	114,487,894	5.69
1998	4,927,317	2,329,696	7,257,013	123,721,722	5.87
1997	5,469,089	2,274,947	7,744,036	101,748,922	7.61
1996	4,959,621	2,445,185	7,404,806	102,512,075	7.22
1995	4,827,845	2,086,601	6,914,446	94,874,438	7.29

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

² In-substance defeasance excluded from this table.

³ Does not include fiscal and miscellaneous charges.

⁴ StarTran added as Special Revenue Fund in 2002.

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

Fiscal Year	General Obligation Bonded Debt	Sinking Funds	Net General Obligation Bonded Debt	Population ¹	Net G.O. Bonded Debt Per Capita	Assessed Valuation Real And Personal ²	Ratio Of Net Debt To Assessed Valuation Real & Personal	Assessed Valuation Of Taxable Real Property ²	Ratio Of Net Debt To Estimated Valuation Of Taxable Real Property
2004	\$ 98,915,000	\$ 20,509,000	\$ 78,406,000	238,750	\$ 328.40	\$ 13,138,516,226	0.60 %	\$ 12,421,799,720	0.63 %
2003	61,759,000	17,083,000	44,676,000	235,565	189.65	12,744,105,392	0.35	12,001,190,379	0.37
2002	56,997,000	15,847,000	41,150,000	231,800	177.52	11,130,588,167	0.37	10,350,628,778	0.40
2001	54,418,000	11,243,000	43,175,000	225,588	191.39	10,724,685,837	0.40	9,903,888,713	0.44
2000	58,814,000	9,739,000	49,075,000	218,497	224.60	9,620,947,855	0.51	8,814,516,041	0.56
1999	60,508,000	12,182,000	48,326,000	217,537	222.15	9,140,641,057	0.53	8,423,860,600	0.57
1998	40,492,000	17,707,000	22,785,000	215,000	105.98	8,519,901,214	0.27	7,859,292,010	0.29
1997	47,665,000	16,121,000	31,544,000	209,192	150.79	7,487,696,517	0.42	6,850,027,133	0.46
1996	44,885,000	14,529,594	30,355,406	206,100	147.28	7,749,015,079	0.39	6,516,782,050	0.47
1995	49,573,000	13,486,759	36,086,241	203,076	177.70	7,325,699,668	0.49	6,243,138,433	0.58

1 Source: Lincoln/Lancaster Planning Department.

2 Assessed valuation is 100% of actual.

**REVENUE BOND COVERAGE
LAST TEN FISCAL YEAR**

	Gross Revenue	Direct Operating Expenses	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
<u>Wastewater System</u>							
2004	\$ 19,071,798	10,042,919	9,028,879	2,832,500	2,348,176	5,180,676	1.74
2003	15,785,843	9,086,469	6,699,374	1,032,500	266,722	1,299,222	5.16
2002	15,731,749	8,632,287	7,099,462	992,500	316,847	1,309,347	5.42
2001	16,663,975	8,087,688	8,576,287	952,500	364,972	1,317,472	6.51
2000	16,741,692	7,707,242	9,034,450	912,500	411,097	1,323,597	6.83
1999	16,286,632	7,591,990	8,694,642	1,255,000	474,743	1,729,743	5.03
1998	15,873,036	7,512,753	8,360,283	1,217,500	554,216	1,771,716	4.72
1997	15,521,150	7,339,135	8,182,015	1,120,000	627,402	1,747,402	4.68
1996	15,158,461	7,082,660	8,075,801	1,070,000	677,886	1,747,886	4.62
1995	14,978,232	6,785,101	8,193,131	1,020,000	728,840	1,748,840	4.68
<u>Water System</u>							
2004	\$ 22,940,862	12,477,486	10,463,376	6,270,000	4,236,493	10,506,493	1.00
2003	21,533,965	11,631,496	9,902,469	3,010,000	2,898,489	5,908,489	1.68
2002	22,687,789	11,474,433	11,213,356	2,880,000	2,110,590	4,990,590	2.25
2001	22,287,139	10,960,315	11,326,824	2,755,000	2,240,075	4,995,075	2.27
2000	23,823,957	9,812,147	14,011,810	2,640,000	2,361,515	5,001,515	2.80
1999	20,787,797	9,067,262	11,720,535	2,530,000	2,514,373	5,044,373	2.32
1998	21,009,615	8,894,295	12,115,320	2,435,000	2,621,365	5,056,365	2.40
1997	20,426,318	8,161,529	12,264,789	2,345,000	2,730,407	5,075,407	2.42
1996	20,152,071	8,072,097	12,079,974	2,265,000	2,829,751	5,094,751	2.37
1995	20,467,243	7,622,280	12,844,963	2,195,000	2,963,950	5,158,950	2.49
<u>Parking Facilities</u> ^{1, 2}							
2004	\$ 6,271,131	2,733,492	3,537,639	1,145,000	908,456	2,053,456	1.72
2003	5,988,240	2,304,632	3,683,608	1,085,000	962,829	2,047,829	1.80
2002	5,483,546	1,964,389	3,519,157	1,115,000	924,470	2,039,470	1.73
2001	5,172,264	2,127,350	3,044,914	795,000	787,419	1,582,419	1.92
2000	4,853,708	1,393,637	3,460,071	455,000	761,521	1,216,521	2.84
1999	4,209,988	2,329,165	1,880,823	585,000	640,712	1,225,712	1.53
1998	4,068,991	1,340,709	2,728,282	455,000	651,694	1,106,694	2.47
1997	3,623,705	1,110,085	2,513,620	435,000	670,847	1,105,847	2.27
1996	3,411,735	1,271,655	2,140,080	415,000	908,380	1,323,380	1.62
1995	3,205,953	1,025,468	2,180,485	400,000	483,214	883,214	2.47

1 Includes parking meter revenues that were deposited to the General Fund but are pledged per bond ordinance.

2 Information in this table does not agree with information in the transmittal letter of the City's CAFR because that information is calculated in accordance with specific requirements of the bond covenants.

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

	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>
Cash & Investment Balance - September 1 of Year Indicated	13,711,860	17,986,481	20,599,597	26,542,206	22,742,585	25,069,133	26,814,745	24,802,768	26,589,993	26,784,845
Receipts:										
Property Tax	19,566,778	19,400,997	19,642,898	18,953,860	20,741,154	19,487,198	20,284,364	23,353,414	22,780,085	24,546,532
City Sales & Use Tax	31,420,946	33,543,308	36,549,194	37,479,413	41,642,771	43,608,313	44,486,127	45,393,492	48,657,268	51,869,477
Other Income	<u>19,455,828</u>	<u>20,709,728</u>	<u>18,708,672</u>	<u>19,373,404</u>	<u>19,991,222</u>	<u>21,339,093</u>	<u>21,786,016</u>	<u>26,342,414</u>	<u>24,933,838</u>	<u>23,615,320</u>
Total Receipts	<u>70,443,552</u>	<u>73,654,033</u>	<u>74,900,764</u>	<u>75,806,677</u>	<u>82,375,147</u>	<u>84,434,604</u>	<u>86,556,507</u>	<u>95,089,320</u>	<u>96,371,191</u>	<u>100,031,329</u>
Less Disbursements	<u>66,168,931</u>	<u>71,040,917</u>	<u>68,958,155</u>	<u>79,606,298</u>	<u>80,048,599</u>	<u>82,688,992</u>	<u>88,568,484</u>	<u>93,302,095</u>	<u>96,176,339</u>	<u>103,295,044</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>17,986,481</u>	<u>20,599,597</u>	<u>26,542,206</u>	<u>22,742,585</u>	<u>25,069,133</u>	<u>26,814,745</u>	<u>24,802,768</u>	<u>26,589,993</u>	<u>26,784,845</u>	<u>23,521,130</u>

CITY OF LINCOLN, NEBRASKA
 GENERAL BONDED INDEBTEDNESS AND DEBT SERVICE FUND
 SUMMARY CASH FLOW STATEMENT - CASH BASIS
 FOR LAST TEN FISCAL YEARS

	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>
Cash Balance - September 1 of Year Indicated	3,006,570	3,705,634	3,748,493	4,000,777	3,682,098	3,536,402	3,313,405	3,099,198	3,440,537	2,935,997
Receipts:										
Property Tax	4,435,594	4,325,012	4,350,593	4,461,628	4,475,066	5,843,384	5,814,489	6,340,938	5,883,592	5,387,468
Interest Income	67,073	151,746	166,270	236,658	145,534	174,146	107,693	53,873	32,298	48,595
Bond Proceeds					189,482				9,436,083	
Other Income	<u>147,490</u>	<u>216,570</u>	<u>656,811</u>	<u>116,996</u>	<u>54,475</u>	<u>247,591</u>	<u>235,736</u>	<u>232,009</u>	<u>240,110</u>	<u>691,340</u>
Total Receipts	<u>4,650,157</u>	<u>4,693,328</u>	<u>5,173,674</u>	<u>4,815,282</u>	<u>4,864,557</u>	<u>6,265,121</u>	<u>6,157,918</u>	<u>6,626,820</u>	<u>15,592,083</u>	<u>6,127,403</u>
Disbursements:										
Bonds Paid	2,809,007	2,801,208	3,158,769	3,304,097	2,725,042	3,973,769	4,052,948	4,137,254	4,177,765	3,215,000
Bonds Defeased									9,609,774	
Interest Paid	1,482,193	1,835,496	1,756,656	1,817,400	1,955,821	2,500,471	2,308,922	2,144,322	2,309,084	2,271,548
Transfer to Trustee					164,400					
Other Disbursements	<u>13,281</u>	<u>13,765</u>	<u>5,965</u>	<u>12,464</u>	<u>164,990</u>	<u>13,878</u>	<u>10,255</u>	<u>3,903</u>		<u>6,293</u>
Total Disbursements	<u>4,304,481</u>	<u>4,650,469</u>	<u>4,921,390</u>	<u>5,133,961</u>	<u>5,010,253</u>	<u>6,488,118</u>	<u>6,372,125</u>	<u>6,285,481</u>	<u>16,096,623</u>	<u>5,492,843</u>
Equity Transfer	<u>353,388</u>									
Cash Balance - August 31 of Year Indicated	<u>3,705,634</u>	<u>3,748,493</u>	<u>4,000,777</u>	<u>3,682,098</u>	<u>3,536,402</u>	<u>3,313,405</u>	<u>3,099,198</u>	<u>3,440,537</u>	<u>2,935,997</u>	<u>3,570,557</u>

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

	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>
Cash & Investment Balance - September 1 of Year Indicated	6,746,441	6,053,742	4,855,959	5,150,392	5,357,118	5,003,362	4,964,458	3,778,207	6,586,633	6,910,967
Receipts:										
Special Assessment Collections	1,883,342	2,080,536	1,972,082	1,818,743	1,992,503	1,638,233	1,529,352	1,360,347	1,271,575	1,654,695
Interest on Special Assessments	453,933	403,880	418,003	285,279	367,309	310,558	257,157	294,839	346,725	267,298
City's Share of Costs	1,608,296	203,943	161,620		2,038,202	895,961	2,516,175	2,145,574	97,107	116,009
Developers' Share of Costs		14,163	40,508	685,754	75,572		473,445	4,617		
Bond Proceeds										
Interest on Investments	259,639	312,003	253,112	341,381	241,768	286,460	219,536	157,143	130,555	140,289
Miscellaneous	67,011	583	4,134		244,724	993,245	144,005	474,438	195,535	288,482
Total Receipts	<u>4,272,221</u>	<u>3,015,108</u>	<u>2,849,459</u>	<u>3,131,357</u>	<u>4,960,078</u>	<u>4,124,457</u>	<u>5,139,670</u>	<u>4,416,958</u>	<u>2,041,497</u>	<u>2,466,773</u>
Disbursements:										
Construction Costs	3,018,759	2,408,261	703,170	1,637,987	2,333,433	2,338,999	3,646,025	1,090,434	1,560,456	1,399,323
Bonds Paid	1,105,000	1,170,000	1,115,000	1,105,000	785,000	770,000	270,000	110,000	105,000	105,000
SID Warrants										
Interest Paid on Bonds & Notes	342,607	285,745	225,544	167,055	110,155	67,293	39,438	24,762	17,534	10,420
Other Refunds & Expenses	498,554	348,886	511,312	14,589	2,085,246	987,069	2,370,458	383,336	34,173	32,495
Total Disbursements	<u>4,964,920</u>	<u>4,212,892</u>	<u>2,555,026</u>	<u>2,924,631</u>	<u>5,313,834</u>	<u>4,163,361</u>	<u>6,325,921</u>	<u>1,608,532</u>	<u>1,717,163</u>	<u>1,547,238</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>6,053,742</u>	<u>4,855,959</u>	<u>5,150,392</u>	<u>5,357,118</u>	<u>5,003,362</u>	<u>4,964,458</u>	<u>3,778,207</u>	<u>6,586,633</u>	<u>6,910,967</u>	<u>7,830,502</u>

APPENDIX B

FINANCIAL STATEMENTS

ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS/UTILITIES

CITY OFFICIALS

Coleen J. Seng Mayor

COUNCIL MEMBERS

Terry Werner Chair

Ken Svoboda Vice-Chair

Jonathan Cook

Glenn Friendt

Annette McRoy

Patte Newman

Jon Camp

WASTEWATER SYSTEM

Allan Abbott Director of Public Works/Utilities

Lincoln Wastewater System

August 31, 2004 and 2003

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

The Honorable Mayor and 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, 2004 and 2003, 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 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, 2004 and 2003, 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, 2004 and 2003, and its changes in financial position and its 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.

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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, 2004

LINCOLN WASTEWATER SYSTEM
Management's Discussion and Analysis

This Management's Discussion and Analysis of the Lincoln Wastewater System's financial performance provides an overview of the financial activities for the years ended August 31, 2004, and 2003. 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 \$8,111,951 (5.27%) in 2004 over 2003 as show 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, 2004, 2003, and 2002.

Table 1
Condensed Balance Sheets

	August 31		Variance	
	2004 Actual	2003 Actual	Dollars	Percent
Current Assets	\$ 14,571,808	\$ 12,760,441	\$ 1,811,367	14.20%
Capital Assets	160,554,482	135,583,172	24,971,310	18.42%
Long-term Investments	48,347,362	65,480,398	(17,133,036)	-26.17%
Deferred Charges	594,824	489,754	105,070	21.45%
Total Assets	\$224,068,476	\$214,313,765	\$9,757,711	4.55%
Current Liabilities	8,292,584	5,003,182	3,209,402	63.14%
Long-term Liabilities	53,793,301	55,359,943	(1,566,642)	-2.83%
Total Liabilities	62,085,885	60,443,125	1,642,760	2.72%
Net Assets				
Invested in Capital Assets, Net of Related Debt	\$137,800,614	\$131,308,334	6,492,270	4.94%
Restricted for Construction	0	13,806,528	(13,806,528)	-100.00%
Restricted for Debt Service	531,526	204,516	327,010	159.89%
Unrestricted	23,650,451	8,551,252	15,099,199	176.57%
Total Net Assets	161,982,591	153,870,640	8,111,951	5.27%
Total Liabilities and Net Assets	\$224,068,476	\$214,313,765	\$9,754,711	4.55%

Financial Highlights

- Total assets at year-end were \$224,068,476 and exceeded total liabilities by \$161,982,591, which results in an improved positive net assets position.
- Current assets increased by \$1,811,367 (14.20%) 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 \$24,971,310 (18.42%) due to major project additions as detailed below.
- Long-term investments decreased by \$17,133,036 (-26.17%) because of construction projects.
- Deferred charges of unamortized bond issue costs increased in the amount of \$105,070 (21.45%) occurred because of the issuance of a \$55,000,000 sanitary sewer bond in July of 2003.

- There was a \$3,209,402 (63.14%) increase in current liabilities primarily because the number of construction projects the City had under construction for the sanitary sewer area has increased substantially over the amount of contracts issued for the previous fiscal year.
- Long-term liabilities decreased by \$1,566,642 (-2.83%) from that of the previous fiscal year because of payment of a year's debt service requirement on the revenue bonds issued in July of 2003.
- The investment in capital assets increased by \$24,971,310 from \$135,583,172 as of the end of the Fiscal Year 2003 to \$160,554,482 as of the end of Fiscal Year 2004. Major project additions included:
 - Theresa Street Treatment Plant – approximately \$10,704,000
 - Northeast Treatment Plant – approximately \$2,385,000
 - Trunk Sewer Improvements – approximately \$7,184,000

Table 2

Condensed Balance Sheets

	August 31		Variance	
	2003 Actual	2002 Actual	Dollars	Percent
Current Assets	\$ 12,760,441	\$ 10,049,075	(\$ 3,888,634)	-23.36%
Capital Assets	135,583,172	121,461,896	14,121,276	11.63%
Long-term Investments	65,480,398	17,241,404	48,238,994	279.79%
Deferred Charges	489,754	0	489,754	100.00%
Total Assets	\$214,313,765	\$155,352,375	\$58,961,390	37.95%
Current Liabilities	5,083,182	3,598,178	1,485,004	41.27%
Long-term Liabilities	55,359,943	4,649,797	50,710,146	1090.59%
Total Liabilities	60,443,125	8,247,975	52,195,150	632.82%
Net Assets				
Invested in Capital Assets,				
Net of Related Debt	\$131,308,344	\$115,869,330	\$15,439,014	13.32%
Restricted for Construction	13,806,528	14,717,085	(910,557)	-6.19%
Restricted for Debt Service	204,516	1,719,318	(1,514,802)	-88.10%
Unrestricted	8,551,252	14,798,667	(6,247,415)	-42.22%
Total Net Assets	153,870,640	147,104,400	6,766,240	4.60%
Total Liabilities and Net Assets	\$214,313,765	\$155,352,375	\$58,961,390	37.95%

Financial Highlights

- Total assets at year-end were \$214,313,765 and exceeded total liabilities by \$153,870,640, which results in an improved positive net assets position.
- Current assets decreased by \$3,888,634 (-23.36%) reflecting additional contractor activity during these 12 months.
- Capital assets increased by \$14,121,276 (11.63%) due to major project additions as detailed below.

- Long-term investments increased by \$48,238,994 (279.79%) because of the issuance of new sanitary sewer revenue bonds issued in July of 2003 in the amount of \$55,000,000.
- Deferred charges of unamortized bond issue costs in the amount of \$489,754 (100.00%) occurred because of the issuance of a \$55,000,000 sanitary sewer bond in July of 2003.
- There was a \$1,485,004 (41.27%) increase in current liabilities primarily because the number of construction projects the City had under construction for the sanitary sewer area has increased substantially over the amount of contracts issued for the previous fiscal year.
- Long-term liabilities increased by \$50,710,146 (1,090.59%) over that of the previous fiscal year because of the issuance of new sanitary sewer revenue bonds in July of 2003 in the amount of \$55,000,000.
- The investment in capital assets increased by \$14,121,276 from \$121,461,896 as of the end of the Fiscal Year 2002 to \$135,583,172 as of the end of Fiscal Year 2003. Major project additions included:
 - Theresa Street Aeration Improvement – East Side – \$4,542,288
 - Northeast Treatment Plant Solids Screen - Digester Modifications – \$1,829,762
 - Salt Creek Relief Sewer – \$1,131,121
 - Theresa Street Treatment Plant Grit Removal Basin – \$1,250,485
 - Northeast Treatment Plant Disinfection Improvements \$1,047,733

Table 3

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

	August 31		Variance	
	2004 Actual	2003 Actual	Dollars	Percent
Operating Revenue				
Wastewater Revenue	\$16,011,984	\$14,691,905	\$1,320,079	8.99%
Total Operating Revenue	16,011,984	14,691,905	1,320,079	8.99%
Operating Expenses				
Plant, Pumping and Treatment Operation and Maintenance of Wastewater Line	7,894,787	7,109,536	785,251	11.05%
Sanitary Engineering Services	3,442,827	3,152,825	290,002	9.20%
Accounting and Collecting	1,606,076	1,424,734	181,342	12.73%
Administrative and General	542,441	533,260	9,181	1.72%
Total Operating Expenses	988,115	984,795	3,320	0.34%
Total Operating Expenses	14,474,246	13,205,150	1,269,096	9.61%
Operating Income	1,537,738	1,486,755	50,983	3.43%
Net Nonoperating Revenues (Expenses)	2,072,640	1,093,938	978,702	89.47%
Capital Contributions	4,501,573	4,185,547	316,026	7.55%
Change in Net Assets	\$8,111,951	\$6,766,240	\$1,345,711	19.89%

Financial Highlights

- Operating revenues increased \$1,320,079 (8.99%) compared to 2003. This increase was primarily due to an increase of 7.00% user fees implemented with the billings starting in February 2004. 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 eleven-month period. Non-residential customers are billed for sanitary sewer based on their monthly water usage.
- Operating expenses increased \$1,269,096 (9.61%) compared to 2003, due to plant, pumping and treatment; operating and maintenance of wastewater lines, and sanitary engineering services expenses being higher. There was a 7.83% increase in Theresa Street Treatment Plant costs mostly attributed to an increase of solids processing costs and maintenance of structures. There was a 23.34% increase in Northeast Treatment Plant costs mostly attributed to solids processing costs and maintenance of structures and process equipment.

Table 4

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

	August 31		Variance	
	2003 Actual	2002 Actual	Dollars	Percent
Operating Revenue				
Wastewater Revenue	\$14,691,905	\$15,026,486	(\$334,581)	-2.23%
Total Operating Revenue	14,691,905	15,026,486	(334,581)	-2.23%
Operating Expenses				
Plant, Pumping and Treatment	7,109,536	6,864,874	244,662	3.56%
Operation and Maintenance of Wastewater Line	3,152,825	3,035,272	117,553	3.87%
Sanitary Engineering Services	1,424,734	1,390,516	34,218	2.46%
Accounting and Collecting	533,260	517,943	15,317	2.96%
Administrative and General	984,795	851,245	133,550	15.69%
Total Operating Expenses	13,205,150	12,659,850	545,300	4.31%
Operating Income	1,486,755	2,366,636	(879,881)	-37.18%
Net Nonoperating Revenues (Expenses)	1,093,938	705,263	388,675	55.11%
Capital Contributions	4,185,547	2,036,060	2,149,487	105.57%
Change in Net Assets	\$6,766,240	\$5,107,959	\$1,658,281	32.46%

Financial Highlights

- Operating revenues decreased \$334,581 (-2.23%) compared to 2002. This decrease was primarily due to a reduction in water sales because the weather conditions during the Fall of 2002 and the Spring and Summer of 2003 were less dry than during the same time period of 2001 and 2002. Total water pumpage for 2003 was 13,694,785,000 gallons; 938,430,000 gallons less than the water pumpage for 2002. 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 eleven-month period. Non-residential customers are billed for sanitary sewer based on their monthly water usage; therefore, their sanitary sewer bills would decrease during wet weather conditions, if they use less water.

- Operating expenses increased \$545,300 (4.31%) compared to 2002, due to plant, pumping and treatment; operating and maintenance of wastewater lines, sanitary engineering services; accounting and collecting, and administrative and general expenses being higher. There was an approximate 8.70% increase in the operating expenses at Theresa Treatment Plant which occurred because of a significant increase in chlorine expenses due to demolition of the gaseous chlorine system and the temporary use of liquid sodium hypochlorite as a disinfectant. There was construction activity this year at the Northeast Treatment Plant which resulted in a higher volume of solids and wastewater having to be treated at the Theresa Street Plant. This diversion of wastewater and biosolids to the Theresa Street Plant caused an increase in electricity costs, an increase in odor control chemicals, and an increase in contractual services to haul biosolids. The construction had a large impact on the water and sewer use bills of the treatment plants due to the temporary shutdown of the non-potable water system and lack of foam control. An increase in natural gas and electricity rates also occurred during this past year. There was an increase in data processing costs because of the implementation of credit card bill payments and because of new technology implemented in tracking and recording taps made to the Sanitary Sewer System.

Debt Activity

In July 2003, the Lincoln Wastewater System issued \$55,000,000 in revenue bonds to pay off \$4,560,066 of outstanding 5% debt, resulting in an economic gain of \$329,680. The revenue bonds also provided a total of approximately \$48,000,000 of additional funds 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 Aaaa (MBIA Insured) and Aa2 (Underlying).

Commitments and Contingencies

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

Lincoln Wastewater System has commitments to fund Lincoln Water System's purchase of automated meter reading system equipment. Under the agreement, Lincoln Wastewater System will fund approximately \$400,000 per year for an additional three years. The maximum remaining commitment is approximately \$1,200,000 at August 31, 2004.

Forward-Looking Information

The approved Capital Improvement Program for Fiscal Year 2004-2010 identifies the need for \$115,996,000 to fund capital improvements for the Wastewater System. Approximately \$94,374,000 of that total is projected to be funded by revenue bonds, of which approximately \$8,400,000 is part of the July 2003 bond issue. 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 2004 and 2003. 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 10th Street, Lincoln, NE 68508.

LINCOLN WASTEWATER SYSTEM

Balance Sheets

August 31, 2004 and 2003

Assets	2004	2003
Current assets:		
Equity in pooled cash and investments	\$ 10,553,449	\$ 9,992,780
Receivables:		
Accounts receivable	1,952,321	1,427,707
Unbilled revenues	1,621,092	1,257,384
Impact fees	337,721	0
Total receivables	3,911,134	2,685,091
Inventories	107,225	82,570
Total current assets	14,571,808	12,760,441
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and investments	43,082,919	56,149,291
Investments	5,264,443	9,331,107
Total restricted assets	48,347,362	65,480,398
Utility plant	222,892,355	193,533,946
Less accumulated depreciation	62,337,873	57,950,774
Net utility plant	160,554,482	135,583,172
Unamortized bond issue costs	594,824	489,754
Total noncurrent assets	209,496,668	201,553,324
Total assets	\$ 224,068,476	\$ 214,313,765
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 479,632	\$ 216,926
Accrued liabilities	410,726	348,251
Deposits liability	14,250	6,250
Accrued compensated absences	255,736	229,902
Construction contracts	5,130,202	2,327,335
Current maturities of long-term debt	1,500,000	1,750,000
Accrued interest	502,038	204,516
Total current liabilities	8,292,584	5,083,182
Long-term liabilities:		
Long-term debt, excluding current maturities	53,678,302	55,258,928
Accrued compensated absences	114,999	101,015
Total long-term liabilities	53,793,301	55,359,943
Total liabilities	62,085,885	60,443,125
Net assets:		
Invested in capital assets, net of related debt	137,800,614	131,308,344
Restricted for construction	0	13,806,528
Restricted for debt service	531,526	204,516
Unrestricted	23,650,451	8,551,252
Total net assets	161,982,591	153,870,640
Total liabilities and net assets	\$ 224,068,476	\$ 214,313,765

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets

Years ended August 31, 2004 and 2003

	2004	2003
Operating revenues	\$ 16,011,984	\$ 14,691,905
Operating expenses:		
Plant, pumping and treatment	7,894,787	7,109,536
Operation and maintenance of wastewater lines	3,442,827	3,152,825
Sanitary engineering services	1,606,076	1,424,734
Accounting and collecting	542,441	533,260
Administrative and general	988,115	984,795
Total operating expenses	14,474,246	13,205,150
Operating income	1,537,738	1,486,755
Nonoperating revenues (expenses):		
Investment income	1,742,914	915,838
Interest expense	(963,572)	0
Amortization of bond costs	(23,602)	0
Federal grant revenue	1,316,900	178,100
Net nonoperating revenues (expenses)	2,072,640	1,093,938
Increase in net assets before contributions	3,610,378	2,580,693
Capital contributions from:		
Developers	4,163,852	4,185,547
Impact fees	337,721	0
Total capital contributions	4,501,573	4,185,547
Increase in net assets	8,111,951	6,766,240
Total net assets - beginning	153,870,640	147,104,400
Total net assets - ending	\$ 161,982,591	\$ 153,870,640

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2004 and 2003

	2004	2003
Operating activities:		
Receipts from customers and users	\$ 14,785,941	\$ 14,733,184
Payments to suppliers	(5,887,745)	(5,275,927)
Payments to employees	(5,830,645)	(5,295,804)
Net cash provided by operating activities	3,061,551	4,161,453
Noncapital financing activity:		
Federal grant revenue	1,316,900	178,100
Net cash provided by noncapital financing activity	1,316,900	178,100
Capital and related financing activities:		
Acquisition and construction of capital assets	(19,956,558)	(11,740,470)
Proceeds from sale of capital assets	0	13,395
Proceeds from sale of long-term debt	0	56,519,174
Principal paid on long-term debt	(1,750,000)	(5,592,566)
Interest paid on revenue bonds and project loan	(987,174)	0
Net cash provided by (used in) capital and related financing activities	(22,693,732)	30,109,633
Investing activities:		
Purchases of investments	(45,983,519)	(77,604,325)
Proceeds from investment maturities	63,245,476	40,831,487
Interest on investments	1,613,993	966,930
Net cash provided by (used in) investing activities	18,875,950	(35,805,908)
Net increase (decrease) in cash and cash equivalents	560,669	7,733,178
Cash and cash equivalents at beginning of year	9,992,780	2,259,602
Cash and cash equivalents at end of year	\$ 10,553,449	\$ 9,992,780
Reconciliation of net operating revenues to net cash provided by operating activities:		
Operating income	\$ 1,537,738	\$ 1,486,755
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,131,327	4,118,681
Changes in assets and liabilities:		
Accounts receivable	(1,226,043)	86,740
Inventories	(24,655)	17,827
Accounts payable and construction contracts	367,997	(1,566,631)
Accrued liabilities and deposit liability	(2,064,631)	(10,865)
Accrued compensated absences	39,818	28,946
Total adjustments	1,523,813	2,674,698
Net cash provided by operating activities	\$ 3,061,551	\$ 4,161,453

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$4,163,852 and \$4,185,547 were added to utility plant in 2004 and 2003, respectively.

Accounts payable incurred for utility plant purchases were \$4,059,638 and \$2,327,335 in 2004 and 2003, respectively.

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2004 and 2003

(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 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, 2004 and 2003, 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, 2004 and 2003

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

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.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2004 and 2003

(Continued)

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

The premium received in connection with the bond issuance is being amortized over the life of the 2003 Series Bonds using the interest method. The unamortized balance is \$1,928,302 and \$2,008,928 as of August 31, 2004 and 2003, respectively (See Note 4).

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 \$1.035 per one hundred cubic feet of water until November 15, 2003, when the rate was adjusted to \$1.12 per one hundred cubic feet of water. On that date the service charge rates were also adjusted from \$2.00 per month per dwelling unit to \$1.31 per month for a single-family dwelling unit and \$0.78 for a multi-family dwelling unit.

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, 2004 and 2003

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 34 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, 2004 and 2003 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, 2004	\$330,917	269,720	229,902	370,735	255,736
August 31, 2003	301,970	241,186	212,239	330,917	229,902

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 and liabilities 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.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2004 and 2003

Reclassification

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 financial statement presentation. These reclassifications had no effect on change in net assets.

(2) Deposits, Investments, and Investment Return

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 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 insured by collateral held by the pledging institution in other than the City's name. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

The carrying amount of deposits and investment securities by type at August 31, 2004 and 2003 are:

	<u>2004</u>	<u>2003</u>
Equity in pooled cash and investments	\$ 53,636,368	\$ 66,142,071
Investments held directly by the Wastewater System		
U.S. Government agencies	3,876,201	3,931,914
U.S. Government securities	<u>1,388,242</u>	<u>5,399,193</u>
Total investment securities held directly	<u>5,264,443</u>	<u>9,331,107</u>
	<u>\$ 58,900,811</u>	<u>\$ 75,473,178</u>

The System's investments are categorized to give an indication of the level of custodial credit risk assumed. Category 1 includes investments that are insured or registered, or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the System's name. The U.S. government and agency securities listed above are Category 3 investments. The System's equity in pooled cash and investments is not classified by custodial credit risk category as it is not evidenced by securities that exist in physical or book entry form.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2004 and 2003

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

Deposits and investments included in the balance sheets are classified as follows:

	<u>2004</u>	<u>2003</u>
Current assets		
Equity in pooled cash and investments	\$10,553,449	\$ 9,992,780
Noncurrent assets		
Restricted assets		
Equity in pooled cash and investments	\$43,082,919	\$56,149,291
Investments	<u>5,264,443</u>	<u>9,331,107</u>
	<u>48,347,362</u>	<u>65,480,398</u>
	<u>\$58,900,811</u>	<u>\$75,473,178</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2004 and 2003

(3) Utility Plant:

Utility plant is summarized by major classification at August 31, 2004 as follows:

Asset Class	Capital Assets			Accumulated Depreciation			Net Capital Assets	
	August 31, 2003	Increases	Decreases	August 31, 2003	Increases	Decreases	August 31, 2004	August 31, 2004
Structures and improvements	\$ 37,600,319	11,988,365	-	(16,820,989)	(1,149,608)	-	(17,970,597)	31,618,087
Line equipment	26,677	-	-	(21,011)	(1,220)	-	(22,231)	4,446
Treatment equipment	16,407,367	4,623,587	-	(6,013,189)	(1,201,875)	-	(7,215,064)	13,815,890
Transmission mains	102,039,039	4,389,364	-	(28,963,114)	(1,589,934)	-	(30,553,048)	75,885,365
Environmental equipment	231,103	43,736	-	(93,919)	(39,751)	-	(133,670)	191,169
Office furniture and equipment	1,281,084	10,229	-	(1,029,524)	(29,789)	-	(1,059,293)	232,020
Shop equipment	803,726	-	-	(622,997)	(23,952)	-	(646,949)	156,777
Communications system	533,430	-	-	(539,423)	(5,747)	-	(545,170)	8,260
Laboratory equipment	1,220,961	36,005	-	(1,072,847)	(53,170)	-	(1,126,017)	130,949
Injection system	843,723	-	-	(472,799)	(13,363)	-	(486,162)	357,561
Pond and liner	520,428	-	-	(332,349)	(14,468)	-	(346,817)	173,611
Sludge injection equipment	339,637	-	-	(318,179)	(4,391)	-	(322,570)	17,067
Transmission/work equipment	247,198	-	-	(152,669)	(4,726)	-	(157,395)	89,803
Meters	2,410,591	400,000	-	(393,974)	(140,530)	-	(534,504)	2,276,087
Vehicles	2,087,811	194,847	(58,365)	(1,103,791)	(158,823)	44,228	(1,218,386)	1,005,907
Total depreciable assets	166,663,094	2,696,133	(58,365)	(57,950,774)	(4,431,327)	44,228	(62,337,873)	125,962,989
Land	2,280,164	-	-	-	-	-	-	2,280,164
Construction in progress	24,590,688	24,723,917	(17,003,276)	-	-	-	-	32,311,329
Total nondepreciable assets	26,870,852	24,723,917	(17,003,276)	-	-	-	-	34,591,493
Total capital assets	\$ 193,533,946	46,420,050	(17,061,641)	(57,950,774)	(4,431,327)	44,228	(62,337,873)	160,554,482

During 2004, Lincoln Wastewater System incurred \$2,350,601 of interest cost. Interest capitalized into construction in progress during 2004 was \$963,572. 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 2.35% in 2004.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2004 and 2003

(3) Utility Plant

Utility plant is summarized by major classification at August 31, 2003 as follows:

Asset Class	Capital Assets		Accumulated Depreciation		Net Capital Assets	
	August 31, 2002	Increases Decreases August 31, 2003	August 31, 2002	Increases Decreases August 31, 2003	August 31, 2002	August 31, 2003
Structures and improvements	\$ 36,948,285	652,034	(15,820,738)	(1,000,251)	(16,820,989)	20,779,330
Line equipment	26,677	-	(19,390)	(1,621)	(21,011)	5,666
Treatment equipment	16,407,367	-	(4,927,761)	(1,085,428)	(6,013,189)	10,394,178
Transmission mains	55,746,389	6,292,650	(27,431,161)	(1,531,953)	(28,963,114)	73,075,925
Environmental equipment	84,137	196,966	(64,930)	(28,988)	(93,919)	187,184
Office furniture and equipment	1,281,084	-	(988,203)	(41,321)	(1,029,524)	251,560
Shop equipment	803,726	-	(597,801)	(25,186)	(622,987)	180,729
Communications system	553,430	-	(505,635)	(33,786)	(539,423)	14,007
Laboratory equipment	1,194,626	26,335	(1,014,528)	(58,319)	(1,072,847)	148,114
Injection system	843,723	-	(456,046)	(16,763)	(472,799)	370,924
Pond and liner	520,428	-	(317,862)	(14,467)	(332,349)	188,079
Sludge injection equipment	339,637	-	(313,105)	(5,074)	(318,179)	21,458
Transmission/work equipment	247,198	-	(147,943)	(4,726)	(152,669)	94,529
Meters	2,010,591	400,000	(273,444)	(120,530)	(393,974)	2,016,617
Vehicles	2,060,691	130,470	(1,043,481)	(150,265)	(89,955)	984,020
Total depreciable assets	159,067,989	7,698,455	(53,922,048)	(4,118,681)	(57,950,774)	108,712,320
Land	2,138,362	141,802	-	-	-	2,280,164
Construction in progress	14,177,593	13,389,134	(2,976,039)	(24,590,688)	-	24,590,688
Total nondepreciable assets	16,315,955	13,530,936	(2,976,039)	(26,870,852)	-	26,870,852
Total capital assets	\$ 175,383,944	21,229,391	(53,922,048)	(4,118,681)	(57,950,774)	135,583,172

During 2003, Lincoln Wastewater System incurred \$435,730 of interest cost. Interest capitalized into construction in progress during 2003 was \$435,730. 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 2.47% in 2003.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2004 and 2003

(4) Long-term Debt

Long-term debt of Lincoln Wastewater System at August 31, 2004 and 2003 is summarized below:

Type of Debt	August 31, 2003	Additions	Reductions	August 31, 2004	Due Within One Year
2.0%-5.0% Wastewater Revenue & Refunding Bonds, Series 2003, due in annual principal installments on June 15, increasing from \$1,500,000 in 2005 to the final payments of \$3,450,000 in 2028, callable at par on June 15, 2013.	\$55,000,000	-	1,750,000	53,250,000	1,500,000
Unamortized premium on bonds	<u>2,008,928</u>	<u>-</u>	<u>80,626</u>	<u>1,928,302</u>	<u>-</u>
	<u>\$57,008,928</u>	<u>-</u>	<u>\$1,830,626</u>	<u>\$55,178,302</u>	<u>\$1,500,000</u>

Type of Debt	August 31, 2002	Additions	Reductions	August 31, 2003	Due Within One Year
5% Project loan fully paid in August 2003.	\$5,592,566	-	5,592,566	-	-
2.0%-5.0% Wastewater Revenue & Refunding Bonds, Series 2003, due in annual principal installments on June 15, increasing from \$1,750,000 in 2004 to the final payments of \$3,450,000 in 2028, callable at par on June 15, 2013.	-	55,000,000	-	55,000,000	1,750,000
Unamortized premium on bonds	<u>-</u>	<u>2,008,928</u>	<u>-</u>	<u>2,008,928</u>	<u>-</u>
	<u>\$5,592,566</u>	<u>\$57,008,928</u>	<u>\$5,592,566</u>	<u>\$57,008,928</u>	<u>\$1,750,000</u>

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

In connection with this bond issue the System is required, among other things, to maintain certain financial conditions and the System's ability to issue new debt is restricted.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2004 and 2003

(4) Long-term Debt, (continued)

Maturities and sinking fund requirements on long-term debt at August 31, 2004, are shown below.

Years ending August 31	Principal	Interest	Total
2005	1,500,000	2,404,824	3,904,824
2006	1,520,000	2,358,519	3,878,519
2007	1,545,000	2,312,919	3,857,919
2008	1,580,000	2,274,294	3,854,294
2009	1,620,000	2,234,794	3,854,794
2010-2014	8,855,000	10,213,669	19,068,669
2015-2019	10,600,000	8,028,594	18,628,594
2020-2024	13,135,000	5,143,343	18,278,343
2025-2028	12,895,000	1,637,731	14,532,731
Total	\$53,250,000	36,608,687	89,858,687

(5) Commitments and Contingencies

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

Lincoln Wastewater System has commitments to fund Lincoln Water System's purchase of automated meter reading system equipment. Under the agreement, Lincoln Wastewater System will fund approximately \$400,000 per year for an additional four years. The maximum remaining commitment is approximately \$1,200,000 at August 31, 2004.

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

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2004 and 2003

(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 approximates its carrying value.
- *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, 2004 and 2003.

The City billed the Wastewater System approximately \$281,000 and \$274,000 for administrative services during 2004 and 2003, respectively.

The Wastewater System owed the City's Street Fund approximately \$72,000 as of August 31, 2004 for projects constructed, and is included in accounts payable on the balance sheet.

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 \$337,721 as of August 31, 2004.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2004 and 2003

(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 \$335,000 and \$307,000 in 2004 and 2003, 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 forty. An employee may voluntarily enter the plan upon attaining age 21 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 \$405,000 and \$398,000 for 2004 and 2003, respectively. Contributions made by the plan members were approximately \$265,000 and \$182,000 for 2004 and 2003, respectively.

LINCOLN WASTEWATER SYSTEM

Summary of Long-Term Debt

August 31, 2004

Schedule 1

Due years ending August 31	Series 1977		Series 2003		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ -	1,305	1,500,000	2,403,519	1,500,000	2,404,824
2006	-	-	1,520,000	2,358,519	1,520,000	2,358,519
2007	-	-	1,545,000	2,312,919	1,545,000	2,312,919
2008	-	-	1,580,000	2,274,294	1,580,000	2,274,294
2009	-	-	1,620,000	2,234,794	1,620,000	2,234,794
2010-2014	-	-	8,855,000	10,213,669	8,855,000	10,213,669
2015-2019	-	-	10,600,000	8,028,594	10,600,000	8,028,594
2020-2024	-	-	13,135,000	5,143,343	13,135,000	5,143,343
2025-2028	-	-	12,895,000	1,637,731	12,895,000	1,637,731
	\$ -	1,305	53,250,000	36,607,382	53,250,000	36,608,687
						89,858,687

Lincoln Wastewater System.

Schedule 2

Operating Expenses

Years ended August 31, 2004 and 2003

	2004	2003
Plant, pumping and treatment:		
Theresa Street Treatment Plant:		
Supervision, management and administrative support	\$ 283,008	271,057
Administrative and support staff	44,660	40,035
Training and education	37,943	47,888
Data management	135,691	136,741
General operations	622,103	578,458
Treatment and process control	633,707	715,637
Solids processing	1,159,821	904,639
Structures maintenance	193,713	145,478
Process equipment maintenance	445,832	452,764
Control system maintenance	127,291	116,706
Electrical maintenance	32,746	45,621
Grounds maintenance	58,944	71,055
Depreciation of structure and improvement	776,119	692,255
Depreciation of treatment equipment	1,113,709	1,045,406
Depreciation of meters	140,530	120,530
Depreciation of office/communications equipment	1,651	1,651
Total Theresa Street Treatment Plant	5,807,468	5,385,521
Northeast Treatment Plant:		
Supervision, management and administrative support	\$ 92,563	94,011
Administrative and support staff	12,852	16,182
Training and education	17,200	23,092
Data management	57,204	51,222
General operations	304,772	265,847
Treatment and process control	156,144	144,424
Solids processing	289,689	143,521
Structures maintenance	78,497	65,336
Process equipment maintenance	160,392	133,236
Control system maintenance	39,369	49,403
Electrical maintenance	18,068	10,277
Grounds maintenance	107,246	98,577
Depreciation of structures and improvements	384,687	324,078
Depreciation of treatment system	49,012	0
Depreciation of injection system	36,948	41,020
Depreciation of shop and laboratory equipment	14,051	14,051
Depreciation of office/communications equipment	1,409	1,409
Total Northeast Treatment Plant	1,820,103	1,475,686

LINCOLN WASTEWATER SYSTEM

Schedule 2, Cont.

Operating Expenses, Continued

	2004	2003
Liftstations:		
General operations	32,059	26,796
Structures maintenance	8,566	11,078
Process equipment maintenance	87,655	72,956
Control system maintenance	23,143	23,252
Electrical maintenance	6,681	5,891
Grounds maintenance	3,094	1,048
Depreciation of liftstations	106,018	107,308
Total liftstations	267,216	248,329
Total plant, pumping and treatment	\$ 7,894,787	7,109,536
Operation and maintenance of wastewater lines:		
Supervision, management and administrative support	\$ 181,422	168,937
Administrative and support staff	26,503	27,942
Training and education	32,408	22,157
Data management	123,169	100,374
General operations	312,673	264,630
Structures maintenance	1,475	9,819
Main repair/maintenance	271,587	260,561
Manhole repair/rehabilitation	53,077	52,914
Customer service	257,787	224,695
Cleaning maintenance	500,153	462,073
Field operations	190,076	130,383
Depreciation of shop & lab equipment	5,093	5,093
Depreciation of transmission mains	1,487,404	1,423,247
Total operation and maintenance of wastewater lines	\$ 3,442,827	3,152,825
Sanitary engineering services:		
Supervision and management	\$ 314,695	265,219
Administrative and support staff	36,362	33,683
Training and education	8,329	13,383
Data management	238,177	196,814
Laboratory operations	586,878	526,568
Field operations	342,449	328,784
Depreciation of shop and laboratory equipment	79,186	60,283
Total sanitary engineering services	\$ 1,606,076	1,424,734

LINCOLN WASTEWATER SYSTEM

Schedule 2

Operating Expenses, Continued

	2004	2003
Accounting and collecting:		
Supervision and management	\$ 153,598	159,342
Administrative and support staff	1,665	1,511
Meter reading	142,155	142,889
Billing and accounting	115,909	119,812
Collections	82,615	69,004
Customer services and billing	24,973	21,202
Customer contracts and orders	21,526	19,520
Total accounting and collecting	\$ 542,441	533,260
Administrative and general:		
Supervision and management	\$ 808,785	782,994
Administrative and support staff	69,750	34,551
Delivery service	32,893	35,166
Depreciation of shop and lab equipment	42,365	56,976
Depreciation of office and communication equipment	34,322	75,108
Total administrative and general	\$ 988,115	984,795

LINCOLN WASTEWATER SYSTEM

Schedule 3

Utility Plant in Service

August 31, 2004

Asset Class	Capital Assets		Accumulated Depreciation		Net Capital Assets	
	August 31, 2003	Increases Decreases 2004	August 31, 2003	Increases Decreases 2004	August 31, 2004	August 31, 2004
Theresa Street Plant:						
Structures and Improvements	\$ 26,927,758	6,321,224	(10,173,606)	(780,433)	(10,954,039)	22,294,943
Line equipment	26,677	-	(21,011)	(1,220)	(22,231)	4,446
Treatment equipment	15,172,317	2,702,898	(5,697,436)	(1,066,051)	(6,763,487)	11,111,728
Transmission mains	101,577,338	4,399,364	(28,847,327)	(1,570,018)	(30,417,345)	75,559,357
Environmental equipment	281,103	43,736	(93,919)	(39,751)	(133,670)	191,169
Office furniture and equipment	1,248,991	10,229	(988,920)	(28,879)	(1,027,789)	231,421
Shop equipment	514,677	-	(464,787)	(14,047)	(478,834)	35,843
Communications system	553,430	-	(539,423)	(5,747)	(545,170)	8,260
Laboratory equipment	1,194,293	36,005	(1,046,176)	(53,170)	(1,099,349)	190,949
Meters	2,410,591	400,000	(393,974)	(140,530)	(534,504)	2,276,087
Theresa Street depreciable assets	149,807,175	13,973,456	(48,276,582)	(3,699,846)	(51,976,428)	111,844,203
Land	225,789	-	-	-	-	225,789
Theresa Street nondepreciable assets	225,789	-	-	-	-	225,789
Total Theresa Street Plant	150,132,964	13,973,456	(48,276,582)	(3,699,846)	(51,976,428)	112,069,992
Northeast Plant:						
Structures and Improvements	10,672,561	5,667,141	(6,647,383)	(369,175)	(7,016,558)	9,323,144
Treatment equipment	1,235,050	1,920,689	(315,753)	(135,824)	(451,577)	2,704,162
Office furniture and equipment	32,093	-	(30,604)	(890)	(31,494)	599
Shop and work equipment	289,049	-	(168,210)	(9,905)	(168,115)	120,934
Laboratory equipment	26,668	-	(26,668)	-	(26,668)	-
Injection system	843,723	-	(472,789)	(13,363)	(486,162)	357,561
Pond and liner	520,428	-	(332,348)	(14,468)	(346,817)	173,611
Sludge injection equipment	339,637	-	(318,179)	(4,391)	(322,570)	17,067
Transmission mains	461,701	-	(115,787)	(19,916)	(135,703)	325,998
Transmission/work equipment	247,198	-	(152,669)	(4,726)	(157,395)	89,803
Northeast depreciable assets	14,666,108	7,587,830	(8,570,401)	(572,658)	(9,143,059)	13,112,879
Land	2,054,375	-	-	-	-	2,054,375
Northeast nondepreciable assets	2,054,375	-	-	-	-	2,054,375
Total Northeast Plant	16,722,483	7,587,830	(8,570,401)	(572,658)	(9,143,059)	15,167,254
Vehicles and work equipment (all locations)	2,087,811	194,847	(1,103,791)	(158,823)	(44,228)	1,005,907
Utility plant in service	\$ 168,943,258	21,696,133	(57,950,774)	(4,431,327)	(62,387,873)	128,243,153

LINCOLN WASTEWATER SYSTEM

GENERAL STATISTICS

Year Ended August 31, 2004

(Unaudited)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	81.72 Square Miles
Population	238,750 Estimate
Total Miles of Wastewater Mains & Collector Lines In Use:	
Miles in use September 1, 2003	909.4
Estimated Added During Year	25.2
Estimated Removed During Year	0.1
Total as of August 31, 2004	934.5 Miles
Number of Wastewater Lift (Pumping) Stations:	14
Number of Stormwater Pumping Stations:	4
Plant Capacity:	
Theresa Street Treatment Plant	28.0 million gallons per day
Northeast Treatment Plant	8.0 million gallons per day
Average Daily Flow:	
Theresa Street Treatment Plant	19.0 million gallons per day
Northeast Treatment Plant	6.50 million gallons per day
Total Number of Active Wastewater Customers	
End of Fiscal Year	72,753
Debt of Lincoln Wastewater System as of August 31, 2004	\$53,250,000

LINCOLN WASTEWATER SYSTEM**TOP TEN CUSTOMERS****Year Ended August 31, 2004**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	463,300	\$540,572
2. State of Nebraska	214,983	252,489
3. Archer-Daniels Midland Company	147,499	178,143
4. Bryan LGH Medical Center	109,374	128,883
5. ConAgra Refrigerator Foods	109,087	130,965
6. Pfizer Animal Health	94,191	115,397
7. Lincoln Public Schools	93,007	117,880
8. Lincoln Housing Authority	90,694	125,873
9. Goodyear Tire & Rubber	85,199	103,179
10. Kawaski	78,775	95,153
Top Ten User Totals	1,486,109	\$1,788,534



03R-210

RESOLUTION NO. A- 82277

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

4 NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Lincoln,
5 Nebraska:

6 Effective with the billing cycle commencing on November 15, 2003, the following schedule
7 of wastewater use charges is hereby established and adopted:

8 BASIC WASTEWATER USE CHARGE

9 (a) The basic wastewater use unit charge is hereby established as 112 cents.

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

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

19 (c) For any non-residential property, the basic wastewater use charge for a given billing
20 cycle shall be determined by multiplying for each cycle the amount of water or wastewater, in

1 hundreds of cubic feet, measured for said property during such cycle, by the basic wastewater use
 2 unit charge.

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

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

10 SERVICE CHARGE

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

14	WATER METER SIZE	SERVICE CHARGE
15	5/8 inch	\$ 1.31
16	3/4 inch	1.31
17	1 inch	1.31
18	1-1/2 inch	2.62
19	2 inch	5.24
20	3 inch	11.79
21	4 inch	20.96
22	6 inch	47.17
23	8 inch	83.85
24	10 inch	131.02

25 The minimum service charge for a multiple dwelling unit or a mobile home shall be at least
 26 \$0.78 per dwelling unit or mobile home hookup space per month. In those instances where fire
 27 protection considerations dictate that a water meter larger than 1-inch service a single-family
 28 dwelling unit located on a single lot, the monthly service charge shall be \$1.31 per dwelling unit.

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WASTEWATER RATES TO CUSTOMERS OUTSIDE
THE CITY LIMITS

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

BE IT FURTHER RESOLVED that Resolution No. A-81411, adopted by the City
Council on March 25, 2002, is hereby superseded.

See further Council Proceedings
on next page.

Introduced by:

Alvin A. Freundt
AYES: Camp, Friendt, McRoy,
Svoboda; NAYS: Cook, Newman,
Werner.

Approved as to Form & Legality:

Dana W. Papp
City Attorney

Approved:

Alta Abbott
Director of Public Works/Utilities

Approved this 20th day of Aug., 2003:
Colleen J. Seung
Mayor

ADOPTED
AUG 18 2003
BY CITY COUNCIL

03R-210.

Schedule 6 (Cont.)

8/11/03 Council Proceedings:

COOK Moved to delay action for one week to 8/18/03
 Seconded by Friendt & carried by the following vote: AYES: Camp, Cook,
 Friendt, McRoy, Newman, Werner; NAYS: Svoboda.

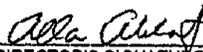
<h1 style="margin: 0;">CITY OF LINCOLN</h1> <p style="margin: 0;">Request for: <input type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution</p>	(Do Not Write In this Space)
	Bill Control No. <i>03 R-210</i> Date: <i>7/18</i>
	Docketing Date <i>7/28; PH: 8-403</i>
	(To Be Entered by City Clerk)

DATE July 18, 2003	REQUEST MADE BY Allan Abbott	DEPARTMENT Public Works/Utilities
DESIRED DOCKET DATE: <i>7-28; PH 8-4-03</i>		IF EMERGENCY, GIVE REASON (See Art. 6, Sec. 2 of Charter)
Emergency Measure Required: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		

REASONS OR JUSTIFICATION FOR PROPOSED LEGISLATION

To establish a new schedule for wastewater use charges to increase revenues for the Lincoln Wastewater System for purposes of covering the costs of the Capital Improvements Program for F.Y. 2003-04 through F.Y. 2008-09 and to allow the issuance of additional revenue bonds for the same purpose.

FILED
CITY CLERK'S OFFICE
'03 JUL 18 AM 11 26
CITY OF LINCOLN
NEBRASKA

REQUESTOR <input type="checkbox"/> DOES <input checked="" type="checkbox"/> DOES NOT	WISH TO REVIEW AND APPROVE THIS ORDINANCE PRIOR TO ITS INTRODUCTION	 <i>7/18/03</i> DIRECTOR'S SIGNATURE DATE	
TO BE USED BY THE FINANCE DEPARTMENT			
BUDGET REVIEW	DATE:	ACCOUNT NUMBER AND APPROPRIATE BALANCES	DATE:
		FUND AVAILABILITY APPROVED	
		DATE:	
		DIRECTOR OF FINANCE SIGNATURE	
DISTRIBUTION Return two (2) copies to City Clerk for Docket Number			

City Council Introduction: July 28, 2003

Bill Number 03R-210

Public Hearing: August 4, 2003

FACT SHEET

TITLE: Proposed Resolution to increase Wastewater Use Charges

SPONSOR: Public Works/Utilities

OPPONENTS: Unknown

OTHER DEPARTMENTS AFFECTED:

STAFF RECOMMENDATION: For

APPLICANT: Public Works/Utilities

REASON FOR LEGISLATION: To establish a new schedule for wastewater use charges to increase revenues for the Lincoln Wastewater System for purposes of covering the costs of the Capital Improvements Program for F.Y. 2003-04 through F.Y. 2008-09 and to allow the issuance of additional revenue bonds for the same purpose.

DISCUSSION

The Public Works/Utilities Department recommends that the current schedule of wastewater use charges be increased as follows:

The Lincoln Wastewater System is proposing to implement these increases with the billing cycle commencing November 15, 2003, and ending January 15, 2004.

Current Schedule

103.5¢/HCF

New Schedule

112¢

This proposed rate schedule affects the average monthly residential bill by an increase of 80¢.

FACT SHEET PREPARED BY: *Margaret Cunningham* Business Manager of Public Works/Utilities

REVIEWED BY: *Allen Adkins* Director of Public Works/Utilities

Schedule 7

Lincoln Wastewater System

Summary of Insurance Coverage

August 31, 2004

(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	YXB300909
Automobile Fleet Physical Damage**	Self-Insured	Actual cash value	5,000	5,000	None	
Building and Contents (includes Boiler & Machinery)	Blanket policy - buildings and contents	Replacement cost	50,000	5,000	Factory Mutual	FL840
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	5,000	Factory Mutual	FL840
Equipment Floater (NON-LIC)	Non-licensed scheduled equipment	Actual Cash Value	50,000	5,000	Factory Mutual	FL840
Equipment Floater (Sanitary)	Inspection scheduled equipment	Replacement cost	50,000	5,000	Factory Mutual	FL840
General Liability ***	\$1,000,000 occurrence/\$5,000,000 aggregate	5,000,000	250,000	0	Genesis	YXB300909
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	YXB300909
Workers' Compensation Excess	Policy has statutory limits	Statutory limits	500,000	0	Employers Reassurance	0650508

** Self-insured for both comp & collision.

LINCOLN WASTEWATER SYSTEM

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 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 (i) referred to hereinabove have been satisfied.

Reserve Fund.

(a) The Ordinance required that the City establish a debt service reserve account for a within the Reserve Fund for each Series of Bonds issued pursuant to the 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

This **CONTINUING DISCLOSURE CERTIFICATE**, dated August ____, 2005 (the "**Disclosure Certificate**"), is executed and delivered by the **CITY OF LINCOLN, NEBRASKA** (the "**City**").

RECITALS

1. This Disclosure Certificate is executed and delivered by the City in connection with the issuance of \$18,000,000 aggregate principal amount of its Sanitary Sewer Revenue Bonds, Series 2005, dated the date of delivery thereof (the "**Bonds**") pursuant to Ordinance No. 18171 duly passed by the Council on May 3, 2003 and approved by the Mayor City on May 5, 2003, as supplemented by Ordinance No. _____ duly passed by the Council on July 18, 2005 and approved by the Mayor of July __, 2005 (collectively, the "**Ordinance**").

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

The City covenants and agrees as follows:

Section 1. Definitions. For purposes of this Disclosure Certificate, the following capitalized terms have the meanings as indicated:

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

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

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

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

"**Listed Events**" means any of the events listed in **Section 4(a)** of this Disclosure Certificate.

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

"**Participating Underwriter**" means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

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

“**State**” means the State of Nebraska.

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

Section 2. Provision of Annual Reports.

(a) The City shall, not later than May 1 of each year, commencing May 1, 2006, provide to the each Repository an Annual Report which is consistent with the requirements of **Section 3**. The Annual Report may be submitted as a single document or as separate documents comprising a single package, and may include by reference other information as provided in **Section 3**; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under **Section 4(c)** hereof.

(b) If the City is unable to provide the Annual Report to each Repository by the date required in **Section 2(a)**, the City shall send a notice to each Repository in substantially the form attached hereto as **Exhibit B**.

(c) The City shall:

(1) determine each year prior to the date for providing the Annual Report the name and address of each Repository, unless the Annual Report is filed through the Central Post Office, and

(2) certify that the Annual Report has been provided to each Repository and the date the same was provided, or, if the Annual Report was filed through the Central Post Office, the date the Annual Report was filed therewith.

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

(a) The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available at the time the Annual Report is required to be filed pursuant to **Section 2(a)**, the Annual Report shall contain un-audited financial statements similar to the audited financial statements contained in the final official statement relating to the Bonds, and the audited financial statements shall be filed in the same manner as the Annual Report when they shall become available.

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

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the City is an “obligated person” (as defined by the Rule), which have been provided to each Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

Section 4. Reporting of Listed Events.

(a) Pursuant to the provisions of this **Section 5**, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) modifications to rights of a registered owner of a Bond;
- (4) optional, contingent or unscheduled redemption of the Bonds;
- (5) defeasances;
- (6) rating changes;
- (7) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (8) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (9) unscheduled draws on credit enhancements reflecting financial difficulties;
- (10) substitution of credit or liquidity providers, or their failure to perform;
- (11) release, substitution or sale of property securing repayment of the Bonds.

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

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each Repository. Notwithstanding the foregoing, notice of Listed Events described in **Section 4(a)(4)** and **Section 4(a)(5)** need not be given under this subsection any earlier than notice of the underlying event is given to Beneficial Owners of affected Bonds pursuant to the Ordinance.

Section 5. Central Post Office. The City may use the Central Post Office for the submission of Annual Reports and Listed Events notices for so long as there is any Central Post Office recognized, authorized or approved by the Securities and Exchange Commission. Submission of an Annual Report or a Listed Events notice by the City to the Central Post Office shall be deemed to satisfy the City’s obligations under this Disclosure Certificate with respect to that Annual Report or Listed Events notice unless the City has actual notice that the Central Post Office has failed to deliver the Annual Report or Listed Event notice to the Repositories.

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

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign as dissemination agent hereunder at any time upon 30-days prior written notice to the City. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report (including without limitation the Annual Report) prepared by the City pursuant to this Disclosure Certificate. The initial Dissemination Agent is the City.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that Gilmore & Bell, P.C., or other legal counsel experienced in federal securities law matters, provides the City and the Dissemination Agent with its written opinion that the undertaking of the City contained herein, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to this Disclosure Certificate.

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

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Ordinance; the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any losses, expenses and liabilities that it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The City shall pay the fees, charges and expenses of the Dissemination Agent in connection with its administration of this Disclosure Certificate.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Severability. If any provision in this Disclosure Certificate, the Ordinance or the Bonds shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument. Copies, facsimiles, electronic files and other reproductions of original documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.

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

DATED: August ____, 2005.

CITY OF LINCOLN, NEBRASKA

By: _____
Don Herz, Finance Director

EXHIBIT A

**NATIONALLY RECOGNIZED MUNICIPAL SECURITIES
INFORMATION REPOSITORIES**

Bloomberg Municipal Repository

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

Standard & Poor's Securities Evaluations, Inc.

Repository Service
55 Water Street
45th Floor
New York, New York 10041-0003
Phone: (212) 438-4595
Fax: (212) 438-3975
E-Mail: nrmsir_repository@sandp.com

FT Interactive Data

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

DPC Data Inc.

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

CENTRAL POST OFFICE

Electronic submissions:

www.DisclosureUSA.org

Paper submissions

(permitted through December 31, 2007):

Mailing Address:

DisclosureUSA
P.O. Box 684667
Austin, Texas 78768-4667

Physical Address:

Disclosure USA
600 West 8th Street
Austin, Texas 78701

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: **City of Lincoln, Nebraska**
Name of Issue: **Sanitary Sewer Revenue Bonds, Series 2005**
Date of Issuance: **August __, 2005**

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by **Section 2** of the Continuing Disclosure Certificate dated August __, 2005. The City anticipates that the Annual Report will be filed by _____, 200__.

DATED: _____

CITY OF LINCOLN, NEBRASKA

APPENDIX E

BOOK-ENTRY SYSTEM

BOOK-ENTRY SYSTEM

Generally

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2005 Bonds. Initially, ownership of one fully registered Series 2005 Bond for each maturity of the Series 2005 Bonds, as set forth on the front cover hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Ccdc & Co., as nominee for DTC. Ownership interests in the Series 2005 Bonds will be available to purchasers only through a book-entry system (the “**Book-Entry System**”) maintained by DTC. The following discussion will not apply to Series 2005 Bonds if issued in certificate form. See “**Discontinuance of Book-Entry System.**”

DTC and Its Participants

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

Purchase of Ownership Interests

Purchases of Series 2005 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit with respect to the Series 2005 Bonds in the records of DTC. The ownership interest of each actual purchaser (the “**Beneficial Owner**”) of each Series 2005 Bond will be recorded in the records of the DTC Participant through which the purchase was made. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive a written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the DTC Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2005 Bonds are to be accomplished by entries made on the books of DTC Participants, acting on behalf of the Beneficial Owners. Beneficial

Owners will not receive certificates representing their ownership interest in the Series 2005 Bonds, except in the event the use of the book-entry system for the Series 2005 Bonds is discontinued as provided in the Ordinance.

Each Beneficial Owner for whom a DTC Participant has an interest in the Series 2005 Bonds, as nominee, may desire to make arrangements with such DTC Participant to receive a credit balance in the records of such DTC Participant and may desire to make arrangements with such DTC Participant to have all notices of redemption and other communications with respect to the Series 2005 Bonds affecting such Beneficial Owner forwarded in writing by such DTC Participant and to be notified of all interest payments. THE CITY WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (B) THE PAYMENT BY ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2005 BONDS; (C) THE DELIVERY BY ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE ORDINANCE TO BE GIVEN BY THE CITY TO REGISTERED OWNERS OF THE SERIES 2005 BONDS; (D) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2005 BONDS; OR (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE SERIES 2005 BONDS.

Payments of Principal, Premium, if any, and Interest

So long as any Series 2005 Bond is registered in the name of DTC's nominee, all payments of the principal or redemption price of and interest on, the Series 2005 Bonds will be made to DTC. DTC's practice is to credit DTC Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Registrar, on the payable date in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC or the City, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of the principal redemption price of and interest on the Bonds to DTC is the responsibility of the City, disbursement of such payments to DTC Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of DTC Participants.

Notices

Any references in this Official Statement to notices or other communications to be provided to registered owners of the Series 2005 Bonds by the City will be given only to DTC. Conveyance of notices and other communications by DTC to DTC Participants, and DTC Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. The City will have no responsibility or obligation to assure that any such notice is forwarded by DTC to DTC Participants or by any DTC Participant to the Beneficial Owner of Series 2005 Bonds.

Redemption notices shall be sent to DTC. If less than all of the Series 2005 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant in the Series 2005 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2005 Bonds unless authorized by a DTC Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy to the City as soon as possible after each applicable record date. The omnibus proxy will assign Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Series 2005 Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Transfers and Exchanges of Beneficial Ownership Interests

Transfers of beneficial ownership interests in the Series 2005 Bonds will be accomplished by book entries made by DTC and the DTC Participants who act on behalf of the Beneficial Owners. For every transfer and exchange of the Series 2005 Bonds, the Registrar, DTC and the DTC Participants may charge the Beneficial Owner a sum sufficient to cover any tax, fee or other governmental charge required to be paid with respect thereto and may charge a sum sufficient to pay the cost of preparing and authenticating each new Series 2005 Bond.

To facilitate subsequent transfers, all Bonds deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2005 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2005 Bonds; DTC's record reflect only the identity of the DTC Participants to whose accounts the Series 2005 Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Transfers of Bonds

Registered ownership of the Series 2005 Bonds, or any portions thereof, may not be transferred on the books of the Registrar except:

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

The City shall be entitled to treat the registered owner of the Series 2005 Bonds (initially, Cede & Co.) as the absolute owner thereof for all purposes of the Ordinance and any applicable laws, notwithstanding any notice to the contrary received by any of them. The City will have no responsibility for transmitting payments to, communicating with, notifying or otherwise dealing with any Beneficial Owners of the Series 2005 Bonds. The City will have no responsibility or obligation, legal or otherwise, to the Beneficial Owners or to any other party including DTC or its successor (or substitute depository or successor), except to the owners of any Series 2005 Bond as shown on the registration books of the Registrar. So long as all Series 2005 Bonds are registered in the name of Cede & Co., the City is to cooperate with DTC or its nominee in effecting payment of the principal or redemption price of and

interest on, the Series 2005 Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made to DTC when due.

The Registrar shall not be required to transfer or exchange any Series 2005 Bonds from any applicable record date through and including the next succeeding interest or principal payment date for the Series 2005 Bonds, or from the record date next preceding any selection of Series 2005 Bonds to be redeemed or thereafter, until after the first mailing of any notice of redemption; or to transfer or exchange any Series 2005 Bonds called for redemption.

Discontinuance of Book-Entry System

DTC's services with respect to the Series 2005 Bonds may be discontinued or terminated at any time under the following circumstances:

(a) DTC may determine to discontinue providing its services with respect to the Series 2005 Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law.

(b) Subject to any operational requirements of DEC, the City, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Series 2005 Bonds if the City determines that DTC is unable to discharge its responsibilities with respect to the Series 2005 Bonds or that a continuation of the requirement that all of the outstanding Series 2005 Bonds be registered in the registration books kept by the Registrar in the name of Cede & Co., or any other nominee of DTC, is not in the best interests of the Beneficial Owners of the Series 2005 Bonds.

In the event that DTC's services are so discontinued or terminated because it is unwilling or is determined to be unable to discharge its responsibilities, and no substitute securities depository willing to undertake the functions of DTC under the Ordinance can be found which, in the opinion of the City, is willing and able to undertake such functions upon reasonable and customary terms, or in the event it is so determined that continuation of the system of book-entry transfers is not in the best interests of the Beneficial Owners, the City is obligated to deliver certificates for the Series 2005 Bonds, at the expense of the Beneficial Owners, as described in the Ordinance.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement, it should be understood that while the Series 2005 Bonds are in book entry format, references in other sections of this Official Statement to owners should be read to include the person for whom the DTC Participant acquires an interest in the Series 2005 Bonds, but (a) all rights of ownership must be exercised through DTC and the book entry system and (b) notices that are to be given to owners by the City will be given only to DTC.

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

EXHIBIT F

FORM OF BOND COUNSEL OPINION

July 31, 2003

Mayor and City Council
Lincoln, Nebraska

Re: \$ _____ City of Lincoln, Nebraska Sanitary Sewer Revenue Bonds, Series
2005

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. _____ adopted by the Issuer on July 18, 2005 (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 the Issuer's Series 2003 Bonds and any Additional Bonds hereafter 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,

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.