

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 - BOOK-ENTRY-ONLY
NOT BANK QUALIFIED**

**RATINGS (See "RATINGS" herein): S&P: "AAA" (MBIA Insured)
Moody's: "Aaa" (MBIA Insured)
S&P: "AA+" (Underlying)
Moody's: "Aa2" (Underlying)**

In the opinion of Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended, interest on the Series 2003 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 2003 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

\$55,000,000

CITY OF LINCOLN, NEBRASKA SANITARY SEWER REVENUE AND REFUNDING BONDS SERIES 2003

Dated Date of Delivery

Due June 15, as shown on the inside cover hereof

The Series 2003 Bonds are issuable in fully registered form and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2003 Bonds. Purchases of the Series 2003 Bonds will be made in book-entry-only form, in the principal amount of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC participants. Beneficial owners of the Series 2003 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 2003 Bonds. So long as DTC or its nominee is the registered owner of the Series 2003 Bonds, payments of the principal or redemption price of and interest on the Series 2003 Bonds will be made directly to DTC. Interest is payable on each June 15 and December 15, beginning December 15, 2003. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. Wells Fargo Bank Nebraska, National Association, Lincoln, Nebraska (the "Registrar"), is bond registrar and paying agent for the Series 2003 Bonds. For terms relating to Series 2003 Bond 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 2003 BONDS - Book-Entry-Only System."

The Series 2003 Bonds maturing June 15, 2014, and thereafter are subject to optional redemption prior to maturity at any time on or after June 15, 2013, as set forth herein. See "THE SERIES 2003 BONDS - Optional Redemption."

Payment of the principal of and interest on the Series 2003 Bonds when due will be insured by a financial guaranty insurance policy (the "Bond Insurance Policy") to be issued by MBIA Insurance Corporation (the "Bond Insurer") simultaneously with the delivery of the Bonds. See the caption "BOND INSURANCE" herein.

[MBIA logo]

The Series 2003 Bonds are being issued for the purpose of (1) providing the funds necessary to pay costs incident to providing certain improvements to the municipally owned sanitary sewer system of the City (see "THE PROJECT"), (2) paying in full all amounts due with respect to a loan to the City from the Nebraska Department of Environmental Quality (the "NDEQ Loan"), (3) making a deposit into the 2003 Account established in the Reserve Fund with respect to the Series 2003 Bonds, and (4) paying expenses incident to issuance of the Series 2003 Bonds. The Series 2003 Bonds, and all other bonds hereafter issued (together the "Bonds") pursuant to the ordinance of the City authorizing the Bonds (the "Ordinance"), are payable solely from and are secured by a pledge of (a) the net earnings (gross revenues less operating and maintenance expenses) of the City's sanitary sewer supply system, and (b) moneys, if any, from time to time on deposit in certain funds and accounts created by the Ordinance. See "INTRODUCTION," "SECURITY" and "SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE."

THE SERIES 2003 BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY AND NEITHER THE FULL FAITH AND CREDIT OF THE CITY OR OF THE STATE OF NEBRASKA, 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 2003 BONDS ARE SPECIAL, REVENUE OBLIGATIONS OF THE CITY AND THE PRINCIPAL OF, PREMIUM, IF ANY, 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 2003 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION UNDER THE LAWS OF THE STATE. THE SERIES 2003 BONDS AND THE INTEREST THEREON DO NOT, DIRECTLY OR INDIRECTLY, OBLIGATE THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATIONS FOR THEIR PAYMENT, AND SUCH SERIES 2003 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 2003 Bonds are offered only in book-entry form, 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 Gilmore & Bell, P.C., Lincoln, Nebraska, as Disclosure Counsel. It is expected that the Series 2003 Bonds will be available for delivery through The Depository Trust Company, New York, New York, on or about July 31, 2003.

RBC DAIN RAUSCHER

**ABN Amro Financial Services
CIBC World Markets
Fidelity Capital Markets**

Stifel, Nicolaus & Co.

**Griffin, Kubic, Stephens & Thompson, Inc.
Howe, Barnes Investments, Inc,
Harris Trust and Savings Bank**

AMERITAS INVESTMENT CORP.
Has acted as Financial Advisor

Dated: July 16, 2003

MATURITY SCHEDULE

\$55,000,000

CITY OF LINCOLN, NEBRASKA SANITARY SEWER REVENUE AND REFUNDING BONDS SERIES 2003

<u>Maturity (June 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>
2004	\$1,750,000	2.000%	1.12%	100.761%
2005	1,500,000	3.000	1.32	103.095
2006	1,520,000	3.000	1.69	103.656
2007	1,545,000	2.500	2.09	101.516
2008	1,580,000	2.500	2.45	100.226
2009	1,620,000	3.000	2.75	101.345
2010	1,660,000	5.000	3.08	111.806
2011	1,710,000	3.500	3.33	101.166
2012	1,770,000	3.750	3.49	101.966
2013	1,825,000	4.000	3.62	103.127
2014	1,890,000	5.000	3.71**	110.578
2015	1,960,000	5.000	3.83**	109.538
2016	2,035,000	5.000	4.02**	107.916
2017	2,115,000	5.000	4.12**	107.074
2018	2,200,000	5.000	4.22**	106.239
2019	2,290,000	5.000	4.32**	105.413
2020	2,395,000	5.000	4.41**	104.676
2021	2,505,000	5.000	4.49**	104.025
2022	2,620,000	5.000	4.56**	103.461
2023	2,745,000	5.000	4.60**	103.139
2025*	5,875,000	4.625	4.67	99.382
2028*	9,890,000	5.000	4.70**	102.342

*Term Bonds

**Yield to call date

**CITY OF LINCOLN, NEBRASKA
CITY OFFICIALS**

Coleen J. Seng, Mayor

City Council Members

Jon Camp (Chairperson)

Jonathan Cook
Glenn Friendt
Annette McRoy

Patte Newman
Ken Svoboda
Terry Werner

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
Allan Abbott..... Public Works and Utilities Director
Bruce Dart..... Health Director
Georgia Glass.....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 Nebraska, National Association

Independent Auditors

KPMG LLP

No dealer, broker, salesman or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriters. 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 2003 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Series 2003 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have 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 Underwriters do not guarantee the accuracy or completeness of such information. The information set forth herein is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2003 Bonds made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2003 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 2003 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

OFFICIAL STATEMENT

\$55,000,000

CITY OF LINCOLN, NEBRASKA SANITARY SEWER REVENUE AND REFUNDING BONDS SERIES 2003

INTRODUCTION

This Official Statement is provided by the City to furnish information about the City, its municipally owned and operated sanitary sewer collection and treatment system (the "System"), and its \$55,000,000 Sanitary Sewer Revenue and Refunding Bonds (the "Series 2003 Bonds"). The Series 2003 Bonds are being issued pursuant to Ordinance Nos. 18171 and 18172 of the City duly passed and adopted on May 5, 2003 (Ordinance Nos. 18171 and 18172 as from time to time amended and supplemented are hereinafter referred to as the "Ordinance"). The Series 2003 Bonds and all other sanitary sewer revenue bonds hereafter issued by the City pursuant to the Ordinance and outstanding thereunder (collectively, the "Bonds") are payable solely from and secured by a pledge of the net earnings of the System. The City will use the proceeds of the Series 2003 Bonds, together with other legally available money of the City, (1) to pay in full all amounts due with respect to a loan to the City from the Nebraska Department of Environmental Quality (the "NDEQ Loan") used by the City to pay the costs of improvements to the System, (2) to pay the costs of additional improvements to the System (the "Project"), (3) to make a deposit into the 2003 Account in the Reserve Fund established pursuant to the Ordinance, and (4) to pay the costs of issuance of the Series 2003 Bonds. Upon the issuance of the Series 2003 Bonds, (a) all amounts payable with respect to the NDEQ Loan will be paid, and (b) the Series 2003 Bonds will be secured by and payable from a first lien on the Net Revenues of the System.

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 (i) total operating revenues, plus (ii) interest income, plus (iii) tap fees, plus (iv) impact fees, if any, allocable to the System, plus (v) such other revenues and income as shall be determined to be appropriate in accordance with generally accepted accounting principles for proprietary governmental operations such as the System, and "Operation and Maintenance Expenses" are defined as 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.

PURPOSE

The net proceeds of the 2003 Bonds will be used to (1) provide for the payment in full of all amounts due with respect to the NDEQ Loan, (2) pay the cost of the Project, (3) make a deposit into the 2003 Reserve Account established with respect to the Series 2003 Bonds, and (4) pay expenses incident to issuance of the 2003 Bonds.

AUTHORITY

The Series 2003 Bonds are authorized pursuant to the provisions of Sections 15-244 and 18-1803 et seq., Reissue Revised Statutes of Nebraska, as amended, Section 44 of Article IX of the City Charter and the Ordinance. The Ordinance permits the issuance of both 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. See APPENDIX C - "SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Refunding Bonds" and "- Additional Bonds."

ESTIMATED SOURCES AND USES OF FUNDS

SOURCES OF FUNDS:

Par Amount of 2003 Bonds	\$55,000,000.00
Plus: Net Original Issue Premium	<u>2,015,646.75</u>
TOTAL	<u>\$57,015,646.75</u>

USES OF FUNDS:

Project Costs	\$47,879,827.85
Payment of NDEQ Loan	4,589,198.89
2003 Reserve Account	3,903,518.76
Costs of Issuance (including Underwriter's discount)	<u>643,101.25</u>
TOTAL	<u>\$57,015,646.75</u>

SECURITY

The Series 2003 Bonds, together with any Refunding and Additional Bonds hereafter issued by the City in accordance with the provisions of the Ordinance (collectively, the "Bonds"), are payable solely from and are secured by a pledge of the Net Revenues. **The full faith and credit of the City is not pledged to payment of the Bonds.** Upon the issuance thereof, the Series 2003 Bonds will be the only obligations of the City payable from the Net Revenues of the System.

The Ordinance creates a 2003 Reserve Account for the Series 2003 Bonds and the deposit therein of an amount equal to the Reserve Requirement for the Series 2003 Bonds. The "Reserve Requirement" with respect to a Series of Bonds is defined to be the least of (1) 10% of the stated principal amount of such Series of Bonds, (2) the maximum annual principal and interest requirements on such Series of Bonds, and (3) 125% of the average annual principal and interest requirements on such Series of Bonds. 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, and insurance provisions, as contained in the Ordinance for the security of the bondholders, are set forth in APPENDIX C - "SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE."

BOND INSURANCE

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix G for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2003 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such

times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 2003 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a “Preference”).

MBIA’s policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2003 Bonds. MBIA’s policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2003 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA’s policy also does not insure against nonpayment of principal or interest on the Series 2003 Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2003 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Series 2003 Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2003 Bonds or presentment of such other proof of ownership of the Series 2003 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2003 Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2003 Bonds in any legal proceeding related to payment of insured amounts on the Series 2003 Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Series 2003 Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA

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

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading “BOND INSURANCE.” Additionally, MBIA makes no representation regarding the Series 2003 Bonds or the advisability of investing in the Series 2003 Bonds.

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

MBIA Information

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

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2002; and
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Series 2003 Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003,, are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, MBIA had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2003 MBIA had admitted assets of \$9.3 billion (unaudited), total liabilities of \$6.1 billion (unaudited), and total capital and surplus of \$3.2 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody’s Investors Service, Inc. rates the financial strength of MBIA “Aaa.”

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

Fitch Ratings rates the financial strength of MBIA “AAA.”

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

The above ratings are not recommendations to buy, sell or hold the Series 2003 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2003 Bonds. MBIA does not guaranty the market price of the Series 2003 Bonds nor does it guaranty that the ratings on the Series 2003 Bonds will not be revised or withdrawn.

DEBT SERVICE SCHEDULE

Year Ending <u>August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$1,750,000.00	\$2,133,703.91	\$3,883,703.91
2005	1,500,000.00	2,403,518.76	3,903,518.76
2006	1,520,000.00	2,358,518.76	3,878,518.76
2007	1,545,000.00	2,312,918.76	3,857,918.76
2008	1,580,000.00	2,274,293.76	3,854,293.76
2009	1,620,000.00	2,234,793.76	3,854,793.76
2010	1,660,000.00	2,186,193.76	3,846,193.76
2011	1,710,000.00	2,103,193.76	3,813,193.76
2012	1,770,000.00	2,043,343.76	3,813,343.76
2013	1,825,000.00	1,976,968.76	3,801,968.76
2014	1,890,000.00	1,903,968.76	3,793,968.76
2015	1,960,000.00	1,809,468.76	3,769,468.76
2016	2,035,000.00	1,711,468.76	3,746,468.76
2017	2,115,000.00	1,609,718.76	3,724,718.76
2018	2,200,000.00	1,503,968.76	3,703,968.76
2019	2,290,000.00	1,393,968.76	3,683,968.76
2020	2,395,000.00	1,279,468.76	3,674,468.76
2021	2,505,000.00	1,159,718.76	3,664,718.76
2022	2,620,000.00	1,034,468.76	3,654,468.76
2023	2,745,000.00	903,468.76	3,648,468.76
2024	2,870,000.00	766,218.76	3,636,218.76
2025	3,005,000.00	633,481.26	3,638,481.26
2026	3,145,000.00	494,500.00	3,639,500.00
2027	3,295,000.00	337,250.00	3,632,250.00
2028	<u>3,450,000.00</u>	<u>172,500.00</u>	<u>3,622,500.00</u>
TOTAL	\$55,000,000.00	\$38,741,085.37	\$93,741,085.37

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**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⁽⁴⁾</u>
1998	1,283,642	1.08	13,914,438	7,512,753	6,401,685	1,802,895	3.55
1999	1,296,608	1.13	14,655,033	7,591,990	7,063,043	1,762,333	4.01
2000	1,309,705	1.14	14,987,581	7,707,242	7,280,339	1,323,597	5.50
2001	1,322,934	1.13	14,945,415	8,087,688	6,857,727	1,318,777	5.20
2002	1,336,297	1.12	15,026,486	8,632,287	6,394,199	1,309,347	4.88

⁽¹⁾H.C.F. = Hundred Cubic Feet

⁽²⁾Operating Revenue only

⁽³⁾Depreciation not included

⁽⁴⁾NDEQ loan being refunded by 2003 bonds. For historical operating results see the "Lincoln Sanitary Sewer System Financial Statements - August 31, 2002 and 2001 (With Independent Auditors' Report Thereon)," attached as APPENDIX B to this Official Statement.

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 as indicated.

**CITY OF LINCOLN, NEBRASKA, SANITARY SEWER SYSTEM
PROJECTED OPERATING RESULTS
AND DEBT SERVICE COVERAGE**

<u>Fiscal Years</u>	<u>Annual Discharge H.C.F.⁽¹⁾</u>	<u>Revenue⁽²⁾ Per H.C.F.⁽¹⁾</u>	<u>Revenues⁽²⁾</u>	<u>Net Operating Costs⁽³⁾</u>	<u>Net Operating Revenue</u>	<u>Debt Service Requirement</u>	<u>Debt Service Coverage</u>
2002-03	13,229,340	1.22	\$16,152,043	\$ 9,468,358	\$ 6,683,685	\$1,300,527	5.14
2003-04	13,361,633	1.36	18,220,507 ^(a)	9,610,383	8,610,124	4,055,190 ^(f)	2.12
2004-05	13,495,249	1.42	19,152,281 ^(b)	9,754,539	9,397,742	4,055,290	2.32
2005-06	13,630,202	1.48	20,125,516 ^(c)	9,900,857	10,224,659	4,053,790	2.52
2006-07	13,766,504	1.56	21,498,914 ^(d)	10,049,370	11,449,544	4,056,515	2.82
2007-08	13,904,169	1.56	21,755,859 ^(e)	10,200,110	11,555,749	7,454,935 ^(g)	1.55

⁽¹⁾H.C.F. = Hundred Cubic Feet

⁽²⁾Revenues (i) total operating revenues, plus (ii) interest income, plus (iii) tap fees, plus (iv) impact fees allocable to the System, the use of which by the City is unrestricted, plus (v) such other revenues and income as shall be determined to be appropriate in accordance with generally accepted accounting principles for proprietary governmental operations such as the System.

⁽³⁾Depreciation not included.

^(a) 7.00% Average rate increase during Fiscal Year 2003-04

^(b) 3.00% Average rate increase during Fiscal Year 2004-05

^(c) 3.00% Average rate increase during Fiscal Year 2005-06

^(d) 3.00% Average rate increase during Fiscal Year 2006-07

^(e) 3.00% Average rate increase during Fiscal Year 2007-08

^(f) Increase due to \$55,000,000 bond issue in Fiscal Year 2002-03

^(g) Increase due to \$45,000,000 bond issue projected for Fiscal Year 2006-07

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 1 1/2% annually.

SUMMARY OF PROJECT COSTS

The proceeds of the 2003 Bonds will be used to pay a portion of the costs of (1) designing and constructing the Salt Valley Basin relief sanitary sewer (\$12,000,000), (2) making odor control improvements, grit basin improvements, primary and final clarifier improvement, and nitrification improvements at the Theresa Street Wastewater Treatment Plant (\$30,000,000), (3) designing and constructing process capacity and grit removal facility improvements at the Northeast Wastewater Treatment Plant (\$3,000,000), and (4) designing and constructing Beals Slough Relief trunk sewer (\$3,000,000). Accumulated revenues will be used to pay the remaining costs of the project in excess of the proceeds of the Series 2003 Bonds. The amount of proceeds of the Series 2003 Bonds which will be used to pay off the NDEQ Loan are expected to be \$4,588,655.55.

SANITARY SEWER RATES AND CHARGES

The City's rates for the use of the sanitary sewer system are fixed by its City Council. The Council has increased rates periodically to maintain the System on a sound financial basis. Prior increases have been a 5.96% increase effective November 15, 1992, a 6.34% increase effective November 15, 1991 and a 6.22% increase effective November 15, 1990.

(a) The basic sanitary sewer use unit charge is 103.5 cents.

(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 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.

MONTHLY SERVICE CHARGE

Regardless of whether a wastewater meter is used, there shall be a service charge per month to each property using the Lincoln Sanitary Sewer 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 THE CITY LIMITS

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

LARGEST SANITARY SEWER USERS

Discharge for
Fiscal Year Ended
August 31, 2002

<u>User</u>	<u>Hundred Cubic Feet</u>	<u>Revenue</u>	<u>Percentage of Total Revenue</u>
University of Nebraska	525,491	\$529,224	3.5%
State of Nebraska	289,670	290,018	1.9
Archer-Daniels Midland Co.	198,439	204,090	1.4
Cook Family Foods	150,692	153,978	1.0
Lincoln Public Schools	135,960	147,517	1.0
BryanLGH Medical Center	133,195	132,793	0.9
Goodyear Tire & Rubber	109,842	113,391	0.8
Pfizer Animal Health	108,909	113,203	0.8
Lincoln Housing Authority	80,611	104,187	0.7
Lincoln Plating	63,124	65,016	0.4

These users accounted for approximately 12% of Sewer System's Revenues for the fiscal year ended August 31, 2002.

NUMBER OF SANITARY SEWER CUSTOMERS

<u>At End of Fiscal Year (August 31)</u>	<u>Number of Customers</u>
1997-98	64,129
1998-99	65,521
1999-00	66,665
2000-01	67,916
2001-02	69,292

LINCOLN SANITARY SEWER SYSTEM

The Lincoln city limits cover about 80 square miles, incorporating a population that exceeded 225,000 in 2000. 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 Lincoln Sanitary Sewer System. Today's System includes over 900 miles of pipeline, two sanitary sewer treatment facilities and serves over 70,200 residential, commercial, industrial and institutional accounts.

Sanitary Sewer Collection

The existing Lincoln Sanitary Sewer Collection System provides service to 13 major drainage basins. System components include pipelines ranging in size from 8 to 90 inches in diameter; approximately 15,000 manholes; and 16 "siphon crossings" of stream channels. Flow through the system is predominantly by gravity; however, some areas are served by sanitary sewer lift (pumping) stations. A total of 14 sanitary sewer lift stations are located throughout the collection system. Collection pipelines are primarily constructed of vitrified clay (VCP), plastic (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 (8) inches.

Sanitary sewer collection service and maintenance personnel annual performance objectives include:

- jet clean approximately 500 miles of pipeline;
- chemically treat for root intrusion or jet root cut 25 miles of the collection system lines per year, perform an average of 100 corrective line repairs,
- perform smoke and dye testing on approximately 5 miles of sanitary lines;
- 200 rehabilitation/repairs to manholes;
- 250 service taps and abandonments each year; and
- internal television examination of 50 miles of pipeline.

Maintenance personnel also assist other operating sections in the division and Department of Public Works and Utilities with various maintenance functions and activities such as reading of large water meters in confined spaces 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 or interruption 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 system 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 31 selected key points in the collection system. System personnel utilize a computerized and 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 11,000 station days per year of hydraulic flow evaluations are performed and an average of 2900 station days per year of precipitation data are collected. Collected information is utilized to identify potential sources of extraneous flows (infiltration and inflow), perform statistical correlations of precipitation to peak flows in the system and develop design flow equations for sizing of sanitary pipelines, lift station pumping systems and peak flow for sanitary sewer treatment facilities. This information is used also in combination with the mobile television results to schedule pipeline repairs and replacement needs.

Industrial and Treatment Facilities Monitoring

Industrial discharges from 38 industries and commercial businesses are collected by field sampling crews allowing analytical examination of samples by staff laboratory personnel. 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 Dept. of Environmental Quality (NDEQ). A joint Memorandum of Understanding between NDEQ and the City of Lincoln Sanitary Sewer System describes the city's essential pretreatment activities. System personnel perform required monitoring and general administration for the various classified categorical industries and businesses 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 categorical industries and businesses, including non-categorical discharges, of wastewater into the system. A typical year for the laboratory and sample collection operations consists of:

- 1500 industrial sanitary sewer samples collected;
- 12,000 industrial analyses performed;
- 3800 station days per year of corrosive and other gas monitoring within the collection system; and
- 42,000 individual analyses in support of treatment plant operation and reporting.

The resultant monitoring information is utilized to determine compliance and assess surcharges to the specific discharger for waste strengths and loadings in excess of normal domestic sanitary sewer characteristics. This data is referenced in determining capital improvements within the system. City staff does provide technical assistance to commercial and industrial customers, assisting where possible to improve discharge characteristics.

Sanitary Sewer Treatment

Two sanitary sewer treatment facilities serve the community: the Theresa St. Wastewater Treatment Plant (2400 Theresa St.) and the Northeast Treatment Plant (7000 North 70th St). Collectively the two plants treat 23.6 million gallons per day as an annual average. Both operations discharge to Salt Creek, with Theresa St. serving approximately 70% of the community and the Northeast Treatment Plant receives the remaining wastewater flows from the eastern part of the City.

Both of the facilities provide for secondary wastewater treatment to meet existing State of Nebraska Department of Environmental Quality (NDEQ) and Federal US EPA National Pollutant Discharge Elimination

System (NPDES) permit limits, including 40 CFR, Part 503 Biosolids rule and Nebraska Surface Water Quality Standards. The System's facilities comply with local, State, and Federal Clean Air emissions permit limits and requirements.

Ammonia removal (or nitrification treatment) will be a new feature in the NPDES requirements, planned to be issued by the State in summer 2003. Ammonia treatment will constitute a major financial component in the Division's Capital Improvements Program. Imposing this new level of treatment results in effectively reducing the capacity of existing facilities. Under the leadership of the Division, an extensive scientific study that included peer review, did evaluate the impacts of ammonia on aquatic life in Salt Creek. These results have been applied by the NDEQ to promulgate "site specific criteria" for that section of Salt Creek receiving flows from the Theresa St. and Northeast Treatment Plants. This translates into a more favorable capital financing scenario than would occur if "default" stream values were applied. Application of the site specific criteria allows phasing of facility construction, especially at the Northeast Plant, and the potential for operational cost savings.

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 inter-local agreement and partnership with University of Nebraska Lincoln (UNL) Cooperative Extension in Lancaster 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.

The System uses a Supervisory Control and Data Acquisition (SCADA) system to automatically monitor and control 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 stormwater pumping station operations. System treatment maintenance personnel utilize a computerized maintenance management system 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 sanitary sewer collection system lift stations and four stormwater pumping stations in the City.

Theresa St. Wastewater Treatment Facility

The original sanitary sewer treatment facilities at Theresa Street were constructed in 1923 and consisted of influent pumps and Imhoff tanks. Major improvements and upgrades to the facility have occurred since that time. In general, the current Theresa St. facility liquid stream treatment process consists of preliminary treatment (influent screening and grit removal), primary clarification and secondary treatment among the following three distinct secondary process treatment trains:

1. The Trickling Filter Train (built in the 1940's);
2. The West Side Activated Sludge Train (placed into operation 1966); and,
3. The East Side Activated Sludge Train (placed into service 1973).

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

Discussed earlier was the fact that ammonia treatment requirements do drive the need for construction of additional facilities. The current rated hydraulic and nitrification treatment capacities of the existing combined processes at the Theresa St. are as follows:

- | | |
|---------------------------|--------------------------------------|
| 1. Hydraulic Capacity | - 36 million gallons per day (mgd).* |
| 2. Nitrification Capacity | - 14.4 mgd* |

*(Note: Capacity Estimates - “Lincoln Wastewater Facilities Plan Update, April, 2003”)

Solids generated by primary clarification and secondary treatment processes are anaerobically digested in egg-shaped digesters. The anaerobically digested biosolids are dewatered, transported and applied to agricultural croplands by private agricultural farmers each year within Lancaster County.

Methane gas produced by the anaerobic digestion process of treatment solids 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% of the electrical energy used by treatment processes and equipment at the Theresa St. facility. The operation of the co-generation facility also complies with the requirements of a Federal Clean Air Act emissions permit.

Additionally, the 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 at the Theresa St. 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 6400 tests and analyses per year on the wastes received at the station.

Northeast Treatment Facility

Construction of the Northeast treatment facility was completed in November, 1980. Various improvements and upgrades to the facility have occurred since that time. In general, the current treatment process at this facility consists of preliminary treatment (screening and grit removal), primary clarification, secondary treatment by an activated bio-tower process (bio-towers followed by an activated sludge process), secondary clarification and seasonal disinfection prior to discharge to Salt Creek.

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

- | | |
|---------------------------|--------------------|
| 1. Hydraulic Capacity | - 37 mgd (approx)* |
| 2. Nitrification Capacity | - 4.4 mgd* |

*(Note: Capacity estimates - “Lincoln Wastewater Facilities Plan Update, April, 2003”)

A portion of the treated sanitary sewer effluent from the Northeast facility is to be utilized for cooling water purposes at a nearby combined cycle electrical power generating station operated by the Lincoln Electric System (LES). The LES power facility is scheduled to be operational in Fall 2003. Spent LES cooling water (previously treated sanitary sewer effluent) is returned to the Northeast Treatment 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 inter-local agreement between the Sanitary Sewer System and LES stipulates the terms and conditions for the use of the effluent and return cooling waters to the treatment facility.

Solids generated by primary clarification and secondary treatment processes are anaerobically digested in conventional round shaped digesters. The anaerobically digested biosolids are currently thickened and pumped to

a holding lagoon that is located on the City owned biosolids injection site. The liquid biosolids are pumped from the lagoon and are sub-surface injected into the agricultural crop land at the infection site and also adjacent City owned crop land. The injected biosolids meet the Class 'B' requirements of Part 503. As previously mentioned, management of the site occurs with the consultation of the Lancaster County Extension 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 treatment facility receives and treats leachate from the City of Lincoln's Bluff Road 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 sanitary sewer treatment facilities are designed according to criteria which generally follow 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 facilities follow those standards established by the USEPA and the State of Nebraska Department of Environmental Quality to insure that the designed and operating treatment facilities will meet State and Federal Clean Water Act and NPDES permit requirements.

Summary

Lincoln's Sanitary Sewer System seeks to emphasize efficiency of operation, proactive planning, preventive maintenance and application of new technology. Staffing and reorganization for 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.

SANITARY SEWER SYSTEM EMPLOYEE INFORMATION

The System has 97 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 \$394,000 for the 2001-02 Fiscal Year.

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

Allan L. Abbott	Director of Public Works & Utilities Age: 64 Years of Related Experience: 4 Years with City of Lincoln: 4
Margaret Remmenga	Public Works & Utilities Business Manager Age: 58 Years of Related Experience: 27 Years with City of Lincoln: 35

R. Steven Masters
 Public Utilities Administrator
 Age: 55
 Years of Related Experience: 22
 Years with City of Lincoln: 24

Gary Brandt
 Chief Engineer of Wastewater Collection & Treatment
 Age: 56
 Years of Related Experience: 16
 Years with City of Lincoln 16

THE SERIES 2003 BONDS

General

The Series 2003 Bonds will be issued in fully registered, book-entry-only form. See “Book-Entry-Only System,” under this caption.

The Series 2003 Bonds will be issued in the denominations of \$5,000 or any integral multiple thereof, not exceeding the amount maturing in any one year, and will mature on the dates and in the amounts and bear interest at the rates, as set forth on the inside cover of this Official Statement.

Wells Fargo Bank Nebraska, National Association, Lincoln, Nebraska, is bond registrar and paying agent (the “Registrar”) for the Series 2003 Bonds. The principal and interest due at maturity or upon prior redemption are payable upon presentation and surrender of the Series 2003 Bonds at the office of the Registrar. Interest due prior to maturity or earlier redemption is payable on each June 15 and December 15, beginning December 15, 2003, by check or draft of the Registrar mailed directly to the persons who are the registered owners as of the close of business on the first day of the month in which such interest payment becomes due (the “Record Date”).

Optional Redemption

The Series 2003 Bonds maturing on or prior to June 15, 2013 are not subject to redemption prior to their stated maturities. The Series 2003 Bonds maturing on or after June 15, 2014 are redeemable prior to their stated date of maturity at the option of the City in whole or in part anytime on or after June 15, 2013 at a redemption price equal to 100% of the principal amount of the Series 2003 Bonds then being redeemed, plus accrued interest on such principal amount to the date of redemption.

Mandatory Redemption of Series 2003 Term Bonds Maturing June 15, 2025 and June 15, 2028

The Series 2003 Bonds maturing June 15, 2025 and June 15, 2028 are subject to redemption prior to maturity in part by lot by operation of a mandatory sinking fund on June 15 in each of the following years and in the following amounts, upon payment of the principal amount thereof plus accrued interest to such date of redemption, but without premium. Selection of any Series 2003 Bonds maturing June 15, 2025 or June 15, 2028, or portions thereof to be redeemed shall be in the sole discretion of the Registrar.

<u>Year</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount</u>
2024	\$2,870,000	2026	\$3,145,000
2025*	3,005,000	2027	3,295,000
		2028*	3,450,000

*Final Maturity

Notice of Redemption

A notice of redemption shall be mailed by first class mail by the Registrar not less than thirty (30) days prior to the redemption date, to each owner whose 2003 Bonds are called for redemption. Each notice of redemption shall state the distinguishing designation of the series of 2003 Bonds to which such notice relates, the date of issue of such series of 2003 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 2003 Bonds of such maturity to be redeemed and, in the case of 2003 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said 2003 Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a 2003 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 2003 Bonds be then surrendered at the address of the Registrar specified in the redemption notice. Any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the City nor the Registrar shall be liable for any inaccuracy in such numbers. Failure of any owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

Registration, Transfer and Exchange

As long as any of the Series 2003 Bonds shall remain outstanding, the City shall maintain and keep at the office of the Registrar an office or agency for the payment of the principal of and interest on the Series 2003 Bonds, and for the registration thereof, and shall also keep at said office of the Registrar books for such registration and transfer.

Upon surrender for transfer of any fully registered Series 2003 Bond at the office of the Registrar with a written instrument of transfer satisfactory to the Registrar duly executed by the registered owner or its duly authorized attorney, and upon payment of any tax, fee or other governmental charge required to be paid with respect to such transfer, the City shall execute and the Registrar shall authenticate and deliver, in the name of the designated transferee or transferees, one or more fully registered Series 2003 Bonds of the same series, of any authorized denominations and of a like aggregate principal amount, interest rate and maturity.

Fully registered Series 2003 Bonds may, upon surrender thereof at the office of the Registrar, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of fully registered Series 2003 Bonds of the same series, maturity and interest rate of any authorized denominations.

In all cases in which the privilege of exchanging Series 2003 Bonds or transferring fully registered Series 2003 Bonds is exercised, the City shall execute and the Registrar shall authenticate and deliver Series 2003 Bonds in accordance with the provisions of the Ordinance. For every such exchange or transfer of Series 2003 Bonds, the City or the Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer.

As to any Series 2003 Bond, the person in whose name the same shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal and the interest on any such Series 2003 Bond shall be made only to or upon the order of the registered owner thereof or its legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Series 2003 Bond, including the interest thereon, to the extent of the sum or sums so paid.

Book-Entry-Only System - Generally

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Series 2003 Bonds. Initially, ownership of one fully registered Series 2003 Bond for each maturity of the Series 2003 Bonds, as set forth on the front cover hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. Ownership interests in the Series 2003 Bonds will be available to purchasers only through a book-entry system (the “Book-Entry System”) maintained by DTC. See APPENDIX F - BOOK-ENTRY-ONLY SYSTEM to this Official Statement.

Book-Entry System Risk Factors

Beneficial Owners of the Series 2003 Bonds may experience some delay in their receipt of distributions of principal of, and interest on, the Series 2003 Bonds since such distributions will be forwarded by the Registrar to DTC and DTC will credit such distributions to the accounts of its Participants, which will thereafter credit them to the accounts of the Beneficial Owners either directly or indirectly through Indirect Participants.

Since transactions in the Series 2003 Bonds can be effected only through DTC, its Participants, Indirect Participants and certain banks, the ability of a Beneficial Owner to pledge any Series 2003 Bonds to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such Series 2003 Bonds, may be limited due to lack of physical certificate. 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 its Participants.

RATINGS

Standard & Poor’s, a division of The McGraw Hill Companies, will assign the Series 2003 Bonds a rating of “AAA,” and Moody’s Investors Service, Inc. will assign the Series 2003 Bonds a rating of “Aaa” conditioned upon the issuance by the Bond Insurer of the Bond Insurance Policy. Standard & Poor’s, a division of The McGraw Hill Companies, has also given the Series 2003 Bonds an underlying rating of “AA+,” and Moody’s Investors Service, Inc. has also given the Series 2003 Bonds an underlying rating of “Aa2.” Any desired explanation of the significance of such ratings should be obtained from Standard & Poor’s, 55 Water Street, New York, New York 10041, telephone (212) 438-2124, and from Moody’s Investors Service, 99 Church Street, New York, New York 10007, telephone (212) 553-0300. The City furnished the rating agencies with certain information and materials relating to the Series 2003 Bonds and the City which have not been included in this Official Statement. Generally, a rating agency bases its rating on the information and materials so furnished and on investigations, studies and assumptions made by such rating agency. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the Series 2003 Bonds.

TAX MATTERS

Federal and Nebraska Tax Exemption. In the opinion of Gilmore & Bell, P.C., Bond Counsel, under existing law, the interest on the Series 2003 Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal and Nebraska income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to

the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal and Nebraska income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2003 Bonds in gross income for federal and Nebraska income tax purposes retroactive to the date of issuance of the Series 2003 Bonds. The Bonds have not been designated as “qualified tax-exempt obligations” for purposes of Section 265(b) of the Code.

Original Issue Discount Bonds. In the opinion of Bond Counsel, subject to the conditions set forth above, the original issue discount in the selling price of each Series 2003 Bond purchased in the original offering at a price less than the par amount thereof (hereinafter referred to as the “OID Bonds”), to the extent properly allocable to each owner of such Series 2003 Bond, is excludable from gross income for federal income tax purposes with respect to such owner. Original issue discount is the excess of the stated redemption price at maturity of an OID Bond over the initial offering price to the public (excluding underwriters and intermediaries) at which price a substantial amount of the OID Bonds were sold. Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. For an owner who acquires an OID Bond in this offering, the amount of original issue discount that accrues during any accrual period generally equals (i) the issue price of such OID Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity on such OID Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such OID Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner’s tax basis in such OID Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of an OID Bond would be treated as gain from the sale or exchange of such Bond. Owners of OID Bonds should consult with their individual tax advisors to determine whether the application of the proposed original issue discount federal regulations will require them to include, for State and local income tax purposes, an amount of interest on the OID Bonds as income even though no corresponding cash interest payment is actually received during the tax year.

Original Issuer Premium Bonds. Certain of the Series 2003 Bonds have an initial offering price which exceeds the stated redemption price of such Series 2003 Bond at maturity. The excess of the purchase price of a Series 2003 Bond over its stated redemption price at maturity constitutes premium on such Series 2003 Bond. A purchaser of a Series 2003 Bond must amortize any premium over such Series 2003 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 2003 Bond each are reduced by a corresponding amount. The adjustment to a purchaser’s tax basis will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Series 2003 Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed.

Purchasers of any Series 2003 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 2003 Bonds.

Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Series 2003 Bonds.

Other Tax Consequences

Prospective purchasers of the Series 2003 Bonds should be aware that there may be tax consequences of purchasing the Series 2003 Bonds other than those discussed above, including the following:

(1) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2003 Bonds or, in the case of a financial institution, that portion of such institution's interest expense allocable to interest on the Series 2003 Bonds;

(2) 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 2003 Bonds;

(3) interest on the Series 2003 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code;

(4) passive investment income, including interest on the Series 2003 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

(5) 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 2003 Bonds.

Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of Series 2003 Bonds should consult their own tax advisors as to the applicability of these tax consequences.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Series 2003 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 2002-2003 fiscal year of the City and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Registrar with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board. The proposed form of the Continuing Disclosure Certificate executed by the City is attached to this Official Statement as APPENDIX E. These covenants have been made in order to assist the Underwriter, in complying with S.E.C. 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 bondholders 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 2003 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2003 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 2003 Bonds or questioning or affecting the validity of the Series 2003 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 Council members or other officers of the City to their respective offices, is being contested or questioned.

There is no litigation pending which in any manner questions the right of the City to pass the Ordinance of the City pursuant to which the Series 2003 Bonds are being issued.

FINANCIAL STATEMENTS

The financial statements and schedules of the City's Sanitary Sewer System for the year ended August 31, 2002 and 2001, included in APPENDIX B to this Official Statement, have been audited by KPMG LLP, independent auditors, as stated in their report appearing herein which refers to the adoption of new accounting standards.

FINANCIAL ADVISOR

Ameritas Investment Corp. ("Ameritas"), Lincoln and Omaha, Nebraska, is serving as financial advisor to the City with respect to the sale of the Series 2003 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 2003 Bonds and provided other advice. Ameritas will not participate as an underwriter in any offer to purchase the Series 2003 Bonds.

LEGAL MATTERS

All legal matters incidental to the authorization, issuance, sale and validity of the Series 2003 Bonds are subject to the approval of Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel. Certain legal matters will be passed on by Gilmore & Bell, P.C., Lincoln, Nebraska, as Disclosure Counsel. Such attorneys have not participated in any independent verification of the information concerning the financial condition or capabilities of the City contained in this Official Statement.

MISCELLANEOUS

All estimates and assumptions herein have been made on the basis of the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates or assumptions are current or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

The information set forth in this Official Statement should not be construed as representing all of the conditions affecting the City, the System or the Series 2003 Bonds.

This Official Statement is issued by the City.

CITY OF LINCOLN, NEBRASKA

By: _____ /s/ Don Herz
Finance Director

APPENDIX A

THE CITY OF LINCOLN

THE CITY OF LINCOLN

General

Lincoln, the capital of Nebraska, is located in southeastern Nebraska near the center of population of the state. The City was originally incorporated in 1869. It is approximately midway between Chicago and Denver. It has an area of 79.55 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.

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 2002 population is 231,800.

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 5,455 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 Airlines, American Airlines, U.S. Air Express, and Northwest/Mesaba Airlines. 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 22,450 students, Nebraska Wesleyan University, with approximately 1,650 students, Union College with approximately 860 students, and Southeast Community College, with a number of facilities for both full-time and part-time occupational training, are in the City of Lincoln. The City’s modern and progressive school system, with an enrollment of over 31,867 is served by 5 senior high schools, 10 middle schools, and 37 elementary schools. There are also 31 private and parochial schools in the City with an enrollment of approximately 6,591 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	
2002	1,013	\$ 245,476,386	3,405	\$ 262,293,941	\$ 3,094,988,486	\$ 7,255,640,292	\$ 10,350,628,778
2001	1,017	215,856,679	3,212	231,390,626	2,855,200,333	7,048,688,380	9,903,888,713
2000	1,069	181,983,107	3,385	225,622,611	2,540,905,431	6,273,610,610	8,814,516,041
1999	1,148	186,569,754	3,235	206,065,342	2,356,367,014	6,067,493,586	8,423,860,600
1998	1,093	119,532,867	3,109	185,894,741	2,132,780,337	5,726,511,673	7,859,292,010
1997	1,107	90,599,429	3,284	191,975,903	1,986,422,642	4,863,604,491	6,850,027,133
1996	1,212	148,033,633	2,976	167,561,114	1,840,136,792	4,676,645,258	6,516,782,050
1995	1,140	110,994,400	2,739	146,598,151	1,734,716,053	4,508,422,380	6,243,138,433
1994	1,117	136,104,897	3,114	156,183,375	1,703,370,467	4,336,950,337	6,040,320,804
1993	1,027	105,463,763	2,528	129,375,506	1,359,824,873	3,209,649,927	4,569,474,800

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 2002-2003 fiscal year, contracts have been signed with all of our unions. Unions include: the Lincoln Police Union (LPU) representing police officers; the International Association of Firefighters (IAF) representing firefighters, the Amalgamated Transit Union (ATU) representing transit workers, the National Association of Government Employees (NAGE) representing labor, trades, and clerical personnel, and the City Employees Association (CEA) representing supervisory, highly technical, and professional personnel. The CEA, LPU and ATU contracts expire at the end of August, 2003; the IAF contract expires at the end of August, 2004; and the NAGE contract expires at the end of August, 2005.

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 three national banks and eight state banks.

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

SELECTED ECONOMIC INDICATORS

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

	<u>JUNE 30, 2002</u>		<u>DECEMBER 31, 2002</u>	
	<u>Number Employed</u>	<u>Percent of Total</u>	<u>Number Employed</u>	<u>Percent of Total</u>
Industry Manufacturing:				
Durable Goods	9,523	5.9	9,174	5.7
Nondurable Goods	<u>7,236</u>	<u>4.5</u>	<u>7,234</u>	<u>4.5</u>
Total Industry Manufacturing	<u>16,759</u>	<u>10.5</u>	<u>16,408</u>	<u>10.1</u>
Nonmanufacturing:				
Mining & Construction	8,549	5.3	8,017	5.0
Transportation, Communications & Utilities	6,625	4.1	6,599	4.1
Wholesale Trade	4,673	2.9	4,642	2.9
Retail Trade	16,171	10.1	17,487	10.8
Information	3,336	2.3	3,376	2.3
Finance, Insurance & Real Estate	10,756	6.7	10,797	6.7
Services (except domestic)	57,210	35.7	57,394	35.5
Government	<u>36,193</u>	<u>22.6</u>	<u>37,075</u>	<u>22.9</u>
Total Nonmanufacturing	<u>143,513</u>	<u>89.8</u>	<u>145,387</u>	<u>90.1</u>
TOTAL	<u><u>160,272</u></u>	<u><u>100.0</u></u>	<u><u>161,795</u></u>	<u><u>100.0</u></u>

LINCOLN SMSA (LANCASTER COUNTY LABOR FORCE DATA 1993-2002)
(For the Calendar Year Indicated)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Civilian Labor Force	129,463	132,465	136,014	137,967	142,807	142,918	142,384	150,239	150,846	153,021
Unemployment	3,006	3,487	3,060	3,327	2,494	3,208	3,397	3,542	4,209	5,007
Percent of Labor Force	2.3	2.6	2.2	2.4	1.7	2.2	2.4	2.4	2.8	3.3
Employment	126,457	128,978	132,954	134,640	140,313	139,710	138,987	146,697	146,636	148,013

STATE OF NEBRASKA

Percent of Labor Force Unemployment	2.9	2.5	2.6	2.7	2.3	2.7	2.9	2.7	3.1	3.6
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Source: State of Nebraska, Department of Labor

**DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

Year	Population ¹	Per Capita Income ²	School Enrollment ³
2002	231,800	\$	31,867
2001	225,588		31,581
2000	218,497	28,752	31,354
1999	217,537	28,493	31,052
1998	215,000	27,487	31,000
1997	209,192	24,602	30,924
1996	206,100	23,591	30,779
1995	203,076	22,446	30,693
1994	199,350	21,169	30,041
1993	197,482	20,130	29,943

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 2001 and 2002 is unavailable.

3 Lincoln Public Schools.

**LINCOLN UTILITY CUSTOMERS
LAST TEN YEARS**

<u>Year</u>	<u>Water Customers</u>	<u>Gas Customers</u>	<u>Electricity Customers</u>
2002	69,704	89,085	116,974
2001	68,187	87,749	114,388
2000	66,956	86,501	112,817
1999	65,823	85,156	110,524
1998	64,423	80,770	107,701
1997	63,905	79,490	105,970
1996	62,828	78,488	103,603
1995	61,500	77,470	101,277
1994	61,047	76,400	99,693
1993	59,700	75,700	96,361

Source: Indicated Utility Companies

SELECTED FINANCIAL STATISTICS

**GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION ¹
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Streets And Highways</u>	<u>Culture And Recreation</u>	<u>Economic Opportunity</u>	<u>Health And Welfare</u>	<u>Mass ² Transit</u>	<u>Debt Service</u>	<u>Totals</u>
2002	\$ 27,237,134	49,913,169	10,833,055	16,974,798	14,017,601	15,513,515	12,691,837	7,411,878	154,592,987
2001	23,821,580	48,122,074	11,175,059	14,806,760	12,559,336	14,232,879	-	7,742,690	132,460,378
2000	23,529,495	44,042,882	9,039,840	13,958,414	11,204,029	12,589,907	-	7,924,295	122,288,862
1999	21,891,174	41,555,922	9,406,531	13,254,994	10,215,261	11,226,029	-	6,937,983	114,487,894
1998	30,170,768	41,140,827	8,992,439	13,111,328	12,009,990	10,979,131	-	7,317,239	123,721,722
1997	17,791,275	35,073,010	10,348,129	12,655,548	8,581,741	9,491,687	-	7,807,532	101,748,922
1996	21,642,981	35,208,168	8,204,830	12,475,318	8,638,263	8,874,148	-	7,468,367	102,512,075
1995	19,324,778	32,268,654	7,707,436	11,546,106	9,027,752	7,838,386	-	7,161,326	94,874,438
1994	17,757,517	29,709,169	7,039,926	10,611,776	8,104,312	7,019,362	-	9,116,154	89,358,216
1993	15,561,262	28,560,001	7,724,395	10,355,012	8,091,916	6,067,846	-	9,647,393	86,007,825

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

<u>Fiscal Year</u>	<u>Taxes And Special Assessment</u>	<u>Inter-Governmental</u>	<u>Permits And Fees</u>	<u>Reimbursement For Services</u>	<u>Investment Earnings</u>	<u>Other</u>	<u>Totals</u>
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
1994	72,266,306	24,954,144	4,289,234	2,862,622	1,352,122	8,583,766	114,308,194
1993	65,691,255	24,165,654	3,441,494	2,116,029	1,279,216	5,923,261	102,616,909

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

<u>Fiscal Year Ended August 31</u>	<u>Special Assessment Collections Including Interest</u>
2002	\$ 1,867,653
2001	1,796,924
2000	1,948,791
1999	2,359,812
1998	2,104,022
1997	2,390,085
1996	2,484,416
1995	2,337,275
1994	2,770,059
1993	2,903,065

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 2002 tax levy for the 2002-2003 fiscal year is \$48,669,563 below the legal limit, a tax rate per \$100 valuation of .31452. The assessed value upon which the 2002 levy is based is \$11,130,588,167. Only 90% of the property tax levy may be appropriated, by charter.

For the 2002-2003 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 2002-2003 the City can also use authority equal to the amount of real growth in the tax base of 4.30%. An additional 1% can be authorized by a 75% vote of the City Council but was not utilized for the 2002-2003 budget. The 2002-2003 budget is approximately \$16.4 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

Tax Year	Taxes Levied	Collected As Of August 31 After Levy		Accumulated Collections As Of August 31, 2002	
		Amount	Percent	Amount	Percent
2001	\$ 33,731,282	\$ 32,501,760	96.35 %	\$ 32,501,760	96.35 %
2000	31,159,364	29,936,079	96.07	31,119,625	99.87
1999	29,603,794	28,665,780	96.83	29,751,358	100.50
1998	27,597,664	26,411,546	95.70	27,401,301	99.29
1997	26,812,692	25,758,577	96.07	27,002,912	100.71
1996	27,022,949	25,894,971	95.83	27,012,941	99.96
1995	26,717,464	25,626,901	95.92	26,807,251	100.34
1994	26,289,058	25,209,483	95.89	26,295,505	100.02
1993	25,962,618	25,108,543	96.71	26,253,275	101.12
1992	24,951,389	23,789,500	95.34	24,936,187	99.94

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

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TEN LARGEST PROPERTY TAXPAYERS

Listed below are the ten largest property 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>	2002 <u>Assessed Valuations</u>	Percentage Of Total <u>Assessed Valuation</u>
Alltel Communications	Telecommunications	\$ 84,443,473	.76%
Kawasaki	Manufacturing	61,047,430	.55
Pfizer	Animal Health	51,035,883	.46
Burlington Northern	Railroad	48,504,622	.44
Molex Inc.	Manufacturing	44,982,045	.40
WEA Gateway LLC	Retail Management	43,142,298	.39
B & J Partnership	Building Management	39,222,660	.35
Chateau Van Dorn LLC	Real Estate Development	37,319,079	.34
RED Capital Management	Retail Management	36,133,814	.32
Aquila	Utility	<u>30,842,051</u>	<u>.28</u>
		<u>\$ 476,673,355</u>	<u>4.29%</u>

CITY SALES TAX INFORMATION

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

SALES AND USE TAX COLLECTIONS LAST TEN YEARS

<u>Year Ended August 31</u>	<u>Amount</u>
2002	\$ 45,393,491
2001	44,486,127
2000	43,608,313
1999	41,642,771
1998	37,479,413
1997	36,549,194
1996	33,543,308
1995	31,420,946
1994	29,739,476
1993	25,920,431

**GENERAL FUND TAX COLLECTIONS
LAST TEN YEARS**

<u>Fiscal Year</u>	<u>Property and Motor Vehicle Taxes</u>	<u>Sales and Use Taxes</u>	<u>Insurance Taxes</u>	<u>Sundry Taxes</u>	<u>Taxes In Lieu</u>	<u>Occupation Taxes</u>	<u>Total</u>
2002	\$ 23,353,414	45,393,491		8,403	1,163,468	9,097,442	79,016,218
2001	20,284,364	44,486,127		8,497	1,107,183	5,889,097	71,775,268
2000	19,487,198	43,608,313		8,522	1,043,287	5,651,371	69,798,691
1999	20,741,154	41,642,771		17,516	1,080,495	5,721,321	69,203,257
1998	18,953,860	37,479,413	889,226	8,647	944,612	4,743,649	63,019,407
1997	19,642,898	36,549,194	921,550	14,903	960,260	4,783,841	62,872,646
1996	19,407,255	33,543,308	984,537	15,438	978,909	4,437,038	59,366,485
1995	19,565,473	31,420,946	958,656	20,132	943,930	5,311,487	58,220,624
1994	19,576,322	29,739,476	1,039,534	22,649	914,133	5,589,410	56,881,524
1993	19,409,013	25,920,431	1,035,911	31,372	875,455	5,527,320	52,799,502

**TAXABLE ASSESSED VALUATION
LAST TEN YEARS ¹**

<u>Tax Year</u>	<u>Real Estate</u>	<u>All Other</u>	<u>Motor Vehicle</u>	<u>Total</u>
2002	\$ 10,350,628,778	779,959,389		11,130,588,167
2001	9,903,888,713	820,797,124		10,724,685,837
2000	8,814,516,041	806,431,814		9,620,947,855
1999	8,423,860,600	716,780,457		9,140,641,057
1998	7,859,292,010	660,609,204		8,519,901,214
1997	6,850,027,133	637,669,384		7,487,696,517
1996	6,516,782,050	525,762,951	706,470,078	7,749,015,079
1995	6,243,138,433	442,913,618	639,647,617	7,325,699,668
1994	6,040,320,804	431,628,371	598,259,561	7,070,208,736
1993	4,569,474,800	424,296,765	542,119,130	5,535,890,695

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									
	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
City Of Lincoln	0.3145	0.3145	0.3239	0.3239	0.3239	0.3581	0.3837	0.3996	0.4062	0.5199
School District No. 1	1.2830	1.2732	1.3684	1.3813	1.3050	1.6308	1.6260	1.5946	1.6084	1.9098
Lancaster County	0.2683	0.2583	0.2643	0.2584	0.2782	0.2966	0.3106	0.3169	0.3051	0.3584
Educational Service Unit #18	0.0150	0.0150	0.0150	0.0150	0.0149	0.0089	0.0081	0.0082	0.0082	0.0078
Community Technical College	0.0655	0.0636	0.0295	0.0334	0.0696	0.0782	0.0840	0.0864	0.0843	0.0917
Lower Platte South Natural Res. Dist.	0.0359	0.0365	0.0367	0.0372	0.0389	0.0365	0.0346	0.0346	0.0293	0.0349
Railroad Transportation Safety Dist.	0.0220	0.0221	0.0260	0.0260	0.0260	0.0260	0.0091	0.0096	0.0096	0.0130
Agricultural Society Of Lancaster County	0.0012	0.0024	0.0073	0.0032	0.0013	0.0364	0.0364	0.0014	0.0014	0.0017
Lancaster County Fairgrounds	0.0050	0.0052								
Public Building Commission	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0169	0.0170	0.0127	0.0170
	<u>2.0274</u>	<u>2.0078</u>	<u>2.0881</u>	<u>2.0954</u>	<u>2.0748</u>	<u>2.4885</u>	<u>2.5094</u>	<u>2.4683</u>	<u>2.4652</u>	<u>2.9542</u>

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

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DEBT MANAGEMENT
OUTSTANDING INDEBTEDNESS AS OF AUGUST 31, 2002

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

Original Amount	Issued	Issue	Average Interest Rate	When Due	Date Callable	Interest Date	Outstanding
General Obligation Bonds:							
General Bonds:							
5,193	09/15/89	Sanitary Improvement District #7	5.00000	Ser. '91 to '10	1990	Annually	\$ 2,032
4,570	06/01/93	Various Purpose Refunding	4.47364	Ser. '94 to '06	1998	Semiannually	1,305
10,740	07/01/93	Downtown Redev. Refunding	4.26203	Ser. '93 to '02	1998	"	1,265
4,000	04/15/95	Storm Sewer	5.45795	Ser. '95 to '15	2002	"	2,600
6,500	08/01/95	Various Purpose	5.18442	Ser. '96 to '15	2002	"	4,550
8,250	08/15/97	Storm Sewer and Drainage	4.92735	Ser. '99 to '17	2005	"	7,380
14,435	03/01/99	Various Purpose Series A	4.46209	Ser. '00 to '14	2009	"	12,195
7,365	03/01/99	Various Purpose Series A	4.46209	Term '15 to '19	2009	"	7,365
8,220	03/01/99	Various Purpose Series B	3.81227	Ser. '99 to '11	2007	"	5,965
7,500	05/29/02	Storm Sewer and Drainage	4.71847	Ser. '04 to '20	2010	"	7,500
Total General Bonds							<u>\$ 52,157</u>
Municipal Infrastructure Redevelopment Bonds:							
3200	06/13/00	Municipal Infrastructure Redev.	5.04700	Ser. '01 to '09	2005	Semiannually	<u>\$ 2,685</u>
Tax Allocation Bonds:							
1,310	11/15/92	Tax Allocation Bonds	5.87280	Ser. '93 to '06	1997	Semiannually	\$ 445
105	11/15/92	Tax Allocation Bonds	6.35000	Term '93 to '06	1997	"	55
90	11/15/92	Tax Allocation Bonds	6.30000	Term '93 to '05	1997	"	45
303	10/18/94	Tax Allocation Bonds	8.00000	Term '95 to '05	Anytime	"	129
232	04/21/00	Tax Allocation Bonds	5.49750	Ser. '01 to '10	2000	"	196
1,200	05/01/01	Tax Allocation & Refunding Bonds	3.63774	Ser. '01 to '04	2003	"	975
Total Tax Allocation Bonds							<u>\$ 1,845</u>
Total General, MIRF, And Tax Allocation Bonds							<u>\$ 56,687</u>
Special Assessment Bonds:							
3,860	11/15/89	Special Assessment Revolving	6.47384	Ser. '90 to '04	1996	Semiannually	<u>\$ 310</u>
TOTAL GENERAL OBLIGATION BONDS							<u>\$ 56,997</u>
Tax-Supported Revenue Bonds:							
11,080	2/27/02	Antelope Valley Project	4.49907	Ser. '02 to '16	2012	Semiannually	<u>\$ 11,080</u>
Revenue Bonds And Loans:							
60,000	08/15/93	Water Revenue	5.13966	Ser. '94 to '12	2003	Semiannually	<u>\$ 37,810</u>
9,018	02/05/91	Wastewater Revenue Project Loan	5.00000	1992 to 2007	1992	Semiannually	<u>\$ 5,593</u>
6,815	09/08/99	Parking Revenue Series A	5.18256	Ser. '00 to '14	2001	Semiannually	\$ 5,920
6,695	09/08/99	Parking Revenue Series A	5.18256	Term 2014	2001	"	6,695
2,125	09/08/99	Parking Revenue Series B	6.25000	Ser. '00 to '04	2001	"	940
6,000	12/05/02	Parking Revenue	4.78376	Ser. '02 to '21	2011	"	5,715
Total Parking Bonds							<u>\$ 19,270</u>
3,165	10/23/01	Golf Course Revenue Refunding	3.66003	Ser. '02 to '11	2008	Semiannually	<u>\$ 2,860</u>
184,650	07/01/93	Electric Refunding '93 Series A	4.68942	Ser. '94 to '11	2004	"	128,055
62,005	07/01/93	Electric Refunding '93 Series A	5.25000	Term 2015	2012	"	62,005
45,560	02/15/98	Electric Revenue Bonds '98 Series A	4.65000	Ser. '98 to '18	2008	"	39,825
141,150	08/15/01	Electric Revenue Bonds '01	5.07478	Ser. '06 to '20	2011	"	141,150
Total Electric Bonds							<u>\$ 371,035</u>
TOTAL REVENUE BONDS AND LOANS							<u>\$ 436,568</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
2003	\$ 5,060	2,523	105	18	270	446	148	86
2004	3,850	2,333	105	10	555	436	158	80
2005	3,936	2,168	100	3	565	423	142	73
2006	3,770	2,004	-	-	580	409	138	67
2007	3,519	1,840	-	-	595	391	102	61
2008 - 2012	16,222	6,866	-	-	3,305	1,618	594	220
2013 - 2017	13,395	3,486	-	-	5,210	773	347	84
2018 - 2022	6,345	718	-	-	-	-	189	12
2023 - 2027	590	15	-	-	-	-	-	-
	<u>\$ 56,687</u>	<u>21,953</u>	<u>310</u>	<u>31</u>	<u>11,080</u>	<u>4,496</u>	<u>1,818</u>	<u>683</u>

Fiscal Year Ended August 31	Business-Type Activities			
	Revenue Bonds And Loans		Capital Leases	
	Principal	Interest	Principal	Interest
2003	\$ 15,442	22,087	290	64
2004	18,123	21,367	300	53
2005	19,038	20,507	310	40
2006	20,922	19,595	320	28
2007	20,828	18,584	207	14
2008 - 2012	115,200	76,604	212	5
2013 - 2017	137,835	44,915	-	-
2018 - 2022	89,180	9,224	-	-
	<u>\$ 436,568</u>	<u>232,883</u>	<u>1,639</u>	<u>204</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 \$6,526,669, \$2,613,313, \$3,657,506, and \$4,699,699 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:

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	Governmental Activities	Business-Type Activities
Land	\$ 42,000	\$ 210,000
Buildings	2,185,750	-
Machinery and Equipment	206,597	1,748,261
Less: Accumulated Depreciation, (where applicable)	<u>(440,237)</u>	<u>(228,999)</u>
Total	<u>\$ 1,994,110</u>	<u>\$ 1,729,262</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. In the opinion of management, the City is in compliance with all such significant limitations and restrictions.

Established by City Ordinance, LES may borrow up to \$125 million under a commercial paper note program. At December 31, 2001, LES had \$75 million of 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, 2001, was 3 percent. The annual requirement to pay interest on this outstanding debt is approximately \$2,250,000. 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, 2002, is summarized below (unaudited):

<u>Units</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable To The City</u>	<u>Direct And Overlapping Debt To The City</u>
Direct:			
City	\$ 41,150,000	100.0 %	\$ 41,150,000
Overlapping:			
School District #1	123,590,000	97.2	120,129,000
Airport Authority	3,577,000	100.0	3,577,000
Lancaster County	10,616,000	84.6	8,981,000
Public Building Commission	37,620,000	84.6	31,827,000
Southeast Community College	None	35.9	None
	<u>175,403,000</u>		<u>164,514,000</u>
Total	<u>\$ 216,553,000</u>		<u>\$ 205,664,000</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 \$177.52; a per capita direct and overlapping debt of \$954.27; a ratio of direct City debt to 2001 actual valuation of .37 percent; and a ratio of direct and overlapping debt to 2002 actual valuation of 1.99 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**

Fiscal Year	Principal	Interest ³	Total Debt Service	Total General Governmental Expenditures ^{1,4}	Ratio Of Debt Service To Total General Expenditures
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	159,878,390	4.83
2000	5,125,296	2,772,021	7,897,317	141,358,841	5.59
1999	4,209,267	2,301,745	6,511,012	130,523,312	4.99
1998	4,927,317	2,329,696	7,257,013	138,023,575	5.26
1997	5,469,089	2,274,947	7,744,036	115,145,942	6.73
1996	4,959,621	2,445,185	7,404,806	115,693,553	6.40
1995	4,827,845	2,086,601	6,914,446	102,504,650	6.75
1994	6,603,251	2,349,574	8,952,825	96,549,425	9.27
1993	6,380,195	3,093,979	9,474,174	95,555,093	9.91

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
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
1994	42,845,000	12,423,441	30,421,559	199,350	152.60	7,070,208,736	0.43	6,040,320,804	0.50
1993	47,954,000	12,945,562	35,008,438	197,482	177.27	5,535,890,695	0.63	4,569,474,800	0.77

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>							
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
1994	14,366,125	6,538,152	7,827,973	970,000	776,009	1,746,009	4.48
1993	13,145,256	6,398,829	6,746,427	910,000	821,593	1,731,593	3.90
<u>Water System</u>							
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
1994	20,256,136	6,858,777	13,397,359	2,145,000	3,036,215	5,181,215	2.59
1993	17,866,972	6,359,712	11,507,260	1,230,000	3,096,495	4,326,495	2.66
<u>Parking Facilities</u> 1, 2							
2002	\$ 5,483,546	1,964,389	3,519,157	1,115,000	924,470	2,039,470	1.73
2001	5,172,264	2,127,350	3,044,914	795,000	787,419	1,582,419	1.92
2000	4,853,708	1,393,637	3,460,071	455,000	761,521	1,216,521	2.84
1999	4,209,988	2,329,165	1,880,823	585,000	640,712	1,225,712	1.53
1998	4,068,991	1,340,709	2,728,282	455,000	651,694	1,106,694	2.47
1997	3,623,705	1,110,085	2,513,620	435,000	670,847	1,105,847	2.27
1996	3,411,735	1,271,655	2,140,080	415,000	908,380	1,323,380	1.62
1995	3,205,953	1,025,468	2,180,485	400,000	483,214	883,214	2.47
1994	2,242,835	724,003	1,518,832	110,000	316,975	426,975	3.56
1993	2,101,383	608,667	1,492,716	220,000	331,262	551,262	2.71

- 1 Includes parking meter revenues which 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 BONDED INDEBTEDNESS AND DEBT SERVICE FUND
SUMMARY CASH FLOW STATEMENT
FOR LAST TEN FISCAL YEARS

	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>	<u>F.Y. 2002</u>
Cash Balance - September 1 of Year Indicated	2,000,428	2,518,561	3,006,570	3,705,634	3,748,493	4,000,777	3,682,098	3,536,402	3,313,405	3,099,198
Receipts:										
Property Tax	4,804,595	4,713,228	4,435,594	4,325,012	4,350,593	4,461,628	4,475,066	5,843,384	5,814,489	6,340,938
Interest Income	85,820	50,564	67,073	151,746	166,270	236,658	145,534	174,146	107,693	53,873
Bond Proceeds	777,696						189,482			
Other Income	<u>168,140</u>	<u>1,433</u>	<u>147,490</u>	<u>216,570</u>	<u>656,811</u>	<u>116,996</u>	<u>54,475</u>	<u>247,591</u>	<u>235,736</u>	232,009
Total Receipts	<u>5,836,251</u>	<u>4,765,225</u>	<u>4,650,157</u>	<u>4,693,328</u>	<u>5,173,674</u>	<u>4,815,282</u>	<u>4,864,557</u>	<u>6,265,121</u>	<u>6,157,918</u>	<u>6,626,820</u>
Disbursements:										
Bonds Paid	2,964,995	2,692,151	2,809,007	2,801,208	3,158,769	3,304,097	2,725,042	3,973,769	4,052,948	4,137,254
Bonds Defeased										
Interest Paid	2,074,700	1,551,148	1,482,193	1,835,496	1,756,656	1,817,400	1,955,821	2,500,471	2,308,922	2,144,322
Transfer to Trustee	165,833						164,400			
Other Disbursements	<u>112,590</u>	<u>33,917</u>	<u>13,281</u>	<u>13,765</u>	<u>5,965</u>	<u>12,464</u>	<u>164,990</u>	<u>13,878</u>	<u>10,255</u>	<u>3,905</u>
Total Disbursements	<u>5,318,118</u>	<u>4,277,216</u>	<u>4,304,481</u>	<u>4,650,469</u>	<u>4,921,390</u>	<u>5,133,961</u>	<u>5,010,253</u>	<u>6,488,118</u>	<u>6,372,125</u>	<u>6,285,481</u>
Equity Transfer			<u>353,388</u>							
Cash Balance - August 31 of Year Indicated	<u>2,518,561</u>	<u>3,006,570</u>	<u>3,705,634</u>	<u>3,748,493</u>	<u>4,000,777</u>	<u>3,682,098</u>	<u>3,536,402</u>	<u>3,313,405</u>	<u>3,099,198</u>	<u>3,440,537</u>

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

	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>	<u>F.Y. 2002</u>
Cash & Investment Balance - September 1 of Year Indicated	2,003,110	6,578,059	13,711,860	17,986,481	20,599,597	26,542,206	22,742,585	25,069,133	26,814,745	24,802,768
Receipts:										
Property Tax	19,409,013	19,576,322	19,566,778	19,400,997	19,642,898	18,953,860	20,741,154	19,487,198	20,284,364	23,353,414
City Sales & Use Tax	25,920,431	29,739,476	31,420,946	33,543,308	36,549,194	37,479,413	41,642,771	43,608,313	44,486,127	45,393,492
Other Income	<u>16,275,304</u>	<u>18,048,188</u>	<u>19,455,828</u>	<u>20,709,728</u>	<u>18,708,672</u>	<u>19,373,404</u>	<u>19,991,222</u>	<u>21,339,093</u>	<u>21,786,016</u>	<u>26,342,414</u>
Total Receipts	61,604,748	67,363,986	70,443,552	73,654,033	74,900,764	75,806,677	82,375,147	84,434,604	86,556,507	95,089,320
Less Disbursements	<u>57,029,799</u>	<u>60,230,185</u>	<u>66,168,931</u>	<u>71,040,917</u>	<u>68,958,155</u>	<u>79,606,298</u>	<u>80,048,599</u>	<u>82,688,992</u>	<u>88,568,484</u>	<u>93,302,095</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>6,578,059</u>	<u>13,711,860</u>	<u>17,986,481</u>	<u>20,599,597</u>	<u>26,542,206</u>	<u>22,742,585</u>	<u>25,069,133</u>	<u>26,814,745</u>	<u>24,802,768</u>	<u>93,302,095</u>

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

	<u>F.Y. 1993</u>	<u>F.Y. 1994</u>	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>	<u>F.Y. 2002</u>
Cash & Investment Balance - September 1 of Year Indicated	6,583,173	6,439,598	6,746,441	6,053,742	4,855,959	5,150,392	5,357,118	5,003,362	4,964,458	3,778,207
Receipts:										
Special Assessment Collections	2,349,437	2,211,020	1,883,342	2,080,536	1,972,082	1,818,743	1,992,503	1,638,233	1,529,352	1,360,347
Interest on Special Assessments	553,627	559,039	453,933	403,880	418,003	285,279	367,309	310,558	257,157	294,839
City's Share of Costs	1,285,566	923,341	1,608,296	203,943	161,620		2,038,202	895,961	2,516,175	2,145,574
Developers' Share of Costs	11,649	582,000		14,163	40,508	685,754	75,572		473,445	4,617
Bond Proceeds	1,484,535									
Interest on Investments	224,539	189,783	259,639	312,003	253,112	341,581	241,768	286,460	219,536	137,143
Miscellaneous	<u>1,435</u>	<u>864</u>	<u>67,011</u>	<u>583</u>	<u>4,134</u>		<u>244,724</u>	<u>993,245</u>	<u>144,005</u>	<u>474,438</u>
Total Receipts	<u>5,910,788</u>	<u>4,466,047</u>	<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>
Disbursements:										
Construction Costs	2,554,435	2,135,297	3,018,759	2,408,261	703,170	1,637,987	2,333,433	2,338,999	3,646,025	1,090,434
Bonds Paid	2,491,700	1,226,100	1,105,000	1,170,000	1,115,000	1,105,000	785,000	770,000	270,000	110,000
SID Warrants										
Interest Paid on Bonds & Notes	539,099	396,254	342,607	285,745	225,544	167,055	110,155	67,293	39,438	24,762
Other Refunds & Expenses	<u>469,129</u>	<u>401,553</u>	<u>498,554</u>	<u>348,886</u>	<u>511,312</u>	<u>14,589</u>	<u>2,085,246</u>	<u>987,069</u>	<u>2,370,458</u>	<u>383,336</u>
Total Disbursements	<u>6,054,363</u>	<u>4,159,204</u>	<u>4,964,920</u>	<u>4,212,892</u>	<u>2,555,026</u>	<u>2,924,631</u>	<u>5,313,834</u>	<u>4,163,361</u>	<u>6,325,921</u>	<u>1,608,532</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>6,439,598</u>	<u>6,746,441</u>	<u>6,053,742</u>	<u>4,855,959</u>	<u>5,150,392</u>	<u>5,357,118</u>	<u>5,003,362</u>	<u>4,964,458</u>	<u>3,778,207</u>	<u>6,586,633</u>

**LINCOLN WASTEWATER SYSTEM
FINANCIAL STATEMENTS & SCHEDULES
Fiscal Years Ended August 31, 2002 and 2001**

ANNUAL AUDITED FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS/UTILITIES

CITY OFFICIALS

Don Wesely Mayor

COUNCIL MEMBERS

Jonathan Cook Chair

Jon Camp Vice-Chair

Annette McRoy

Glenn Friendt

Ken Svoboda

Terry Werner

Coleen Seng

WASTEWATER SYSTEM

Allan Abbott Director of Public Works/Utilities

LINCOLN WASTEWATER SYSTEM
Management's Discussion and Analysis

Management's discussion and analysis provides an overview of the Lincoln Wastewater System's (System) financial activities for the fiscal year ended August 31, 2002.

The System is a self-supporting entity and follows enterprise fund accounting; accordingly, the financial statements are presented using the accrual basis of accounting and economic measurement focus. The System's financial report consist of two parts – Management's Discussion and Analysis, and the Basic Financial Statements, notes to the financial statements, and supplemental schedules. Management's discussion and analysis should be read in conjunction with the basic financial statements.

Lincoln Wastewater System's Credit:

Currently the System's only debt includes a low-interest State Revolving Fund Loan. The System does not have a credit rating from Standard & Poor's or Moody's Rating Services since Nebraska Investment Finance Authority is the agency issuing the bonds. The loan agreement between the City of Lincoln and the State of Nebraska includes provisions that were similar to the protective bond covenants that covered bond issues at the time the System received this loan. The conditions of the repayment of the loan was set up in this manner to show parity. The City wanted to insure the bond holders the loan would not be paid back faster than the outstanding revenue bonds.

This Loan agreement provides for the funding of annual maturities and interest payments and maintenance of sewer rates sufficient to provide the average net operating revenue for the last two fiscal years, prior to depreciation equal to or in excess of 150% of the maximum annual debt service prior to the issuance of new bonds. Based on the maximum annual debt service on the loan outstanding at August 31, 2002, and based on one-half of the net operating revenue prior to depreciation for the twenty-four month period ended August 31, 2002, the debt service ratio is computed to be 509%. The average net operating revenue before depreciation for the past two fiscal years was 5.05 times the annual debt service for Fiscal Year 2001-2002.

Financial Analysis:

The System's overall financial position and results of operations for the current and prior year are summarized below. This information is derived from the basic financial statements.

	<u>2002</u>	<u>2001</u>
Total Assets:		
Capital assets	\$121,461,896	\$115,685,326
Other assets	33,890,479	33,975,165
Total Liabilities:		
Current liabilities	3,598,178	1,992,649
Long term liabilities	4,649,797	5,671,401
Net Assets:		
Invested in capital assets, net of related debt	115,869,330	109,100,260
Restricted per revenue bond indentures	14,717,085	15,378,103
Restricted for debt service	1,719,318	1,688,370
Unrestricted	14,798,667	15,829,708
Total operating revenues (primarily from customer sales)	15,026,486	14,945,415

Total operating expenses		
Plant, pumpage and treatment	6,864,874	6,213,066
Operation and Maintenance of wastewater line	3,035,272	2,496,716
Sanitary engineering services	1,390,516	1,417,521
Accounting and collecting	517,943	482,683
Administrative and general	851,245	836,065
Change in net assets	\$ 5,107,959	\$ 7,383,642

Total assets increased by \$5,691,884.

Net utility plant increased during the year by \$5,776,570. Major capital asset events during 2002 included the following:

- Anaerobic Digester Modifications and Improvements; construction in progress as of August 31, 2002, is \$3,305,930.
- Aeration System Improvements; construction in progress as of August 31, 2002, is \$2,780,457.

Total assets of the System as of August 31, 2002, are \$155,352,375 with debt of \$5,592,566 (including current maturities).

Operating costs for the System increased by \$1,213,799 for the year. Solids processing costs were up 22% from 2001. Because of construction at the Northeast Treatment Plant, solids and flow had to be diverted to the Theresa Street Plant where processing costs are much higher. In addition, solids could not be injected into the ground because of the drought conditions experienced by Nebraska in 2002. Depreciation expense was up 20% from 2001 because assets placed in service during 2001, with a cost of \$25,711,370, resulted in a full year's depreciation expense in 2002.

Interest income decreased by \$1,013,297 for 2002 because of the historically low interest rates the system earned on investments.

Contact Information:

This financial report is intended to provide users with a general overview of the System's financial performance for fiscal year 2002. 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.



233 South 13th Street, Suite 1600
Lincoln, NE 68508-2041

Two Central Park Plaza
Suite 1501
Omaha, NE 68102

Independent Auditors' Report

The Honorable Mayor and
City Council
Lincoln, Nebraska:

We have audited the accompanying statements of net assets of Lincoln Wastewater System as of August 31, 2002 and 2001 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 present only the Lincoln Wastewater System enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2002 and 2001, and the changes in its financial position and 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, 2002 and 2001, 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.

As described in note 1 to the financial statements, Lincoln Wastewater System adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Disclosures*.

The Management's Discussion and Analysis on pages 2 and 3 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



In accordance with *Government Auditing Standards*, we have also issued a report dated November 1, 2002 on our consideration of the Lincoln Wastewater System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in Schedules 1 through 7 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 financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

KPMG LLP

November 1, 2002
Lincoln, Nebraska

LINCOLN WASTEWATER SYSTEM

Statements of Net Assets

August 31, 2002 and 2001

Assets	2002	2001
Current assets:		
Cash and cash equivalents	\$ 498,925	1,222,327
Investments, including accrued interest	11,517,245	11,724,196
Total cash and investments	12,016,170	12,946,523
Restricted assets	1,073,360	875,365
Receivables:		
Accounts receivable	1,456,198	1,450,784
Unbilled revenues	1,315,633	1,361,752
Total receivables	2,771,831	2,812,536
Inventories	100,397	149,484
Total current assets	15,961,758	16,783,908
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	687,317	2,693,415
Investments, including accrued interest	17,241,404	14,497,842
Total restricted assets	17,928,721	17,191,257
Utility plant	175,383,944	165,790,956
Less accumulated depreciation	53,922,048	50,105,630
Net utility plant	121,461,896	115,685,326
Total noncurrent assets	139,390,617	132,876,583
Total assets	\$ 155,352,375	149,660,491

Liabilities and Net Assets

Current liabilities (payable from restricted assets):		
Accounts payable	\$ 1,006,144	69,116
Accrued liabilities	363,116	406,769
Deposits liability	2,250	-
Accrued compensated absences	212,239	212,647
Construction contracts	922,368	241,718
Current maturities of long-term debt	1,032,500	992,500
Accrued interest	59,561	69,899
Total current liabilities (payable from restricted assets)	3,598,178	1,992,649
Long-term liabilities:		
Long-term debt, excluding current maturities	4,560,066	5,592,566
Accrued compensated absences	89,731	78,835
Total long-term liabilities	4,649,797	5,671,401
Total liabilities	8,247,975	7,664,050
Net assets:		
Invested in capital assets, net of related debt	115,869,330	109,100,260
Restricted per revenue bond indentures	14,717,085	15,378,103
Restricted for debt service	1,719,318	1,688,370
Unrestricted	14,798,667	15,829,708
Total net assets	147,104,400	141,996,441
Total liabilities and net assets	\$ 155,352,375	149,660,491

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets

Years ended August 31, 2002 and 2001

	2002	2001
Operating revenues	\$ 15,026,486	14,945,415
Operating expenses:		
Plant, pumping and treatment	6,864,874	6,213,066
Operation and maintenance of wastewater lines	3,035,272	2,496,716
Sanitary engineering services	1,390,516	1,417,521
Accounting and collecting	517,943	482,683
Administrative and general	851,245	836,065
Total operating expenses	12,659,850	11,446,051
Operating income	2,366,636	3,499,364
Nonoperating revenues:		
Interest income	705,263	1,718,560
Net nonoperating revenues	705,263	1,718,560
Net revenues before contributions	3,071,899	5,217,924
Capital contributions from developers	2,036,060	2,165,718
Change in net assets	5,107,959	7,383,642
Total net assets - beginning	141,996,441	134,612,799
Total net assets - ending	\$ 147,104,400	141,996,441

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Receipts from customers and users	\$ 15,067,192	15,166,694
Payments to suppliers	(1,722,262)	(4,643,674)
Payments to employees	(5,274,176)	(4,741,439)
Net cash provided by operating activities	8,070,754	5,781,581
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets, net	(7,772,658)	(5,460,273)
Proceeds from sale of capital assets	4,586	24,952
Principal paid on long-term debt	(992,500)	(952,500)
Interest paid on revenue bonds and project loan	(10,338)	(9,922)
Net cash used by capital and related financing activities	(8,770,910)	(6,397,743)
Cash flows from investing activities:		
Purchases of investments	(32,980,982)	(43,140,444)
Proceeds from investment maturities	30,135,000	41,570,000
Interest on investments	1,014,633	1,603,380
Net cash provided by investing activities	(1,831,349)	32,936
Net decrease in cash and cash equivalents	(2,531,505)	(583,226)
Cash and cash equivalents at beginning of year (includes restricted cash of \$3,568,780 and \$4,122,562 at September 1, 2001 and 2000, respectively)	4,791,107	5,374,333
Cash and cash equivalents at end of year (includes restricted cash of \$1,760,677 and \$3,568,780 at August 31, 2002 and 2001, respectively)	\$ 2,259,602	4,791,107
Reconciliation of net operating revenues to net cash provided by operating activities:		
Net operating revenues	2,366,636	3,499,364
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,027,563	3,358,363
Changes in assets and liabilities:		
Accounts receivable and unbilled revenues	40,705	221,279
Materials and supplies inventories	49,087	(10,151)
Accounts payable and construction contracts	1,617,678	(1,299,007)
Accrued liabilities and deposit liability	(41,403)	10,648
Accrued compensated absences	10,488	1,085
Total adjustments	5,704,118	2,282,217
Net cash provided by operating activities	\$ 8,070,754	5,781,581

Supplemental disclosure of noncash transaction:

Contributed capital of \$2,036,060 and \$2,165,718 was added to utility plant in 2002 and 2001, respectively.

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2002 and 2001

(1) Organization and Summary of Significant Accounting Policies

Ownership and 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.

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, except for those that conflict with or contradict GASB pronouncements.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, was issued in June 1999 and adopted by Lincoln Wastewater System effective September 1, 2000. This statement established new financial reporting requirements for state and local governments. GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*, were issued in June 2001 and adopted by Lincoln Wastewater System effective September 1, 2000. The adoption of these statements required Lincoln Wastewater System to make several changes to the presentation of its basic financial statements.

In order to conform to the requirements of GASB 34, 37, and 38, the following significant changes have been made to the Authority's financial statements:

- MD&A, which precedes the basic financial statements, has been presented.
- Retained earnings have been reclassified into Invested in capital assets, net of related debt, Restricted, and Unrestricted net assets.
- Expanded disclosures for long-term debt and utility plant have been presented.
- Presented the cash flow statement using the direct method.

As a proprietary 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 for enterprise funds 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, 2002 and 2001

Utility Plant

Cost of additions and replacements to utility plant is capitalized. Cost includes labor, materials, payments to contractors, equipment use, and indirect costs. Interest 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 market 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.

Cash Held by City Treasurer

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 monthly balances.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, Lincoln Wastewater System considers cash on hand and in the bank, as well as cash held and invested by the City Treasurer, which is readily convertible to known amounts of cash, to be cash and cash equivalents.

U.S. Government and Government Agency Securities

U.S. government and government agency securities are carried at amortized cost, which approximates market, with the related premium or discount being amortized over the term to maturity.

Capital Contributions

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

Inventories

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

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2002 and 2001

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 \$0.955 per one hundred cubic feet of water prior to May 28, 2002, when City Council adjusted the rate to \$1.035 per one hundred cubic feet.

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 over the terms of the related issues.

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 30 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.

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 generally accepted 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, 2002 and 2001

(2) Cash and Investments

Cash and investments at August 31, 2002 are shown below:

	2002 Carrying Amount		
	Current assets	Restricted assets	Total
Equity in pooled cash	\$ 498,925	1,760,677	2,259,602
Certificate of deposit	5,500,000	6,500,000	12,000,000
Investments	5,955,211	10,613,728	16,568,939
	11,954,136	18,874,405	30,828,541
Accrued interest	62,034	127,676	189,710
	\$ 12,016,170	19,002,081	31,018,251

Bond ordinances authorize monies in Lincoln Wastewater System's Reserve, Construction and Surplus funds to be invested in direct U.S. government obligations or obligations unconditionally guaranteed by the United States of America.

Cash and investments at August 31, 2002 are categorized as follows:

Credit risk classification	2002 Carrying Amount			Market value
	Current assets	Restricted assets	Total	
Deposits, collateral held by pledging bank's agent in Lincoln Wastewater System's name	\$ 5,500,000	6,500,000	12,000,000	12,000,000
Investments, U.S. government and government agency securities held in the bank's account at the Federal Reserve in the bank's name	5,955,211	10,613,728	16,568,939	16,780,662
Cash with City Treasurer	498,925	1,760,677	2,259,602	2,259,602
	\$ 11,954,136	18,874,405	30,828,541	

Cash with the City Treasurer is either insured or collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2002 and 2001

(2) Cash and Investments, (continued)

Cash and investments at August 31, 2001 are shown below:

	2001 Carrying Amount		
	Current assets	Restricted assets	Total
Equity in pooled cash	\$ 1,222,327	3,568,780	4,791,107
Certificates of deposit	1,000,000	6,500,000	7,500,000
Investments	10,629,547	7,593,410	18,222,957
	12,851,874	17,662,190	30,514,064
Accrued interest	94,649	404,432	499,081
	\$ 12,946,523	18,066,622	31,013,145

Bond ordinances authorize monies in Lincoln Wastewater System's Reserve, Construction and Surplus funds to be invested in direct U.S. government obligations or obligations unconditionally guaranteed by the United States of America.

Cash and investments at August 31, 2001 are categorized as follows:

Credit risk classification	2001 Carrying Amount			Market value
	Current assets	Restricted assets	Total	
Deposits, collateral held by pledging bank's agent in the Lincoln Wastewater System's name	\$ 1,000,000	6,500,000	7,500,000	7,500,000
Investments, U.S. government and government agency securities held in the bank's account at the Federal Reserve in the bank's name	10,629,547	7,593,410	18,222,957	18,300,533
Cash with City Treasurer	1,222,327	3,568,780	4,791,107	
	\$ 12,851,874	17,662,190	30,514,064	

Cash with the City Treasurer is either insured or collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2002 and 2001

(3) Restricted Assets

These assets are restricted in accordance with bond ordinances relating to the issuance of revenue bonds or other agreements. Assets included in the Bond and Interest Sinking Fund and Reserve Fund are restricted for the payment of bond principal and interest. Assets included in the Surplus Fund are restricted to Lincoln Wastewater System purposes only, which could include the improvement, enlargement, extension or betterment of the Wastewater system, repairs and replacements, acquisition of equipment and the payment of bond principal and interest.

Details of the accounts comprising assets restricted for specific purposes are as follows at August 31, 2002 and 2001:

	2002	2001
Reserve Fund:		
U.S. government securities	\$ 1,435,778	1,402,825
Accrued interest receivable	10,180	10,180
Total Reserve Fund	1,445,958	1,413,005
Surplus Fund:		
Cash	687,317	2,693,415
Certificates of deposit	6,500,000	6,500,000
U.S. government and government agency securities	9,177,950	6,190,585
Accrued interest receivable	117,496	394,252
Total Surplus Fund	16,482,763	15,778,252
Cash with City Treasurer	800,000	600,000
Nebraska Department of Environmental Quality Loan Payment Fund, cash	273,360	275,365
Total restricted assets	\$19,002,081	18,066,622

The accrued interest receivable includes the annual allocation of interest earned on idle funds from the City Treasurer.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2002 and 2001

(4) Utility Plant

Utility plant is summarized by major classification at August 31, 2002 as follows:

Asset Class	Capital Assets			Accumulated Depreciation			Net Capital Assets	
	August 31, 2001	Increases	Decreases	August 31, 2001	Increases	Decreases	August 31, 2002	August 31, 2002
Structures and improvements	36,843,157	105,128	-	(14,827,383)	(993,355)	-	(15,820,738)	21,127,547
Line equipment	26,677	-	-	(17,700)	(1,690)	-	(19,390)	7,287
Treatment equipment	16,375,956	31,411	-	(3,837,579)	(1,090,182)	-	(4,927,761)	11,479,606
Transmission mains	92,921,923	2,824,466	-	(25,963,818)	(1,467,343)	-	(27,431,161)	68,315,228
Environmental equipment	84,137	-	-	(57,444)	(7,486)	-	(64,930)	19,207
Office furniture and equipment	1,281,084	-	-	(922,970)	(65,233)	-	(988,203)	292,881
Shop equipment	767,497	36,229	-	(574,939)	(22,862)	-	(597,801)	205,925
Communications system	553,430	-	-	(468,993)	(36,642)	-	(505,635)	47,795
Laboratory equipment	1,167,987	26,639	-	(952,056)	(62,472)	-	(1,014,528)	180,098
Injection system	843,723	-	-	(438,504)	(17,542)	-	(456,046)	387,677
Pond and liner	520,428	-	-	(303,415)	(14,467)	-	(317,882)	202,546
Sludge injection equipment	339,637	-	-	(307,348)	(5,757)	-	(313,105)	26,532
Transmission/work equipment	247,198	-	-	(143,217)	(4,726)	-	(147,943)	99,255
Meters	1,610,591	400,000	-	(172,914)	(100,530)	-	(273,444)	1,737,147
Vehicles	2,101,263	175,160	(215,732)	(1,117,350)	(137,276)	211,145	(1,043,481)	1,017,210
Total depreciable assets	155,694,688	3,599,033	(215,732)	(50,105,630)	(4,027,563)	211,145	(53,922,048)	105,145,941
Land	2,138,362	-	-	-	-	-	-	2,138,362
Construction in progress	7,967,906	7,157,847	(948,160)	-	-	-	-	14,177,593
Total nondepreciable assets	10,106,268	7,157,847	(948,160)	-	-	-	-	16,315,955
Total capital assets	165,790,956	10,756,880	(1,163,892)	(50,105,630)	(4,027,563)	211,145	(53,922,048)	121,461,896

During 2002, Lincoln Wastewater System incurred \$306,508 of interest cost. Interest capitalized into construction in progress during 2001 was \$306,508. 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 2.53% in 2002.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2002 and 2001

(4) Utility Plant, continued

Utility plant is summarized by major classification at August 31, 2001 as follows:

Asset Class	Capital Assets		Accumulated Depreciation		Net Capital Assets	
	August 31, 2000	August 31, 2001	August 31, 2000	August 31, 2001	August 31, 2000	August 31, 2001
Structures and improvements	34,077,234	36,843,157	(13,951,505)	(14,827,383)	22,015,774	22,015,774
Line equipment	26,677	26,677	(16,010)	(17,700)	8,977	8,977
Treatment equipment	11,017,029	16,375,956	(2,979,036)	(3,837,579)	12,538,377	12,538,377
Transmission mains	76,092,827	92,921,923	(24,786,301)	(25,963,818)	66,958,105	66,958,105
Environmental equipment	76,547	84,137	(47,830)	(57,444)	26,693	26,693
Office furniture and equipment	1,274,126	1,281,084	(854,845)	(922,970)	358,114	358,114
Shop equipment	631,349	767,497	(557,306)	(574,939)	192,558	192,558
Communications system	553,430	553,430	(432,304)	(468,993)	84,437	84,437
Laboratory equipment	1,121,966	1,167,987	(887,871)	(952,056)	215,931	215,931
Injection system	843,723	843,723	(420,774)	(438,504)	405,219	405,219
Pond and liner	520,428	520,428	(288,948)	(303,415)	217,013	217,013
Sludge injection equipment	339,637	339,637	(301,591)	(307,348)	32,289	32,289
Transmission/work equipment	247,198	247,198	(138,490)	(143,217)	103,981	103,981
Meters	1,210,591	1,610,591	(92,385)	(172,914)	1,437,677	1,437,677
Vehicles	2,208,953	2,101,263	(1,235,513)	(1,117,350)	983,913	983,913
Total depreciable assets	130,241,715	155,684,688	(46,990,712)	(50,105,630)	105,579,058	105,579,058
Land	2,138,362	2,138,362	-	-	2,138,362	2,138,362
Construction in progress	26,053,285	7,967,906	-	-	7,967,906	7,967,906
Total nondepreciable assets	28,191,647	10,106,268	-	-	10,106,268	10,106,268
Total capital assets	158,433,362	165,790,956	(46,990,712)	(50,105,630)	115,685,326	115,685,326

During 2001, Lincoln Wastewater System incurred \$355,050 of interest cost. Interest capitalized into construction in progress during 2001 was \$355,050. 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 2.16% in 2001.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2002 and 2001

(5) Long-term Debt

Long-term debt of Lincoln Wastewater System at August 31, 2002 and 2001 is summarized below:

Type of Bonds	August 31, 2001	Additions	Reductions	August 31, 2002	Due Within One Year
5% Project loan payable, due in semi-annual principal installments increasing from \$1,032,500 in 2003 to \$1,173,506 in 2007.	\$ 6,585,066	—	992,500	5,592,566	1,032,500

Type of Bonds	August 31, 2000	Additions	Reductions	August 31, 2001	Due Within One Year
5% Project loan payable, due in semi-annual principal installments increasing from \$992,500 in 2002 to \$1,173,506 in 2007.	\$ 7,537,566	—	952,500	6,585,066	992,500

Lincoln Wastewater System was granted a project loan from the State of Nebraska, through the Department of Environmental Quality, for the construction of an anaerobic waste digester facility. The anaerobic waste digester facility is now completed and in service.

Maturities and sinking fund requirements on long-term debt are as follows shown on the following page.

Years ending August 31	Principal	Interest	Total
2003	\$ 1,032,500	268,027	1,300,527
2004	1,082,500	214,472	1,296,972
2005	1,127,500	159,785	1,287,285
2006	1,176,560	102,796	1,279,356
2007	1,173,506	43,850	1,217,356
Total	\$ 5,592,566	788,930	6,381,496

(6) Commitments

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$9,800,000 at August 31, 2002, which will be financed primarily through operations.

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 five years. The maximum remaining commitment is approximately \$2,000,000.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2002 and 2001

(7) 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 fair value of long-term debt instruments are based on the amount of future cash flows associated with each instrument discounted using Lincoln Wastewater System's current borrowing rate of similar debt instruments of comparable maturity.

The estimated fair value of Lincoln Wastewater System's long-term debt is \$5,500,000 and \$6,700,000 at August 31, 2002, and 2001, respectively.
- *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.

(8) 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, 2002, and 2001.

(9) 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 the year ended August 31, 2002. Budgeted premium amounts charged to Lincoln Wastewater System are placed in the appropriate fund maintained by the Division. Premium expense was approximately \$282,000 and \$266,000 in 2002 and 2001, respectively.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2002 and 2001

(10) Pension Plan

Employees of Lincoln Wastewater System are participants of the City of Lincoln Employee's 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. Retirement expense was approximately \$394,000 and \$339,000 for 2002 and 2001, respectively.

LINCOLN WASTEWATER SYSTEM

Schedule 1

Summary of Long-Term Debt

August 31, 2002

Due years ending August 31	Series		Project Loan		Annual Debt Service		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2003	\$ -	1,305	1,032,500	266,722	1,032,500	268,027	1,300,527
2004	-	-	1,082,500	214,472	1,082,500	214,472	1,296,972
2005	-	-	1,127,500	159,785	1,127,500	159,785	1,287,285
2006	-	-	1,176,560	102,796	1,176,560	102,796	1,279,356
2007	-	-	1,173,506	43,850	1,173,506	43,850	1,217,356
	\$ -	1,305	5,592,566	787,625	5,592,566	788,930	6,381,496

See accompanying independent auditors' report.

Lincoln Wastewater System

Schedule 2, Cont.

Operating Expenses

Years ended August 31, 2002 and 2001

	2002	2001
Plant, pumping and treatment:		
Theresa Street Treatment Plant:		
Supervision, management and administrative support	206,426	168,876
Administrative and support staff	62,422	12,650
Training and education	59,637	54,882
Data management	128,919	106,087
General operations	684,861	924,978
Treatment and process control	431,153	240,807
Solids processing	820,795	636,837
Structures maintenance	65,859	102,277
Process equipment maintenance	526,672	423,396
Control system maintenance	109,559	97,113
Electrical maintenance	32,587	39,949
Grounds maintenance	67,834	66,999
Depreciation of structure and improvement	687,489	572,863
Depreciation of treatment equipment	1,050,971	821,250
Depreciation of meters	100,530	80,530
Depreciation of office/communications equipment	1,651	1,651
Total Theresa Street Treatment Plant	5,037,365	4,351,145
Northeast Treatment Plant:		
Supervision, management and administrative support	99,245	82,282
Administrative and support staff	28,801	6,140
Training and education	13,158	23,012
Data management	46,180	45,720
General operations	318,469	414,338
Treatment and process control	98,216	43,055
Solids processing	170,217	172,432
Structures maintenance	34,799	55,163
Process equipment maintenance	195,408	223,147
Control system maintenance	34,098	17,438
Electrical maintenance	22,438	31,348
Grounds maintenance	111,323	110,586
Depreciation of structures and improvements	320,895	317,234
Depreciation of injection system and maintenance	42,493	42,681
Depreciation of shop and laboratory equipment	13,524	7,157
Depreciation of office/communications equipment	1,409	1,136
Total Northeast Treatment Plant	1,550,673	1,592,869

LINCOLN WASTEWATER SYSTEM

Schedule 2, Cont.

Operating Expenses, Continued

	2002	2001
Liftstations:		
General operations	47,788	24,123
Structures maintenance	3,333	4,436
Process equipment maintenance	88,127	107,474
Control system maintenance	21,268	22,560
Electrical maintenance	9,492	4,024
Grounds maintenance	1,133	1,876
Depreciation of liftstations	105,695	104,558
Total Liftstations	276,836	269,052
Total plant, pumping and treatment	6,864,874	6,213,066
Operation and maintenance of wastewater lines:		
Supervision, management and administrative support	224,175	190,735
Administrative and support staff	29,627	5,427
Training and education	35,982	22,910
Data management	76,134	26,512
General operations	265,187	247,591
Structures maintenance	542	-
Main repair/maintenance	170,553	233,715
Manhole repair/rehabilitation	76,443	82,405
Customer service	244,980	176,458
Cleaning maintenance	438,001	413,818
Field operations	111,411	25,530
Depreciation of shop & lab equipment	2,398	-
Depreciation of transmission mains	1,359,839	1,071,615
Total operation and maintenance of wastewater lines	3,035,272	2,496,716
Sanitary engineering services:		
Supervision and management	188,587	123,908
Administrative and support staff	36,873	104,231
Training and education	14,259	25,841
Data management	205,995	230,578
Laboratory operations	562,102	494,953
Field operations	347,659	408,146
Depreciation of shop and laboratory equipment	35,041	29,864
Total sanitary engineering services	1,390,516	1,417,521

LINCOLN WASTEWATER SYSTEMSchedule 2**Operating Expenses, Continued**

	2002	2001
Accounting and collecting:		
Supervision, management	129,050	136,612
Administrative & support staff	11,601	9,893
Meter reading	138,761	126,948
Billing and accounting	114,976	102,889
Collections	80,961	70,871
Customer services and billing	23,188	17,968
Customer contracts and orders	19,406	17,501
Total accounting and collecting	517,943	482,682
Administrative and general:		
Supervision and management	615,216	594,852
Administrative and support staff	36,435	30,857
Delivery service	31,241	27,813
Depreciation of shop and lab equipment	66,478	77,730
Depreciation of office and communication equipment	101,875	104,813
Total administrative and general	851,245	836,065

See accompanying independent auditors' report.

LINCOLN WASTEWATER SYSTEM

Utility Plant in Service

August 31, 2002

Schedule 3

Asset Class	Capital Assets		Accumulated Depreciation		Net Capital Assets	
	August 31, 2001	Increases Decreases	August 31, 2001	Increases Decreases	August 31, 2001	August 31, 2002
Theresa Street Plant:						
Structures and improvements	26,301,305	105,128	-	(8,794,622)	(687,299)	(9,481,921)
Line equipment	26,677	-	26,406,433	(17,700)	(1,690)	(19,390)
Treatment equipment	15,151,030	21,287	15,172,317	(3,698,037)	(1,002,052)	(4,700,089)
Transmission mains	92,460,222	2,824,466	95,284,688	(25,890,839)	(1,445,939)	(27,336,778)
Environmental equipment	84,137	-	84,137	(57,444)	(7,486)	(64,930)
Office furniture and equipment	1,248,991	-	1,248,991	(894,873)	(63,839)	(958,712)
Shop equipment	484,771	29,906	514,677	(437,764)	(12,589)	(450,353)
Communications system	553,430	-	553,430	(488,993)	(36,842)	(505,635)
Laboratory equipment	1,141,319	26,639	1,167,958	(925,796)	(62,095)	(987,891)
Meters	1,610,591	400,000	2,010,591	(172,914)	(100,530)	(273,444)
Theresa Street depreciable assets	139,062,473	3,407,426	142,469,899	(41,358,982)	(3,420,161)	(44,779,143)
Land	83,987	-	83,987	-	-	83,987
Theresa Street nondepreciable assets	83,987	-	83,987	-	-	83,987
Total Theresa Street Plant	139,146,460	3,407,426	142,553,886	(41,358,982)	(3,420,161)	(44,779,143)
Northeast Plant:						
Structures and improvements	10,541,852	-	10,541,852	(6,032,761)	(308,056)	(6,338,817)
Treatment equipment	1,224,926	10,124	1,235,050	(139,542)	(88,130)	(227,672)
Office furniture and equipment	32,093	-	32,093	(28,097)	(1,394)	(29,491)
Shop and work equipment	282,726	6,323	289,049	(137,175)	(10,273)	(147,448)
Laboratory equipment	26,668	-	26,668	(26,260)	(377)	(26,637)
Injection system	843,723	-	843,723	(438,504)	(17,542)	(456,046)
Pond and liner	520,428	-	520,428	(303,415)	(14,467)	(317,882)
Sludge injection equipment	339,637	-	339,637	(307,348)	(5,757)	(313,105)
Transmission mains	461,701	-	461,701	(72,979)	(21,404)	(94,383)
Transmission/work equipment	247,198	-	247,198	(143,217)	(4,726)	(147,943)
Northeast depreciable assets	14,520,952	16,447	14,537,399	(7,629,298)	(470,126)	(8,099,424)
Land	2,054,375	-	2,054,375	-	-	2,054,375
Northeast nondepreciable assets	2,054,375	-	2,054,375	-	-	2,054,375
Total Northeast Plant	16,575,327	16,447	16,591,774	(7,629,298)	(470,126)	(8,099,424)
Vehicles and work equipment (all locations)	2,101,263	175,160	(215,732)	(1,117,350)	(137,276)	211,145
Utility plant in service	157,823,050	3,599,033	(215,732)	(50,105,630)	(4,027,563)	211,145
			161,206,351			(53,922,048)
						107,284,303

See accompanying independent auditors' report.

LINCOLN WASTEWATER SYSTEM**GENERAL STATISTICS****Year Ended August 31, 2002**

(Unaudited - See accompanying independent auditors' report.)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	78.6 Square Miles
Population	232,300 Estimate
Total Miles of Wastewater Mains & Collector Lines In Use:	
Miles in use September 1, 2001	868.4
Estimated Added During Year	26.1
Estimated Removed During Year	<u>-0-</u>
Total as of August 31, 2002	874.5 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	20.8 million gallons per day
Northeast Treatment Plant	3.5 million gallons per day
Total Number of Active Wastewater Customers	
End of Fiscal Year	69,292
Debt of Lincoln Wastewater System as of August 31, 2002	\$5,592,566

LINCOLN WASTEWATER SYSTEM**TOP TEN CUSTOMERS****Year Ended August 31, 2002**

(Unaudited - See accompanying independent auditors' report.)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	525,491	\$529,224
2. State of Nebraska	289,670	290,018
3. Archer-Daniels Midland Company	198,439	204,090
4. Cook Family Foods	150,692	153,978
5. Lincoln Public Schools	135,960	147,517
6. BryanLGH Medical Center	133,195	132,793
7. Goodyear Tire & Rubber	109,842	113,391
8. Pfizer Animal Health	108,909	113,203
9. Lincoln Housing Authority	80,611	104,187
10. Lincoln Plating	63,124	65,016
Top Ten User Totals	1,795,933	\$1,853,417

02R-52

(SUBSTITUTE)
RESOLUTION NO. A- ~~81411~~ **81411**

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

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

6 Effective with the billing cycle commencing on May 28, 2002, the following schedule of
7 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 103.5 cents.

10 (b) For any given residential property, the basic wastewater use charge for each billing cycle
11 shall be determined by multiplying for each such cycle the total amount of water, in hundreds of
12 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 cycle
20 shall be determined by multiplying for each cycle the amount of water or wastewater, in hundreds
21 of cubic feet, measured for said property during such cycle, by the basic wastewater use unit charge.

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

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

8 SERVICE CHARGE

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

12 WATER METER SIZE	13 SERVICE CHARGE
14 5/8 inch	\$ 1.31
15 3/4 inch	1.31
16 1 inch	1.31
17 1-1/2 inch	2.62
18 2 inch	5.24
19 3 inch	11.79
20 4 inch	20.96
21 6 inch	47.17
22 8 inch	83.85
23 10 inch	131.02

24 The minimum service charge for a multiple dwelling unit or a mobile home shall be at least
 25 \$0.78 per dwelling unit or mobile home hookup space per month. In those instances where fire
 26 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.

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-75077, adopted by the City Council on October 19, 1992, is hereby superseded.

See further Council Proceedings on next page.

Introduced by

Colleen J. Seng

AYES: Camp, Cook, Friendt, McRoy, Seng, Svoboda, Werner;
NAYS: None.

Approved as to Form & Legality:

Steve Huggenburger
City Attorney

Staff Review Completed:

Amy C. Tejeda
Administrative Assistant

Approved:

Director of Public Works/Utilities

Approved this 25th day of March, 2002:
Don Wesely
Mayor

ADOPTED

MAR 25 2002

By City Council

Lincoln Wastewater System

Summary of Insurance Coverage

August 31, 2001 through 2002

(Unaudited - See accompanying independent auditors' report.)

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	0 - 250,000	250,000		Royal	ALA100018
	Excess Coverage	250,000 - 1,000,000			Genesis	YUB300846
	Excess Coverage	1,000,000 - 5,000,000				
Automobile Fleet Physical Damage**	Self-Insured	Actual cash value	5,000	5,000	None	
Building and Contents	Blanket policy - buildings and contents	Replacement cost	25,000	5,000	Factory Mutual	FB545
Money and Securities	Inside/outside premises	50,000	500	0	Factory Mutual	FB545
Boiler and Machinery	Blanket scheduled locations	25,000,000	25,000	0	Factory Mutual	FB545
Data Processing Equipment	Computer equipment, data and media	Replacement cost	10,000	2,500	Factory Mutual	FB545
Equipment Floater (NON-LJC)	Non-licensed scheduled equipment	Actual Cash Value	10,000	2,500	Factory Mutual	FB545
Equipment Floater (Sanitary)	Inspection scheduled equipment	Replacement cost	10,000	1,000	Factory Mutual	FB545
General Liability ***	\$1,000,000 occurrence/\$5,000,000 aggregate	1,000,000	250,000	0	Royal	ALA100018
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	1,000,000	250,000	0	Royal	ALA100018
Workers' Compensation Excess	Policy has statutory limits	Statutory limits	400,000	0	Micwest Employers Cas.	2876-SO-NE

** 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

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

The following is a summary of certain provisions and defined terms 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 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 Underwriters.

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, (i) as of any date of computation prior to the Current Interest Commencement Date with respect to such Deferred Income Bond, an amount equal to the principal amount of such Bond plus the interest accrued on such Bond from the date of original issuance of such Bond to the Periodic Compounding Date next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Deferred Income Bonds determined in accordance with the Series 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 (ii) as of any date of computation on and after the Current Interest Commencement Date, the Appreciated Value on the Current Interest Commencement Date.

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

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

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

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

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

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

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

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

(6) Obligations of any state of the United States of America, or of any agency, instrumentality or local 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;

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

of this clause (b) and the City Treasurer or the Registrar, as the case may be, shall be entitled to rely on each such undertaking;

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

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

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

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

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

“**Bond**” or “**Bonds**” means any bonds, notes or other obligations or evidences of indebtedness, as the case may be, authenticated and delivered under and Outstanding pursuant to the 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, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date), and (3) with respect to any Outstanding Deferred Income Bond, the Appreciated Value thereof as of the date on which interest on such Deferred Income Bond is computed next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case as of such date).

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

“Deferred Income Bonds” means any Bond issued under the Ordinance as to which interest accruing prior to the Current Interest Commencement Date is (i) compounded periodically on dates determined in accordance with the Series Ordinance authorizing such Deferred Income Bonds and (ii) 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.

“NDEQ Loan” means the loan made to the City pursuant to the Contract for Loan Between Nebraska Department of Environmental Control and the City, Project No. 7008-01, dated March 23, 1990, the outstanding balance of which, after payment of the June 15, 2003 installment, will be \$4,560,065.54.

“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, (i) the principal amount of Bonds (including the principal amount of any Option Bonds tendered for payment prior to the stated maturity thereof) of such Series due (or so tendered for payment) on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in the 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 (i) total operating revenues, plus (ii) interest income, plus (iii) tap fees, plus (iv) impact fees, if any, allocable to the System, plus (v) such other revenues and income as shall be determined to be appropriate in accordance with generally accepted accounting principles for proprietary governmental operations such as the System.

“Sinking Fund Installment” means an amount so designated which is established pursuant to a Series 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 (i) the Net Revenues, subject to the lien thereon of the NDEQ Loan, and (ii) 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, subject only to the lien thereon of the NDEQ Loan, 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 (i) as provided in the Prior Lien Bond Ordinance and in the Ordinance until such time as the Prior Lien Bonds are no longer outstanding under the Prior Lien Bond Ordinance, and (ii) thereafter 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:

- (i) Operation and Maintenance Account in the Revenue Fund;
- (ii) Bond Fund;

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

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

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

(d) *Surplus Fund.* After all payments and credits required at the time to be made under the provisions of paragraphs (a), (b) and (c) of this Section have been made, all moneys remaining in the 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 (i) each Payment Date for any of the Bonds the amount required for the interest and principal; and (ii) before any redemption date for the Bonds, the amount required for the payment of interest on and the Redemption Price of the Bonds then to be redeemed. Such amounts shall be applied by the Paying Agents on the due dates thereof. The City shall also pay out of the Bond Fund the accrued interest included in the purchase price of the Bonds purchased for retirement.

The amount, if any, deposited in the Bond Fund from the proceeds of each Series of Bonds shall be set aside in the Bond Fund and applied to the payment of interest on Bonds in accordance with the Series 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:

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

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

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

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

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

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

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

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

Capital Improvement Fund.

There shall be deposited into the Capital Improvement Fund, at the option of the City, such amounts from the Surplus Fund as shall be directed by the City from time to time, together with any moneys received for or in connection with the System by the City from any other source, unless required to be applied otherwise as provided by the 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:

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

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

Construction Fund.

(a) There shall be paid into the Construction Fund such amounts from the proceeds of a Series of Bonds as may be required by the provisions of the 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:

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

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

Additional Bonds.

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

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

- (i) The City shall not be in default in the payment of principal of or interest on any Bonds at the time Outstanding under the 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

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

(A) The annual Net Revenues derived by the City from the operation of the System for the Fiscal Year immediately preceding the issuance of such Additional Bonds shall have been equal to at least 1.25% 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 1.25% 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 (i) the City annually obtains a written evaluation with respect to such self-insurance program from an Insurance Consultant, (ii) the evaluation is to the effect that the self-insurance program is actuarially sound, (iii) unless the evaluation states that such reserves are not necessary, the City deposits and maintains adequate reserves for the self-insurance program with a corporate trustee, who may be the Paying Agent, and (iv) in the case of workers' compensation, adequate reserves created by the City for such self-insurance program are deposited and maintained in such amount and manner as are acceptable to the State of Nebraska. The City shall pay any fees and expenses of such Insurance Consultant in connection therewith. The cost of all insurance obtained pursuant to the requirements of this Section shall be paid as an Operation and Maintenance Expense out of the Revenues of the System.

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

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

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

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

(d) For so long as Rule 15c2-12(b) of the Securities and Exchange Commission (the "Rule") is applicable, the City covenants and agrees that it will comply with and carry out all of the provisions of each undertaking entered into by it to satisfy the requirements of the Rule with respect to each Series of Bonds issued pursuant to the Ordinance. Notwithstanding any other provision of the Ordinance, failure of the City to comply with such undertaking shall not be considered an Event of Default; however, the Owner or Beneficial Owner of any Bond may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under

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

Amendment of Ordinance.

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

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

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

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

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

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

- (1) to add to the covenants and agreements of the City in the Ordinance thereafter to be observed, to

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

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

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

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

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

(6) to modify any of the provisions of the Ordinance in any other respect whatsoever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of each Series Outstanding at the date of the adoption of such Series or Supplemental Ordinance shall cease to be Outstanding, and (ii) 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:

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

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

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

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

(b) Whenever moneys are to be applied by the Receiver pursuant to the provisions stated above, such moneys shall be applied by the Receiver at such times, and from time to time, as the Receiver in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future; the setting aside of such moneys, in trust for the proper purpose, shall constitute proper application by the Receiver; and the Receiver shall incur no liability whatsoever to the City, to any Owner or to any other person for any delay in applying any such moneys, so long as the Receiver acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the 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.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

FORM OF OPINION OF BOND COUNSEL

July ___, 2003

Mayor and City Council
Lincoln, Nebraska

Ameritas Investment Corp.
Lincoln, Nebraska

Re: \$55,000,000 City of Lincoln, Nebraska Sanitary Sewer Revenue and Refunding Bonds,
Series 2003

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 and 18172 duly adopted by the Issuer on May 5, 2003 (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 water system, after providing for the costs of operation and maintenance thereof and on parity with any Additional Bonds issued or to be issued as provided in the Ordinance. The Bonds do not constitute general obligations of the Issuer nor do they constitute an indebtedness of the Issuer within the meaning of any constitutional or statutory provision, limitation or restriction, and the taxing power of the Issuer is not pledged to the payment of the Bonds.

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

obligation of the Issuer enforceable against the Issuer.

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

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

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

Very truly yours,

APPENDIX E

CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “**Disclosure Certificate**”) is executed and delivered by the City of Lincoln, Nebraska (the “**City**”) in connection with the issuance by the City of \$55,000,000 aggregate principal amount of its Sanitary Sewer Revenue and Refunding Bonds, Series 2003 (the “**Series 2003 Bonds**”). The Series 2003 Bonds are being issued pursuant to Ordinance Nos. 18171 and 18172 of the City duly passed and adopted by the City Council on May 5, 2003, and approved by the Mayor on May 9, 2003 (the “**Ordinance**”). The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Series 2003 Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth elsewhere in this Disclosure Certificate, the following terms shall have the meanings as set forth below:

“**Annual Report**” shall mean any Annual Report provided by the City pursuant to, and as described in, **Sections 3 and 4** of this Disclosure Certificate.

“**Beneficial Owner**” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2003 Bond (including persons holding Series 2003 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2003 Bond for federal income tax purposes.

“**Listed Events**” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

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

“**Participating Underwriter**” shall mean any of the original underwriters of the Series 2003 Bonds required to comply with the Rule in connection with offering of the Series 2003 Bonds.

“**Repository**” shall mean each National Repository and each State Repository.

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

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

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

Section 3. Provision of Annual Reports.

(a) The City shall, not later than May 1 of each year, commencing May 1, 2003, provide to each Repository an Annual Report which is consistent with the requirements of **Section 4** of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in **Section 4** of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If

the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under **Section 5**.

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository, the Municipal Securities Rulemaking Board and the State Repository, if any in substantially the form attached as **Exhibit B** hereto.

(c) The City shall:

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

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

Section 4. 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 by the time the Annual Report is required to be filed pursuant to **Section 3(a)**, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they 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 of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant 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 Series 2003 Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of the owner of Series 2003 Bonds;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Series 2003 Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. release, substitution or sale of property securing repayment of the Series 2003 Bonds;
10. unscheduled draws on credit enhancements reflecting financial difficulties; or

11. substitution of credit or liquidity providers, or their failure to perform.

(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 has determined 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 Repositories and the Municipal Securities Rulemaking Board. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Series 2003 Bonds pursuant to the Ordinance.

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 Series 2003 Bonds. If such termination occurs prior to the final maturity of the Series 2003 Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under **Section 5**.

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

(a) If the amendment or waiver relates to the provisions of **Sections 3(a), 4, or 5(a)**, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2003 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2003 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Series 2003 Bonds in the same manner as provided in the Ordinance for amendments to the Ordinance with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Series 2003 Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment 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, (i) notice of such change shall be given in the same manner as for a Listed Event under **Section 5**, and (ii) 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 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in 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 Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 9. Default. In the event of a failure of the City comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Series 2003 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City, as the case may be, 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, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Series 2003 Bonds, and shall create no rights in any other person or entity.

Date: July 31, 2003.

CITY OF LINCOLN, NEBRASKA

By _____
Finance Director

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: **City of Lincoln, Nebraska**
Name of Issue: **Sanitary Sewer Revenue Bonds, Series 2003**
Date of Issuance: **July 31, 2003**

NOTICE IS HEREBY GIVEN that the City of Lincoln, Nebraska (the “City”) has not provided an Annual Report with respect to the above-named Series 2003 Bonds as required by Section 4.04 of Ordinance No. 18172 adopted May 5, 2003 by the City Council and approved May 9, 2003 by the Mayor. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF LINCOLN, NEBRASKA

Finance Director

EXHIBIT B

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of **July 9, 2003**.

Bloomberg Municipal Repository

100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
http://www.bloomberg.com/markets/muni_contactinfo.html
Email: [Munis@Bloomberg.com](mailto: Munis@Bloomberg.com)

DPC Data Inc.

One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
<http://www.dpcdata.com>
Email: [nrmsir@dpcdata.com](mailto: nrmsir@dpcdata.com)

FT Interactive Data

Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
<http://www.interactivedata.com>
Email: [NRMSIR@FTID.com](mailto: NRMSIR@FTID.com)

Standard & Poor's J. J. Kenny Repository

55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
Email: [nrmsir_repository@sandp.com](mailto: nrmsir_repository@sandp.com)

APPENDIX F

BOOK-ENTRY-ONLY SYSTEM

BOOK-ENTRY-ONLY SYSTEM

Generally

DTC will act as securities depository for the Series 2003 Bonds. Initially, ownership of one fully registered Series 2003 Bond for each maturity of each Series of the Series 2003 Bonds, as set forth on the front cover hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. Ownership interests in the Series 2003 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 2003 Bonds if issued in certificated form. See “Discontinuance of Book-Entry-Only System” under this caption.

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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers. 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 herein referred to together as “DTC Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests

Purchases of Series 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit with respect to Series 2003 Bonds in the records of DTC. The ownership interest of each actual purchaser of each Series 2003 Bond (the “Beneficial Owner”) will be recorded through the records of the Direct Participant and Indirect Participant through which the purchase is 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 Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2003 Bonds are to be accomplished by entries made on the books of Participants, acting on behalf of the Beneficial Owners. *Beneficial Owners will not receive certificates representing their ownership interest in the Series 2003 Bonds, except in the event use of the book-entry system for the Series 2003 Bonds is discontinued as specifically provided in the Ordinance.*

Each person for whom a Participant has an interest in the Series 2003 Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant and may

desire to make arrangements with such Participant to have all notices of redemption and other communications with respect to the Series 2003 Bonds that may affect such person forwarded in writing by such Participant and to be notified of all interest payments. THE CITY WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT; (ii) THE PAYMENT BY ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT, REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (iii) THE DELIVERY BY ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE ORDINANCE TO BE GIVEN TO BONDHOLDERS; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

Payments of Principal, Premium, if any, and Interest

So long as any Series 2003 Bond is registered in the name of DTC's nominee, all payments of principal, and redemption premium, if any, and interest on, such Series 2003 Bond will be made to DTC. DTC's practice is to credit Direct 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 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, the Registrar or the City, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of the principal of, redemption premium, if any, and interest on the Series 2003 Bonds to DTC is the responsibility of the City and the Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of DTC Participants.

Notices

Any references in this Official Statement to notices or other communications to be provided to bondholders by the City or the Registrar will be given only to DTC. Conveyance of notices and other communications by DTC or Direct Participants. By Direct Participants to Indirect Participants, and by 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. Neither the City nor the Registrar will have any responsibility or obligation to assure that any such notice is forwarded by DTC to the DTC Participants or by any DTC Participant to the Beneficial Owner.

Redemption notices shall be sent to DTC. If less than all of the Series 2003 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2003 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2003 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigned Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2003 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 2003 Bonds will be accomplished by book entries made by DTC and the Participants who act on behalf of the Beneficial Owners. For every transfer and exchange of the Series 2003 Bonds, the Registrar, DTC and the 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 2003 Bond.

To facilitate subsequent transfers, all Series 2003 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2003 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 2003 Bonds; DTC's record reflect only the identity of the Direct Participants to whose accounts the Series 2003 Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Transfers of Series 2003 Bonds

Registered ownership of the Series 2003 Bonds, or any portions thereof, may not be transferred on the books of the Registrar except:

To any successor of DTC or its nominees;

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;

To any person, upon discontinuance of the Book-Entry System as described below.

The City and the Registrar shall be entitled to treat the owner of the Series 2003 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 and the Registrar will have no responsibility for transmitting payments to, communicating with, notifying or otherwise dealing with any Beneficial Owners of the Series 2003 Bonds. Neither the City, the Registrar nor the Registrar will have any 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 2003 Bond as shown on the registration books of the Registrar. So long as all Series 2003 Bonds are registered in the name of Cede & Co., the City, the Registrar and the Registrar are to cooperate with DTC or its nominee in effecting payment of the principal, and redemption premium, if any, and interest on, the Series 2003 Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made to DTC when due.

Neither the City, the Registrar nor the Registrar shall be required to transfer or exchange Series 2003 Bonds from the Record Date through and including the next succeeding interest or principal payment date for the Series 2003 Bonds or from the Record Date next preceding any selection of Series 2003 Bonds to be redeemed or thereafter until after the first mailing of any notice of redemption; or to transfer or exchange any Series 2003 Bonds called for redemption.

Discontinuance of Book-Entry-Only System

DTC's services with respect to the Series 2003 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 2003 Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law.

(b) The City, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Series 2003 Bonds if the City determines that DTC is unable to discharge its responsibilities with respect to the Series 2003 Bonds or that a continuation of the requirement that all of the outstanding Series 2003 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 2003 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 Series 2003 Bond certificates, 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 2003 Bonds are in the Book-Entry System, references in other sections of this Official Statement to owners should be read to include the person for whom the Participant acquires an interest in the Series 2003 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners by the City or the Registrar will be given only to DTC.

The foregoing information in this section regarding DTC and the Book-Entry System is based solely on information provided by DTC. No representation is made by the City or the Underwriters as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

SPECIMEN BOND INSURANCE POLICY

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

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

[PAR]
[LEGAL NAME OF ISSUE]

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

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

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

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

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

MBIA Insurance Corporation

President

Attest:

Assistant Secretary