interest on the 2004A Bonds (as defined herein) is excludable from gross income for federal income tax purposes under Section 103 of the
Internal Revenue Code of 1986, as amended (the “Code”). Such exclusion is conditioned on continuing compliance by the Bond Bank
and the Waterworks Department with the Tax Covenants (all as defined herein). In the opinion of Bond Counsel, under existing laws,
regulations, judicial decisions and rulings, interest on the 2004A Bonds is exempt from income taxation in the State of Indiana. See
“TAX MATTERS” herein.

$50,000,000
THE INDIANAPOLIS LOCAL PUBLIC IMPROVEMENT
BOND BANK BONDS, SERIES 2004A
(Waterworks Project)
(Auction Rate Securities)

Dated: Date of Delivery Price: 100% Due: January 1, 2036

The 2004A Bonds are issued by The Indianapolis Local Public Improvement Bond Bank (the “Bond Bank”) as fully registered bonds in
denominations of $25,000 or any integral multiple thereof while bearing interest at an Auction Rate (as defined herein). The 2004A Bonds
initially will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), securities
depository for the 2004A Bonds. Purchases of the 2004A Bonds are to be made in book-entry form only. Purchasers will not receive
The 2004A Bonds will bear interest at an Auction Rate for a 35-day Auction Rate Period (as defined herein) as shown on the inside cover,
unless and until converted to a different Auction Rate Period or another Interest Rate Period (as defined herein). The Auction Rate will be
determined pursuant to the Auction Procedures (as defined and described herein). Interest on the 2004A Bonds, while bearing interest at an
Auction Rate for the 35-day Auction Period, will be payable on the Business Day immediately following each Auction Rate Period. See “THE
2004A BONDS.”

The 2004A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described in “THE 2004A BONDS—
Redemption Provisions of 2004A Bonds.”

Proceeds of the 2004A Bonds will be used to: (i) purchase the City of Indianapolis, Indiana, Waterworks District Net Revenue Bonds,
Series 2004 (the “2004 Waterworks Revenue Bonds”), the proceeds of which will be used to finance capital improvements to the Waterworks (as
defined herein) of the City of Indianapolis, Indiana (the “City”), and the Department of Waterworks of the City (the “Waterworks Department”) for
the benefit of the water customers of the Waterworks and to fund other related capital costs; (ii) acquire a financial guaranty insurance
policy for the 2004A Bonds and a surety bond policy to fund a portion of the reserve fund; and (iii) pay the costs of issuing the 2004A Bonds
and the 2004 Waterworks Revenue Bonds. See “FINANCING PLAN.”

The 2004A Bonds are limited obligations of the Bond Bank payable solely from the revenues and funds of the Bond Bank pledged therefor under the Indenture (as defined and described herein), including payments received on the Waterworks Revenue Bonds (as defined herein), on a parity with bonds previously issued pursuant to the Indenture. The Waterworks Revenue Bonds are payable solely from the Net Revenues (as defined herein) of the Waterworks and certain pledged funds. The 2004A Bonds do not constitute a debt, liability or loan of the credit of the State of Indiana or any political subdivision thereof, including the City, the Waterworks Department or any other qualified entity, under the constitution and the laws of the State of Indiana or a pledge of the faith, credit and taxing power of the State of Indiana or any political subdivision thereof, including the City, the Waterworks Department or any other qualified entity. The sources of payment of, and security for, the 2004A Bonds are more fully described herein. The Bond Bank has no taxing power.

The scheduled payment of principal of and interest on the 2004A Bonds when due will be guaranteed under a financial guaranty insurance
policy to be issued by MBIA Insurance Corporation concurrently with the delivery of the 2004A Bonds. See “BOND INSURANCE AND
SURETY BOND” herein.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the
entire Official Statement, including the appendices, to obtain information essential to making an informed investment decision, giving particular attention to the sections entitled “CERTAIN FACTORS AFFECTING WATER UTILITIES” and
“RISK FACTORS.”

This Official Statement describes the 2004A Bonds only while bearing interest at an Auction Rate. If the 2004A Bonds are converted to bear
interest at an Adjustable Interest Rate (as defined herein) other than an Auction Rate or at a Fixed Interest Rate (as defined herein), the 2004A
Bonds will be subject to mandatory tender and the Bond Bank will supplement this Official Statement to describe such Interest Rate Period.

The Bonds will be offered when, as, and if issued by the Bond Bank and accepted by the Underwriters subject to the approval of the legality of
the 2004A Bonds by Ice Miller, Indianapolis, Indiana, Bond Counsel, and the satisfaction of certain other conditions. Ice Miller also has
acted as Bond Counsel to the Waterworks Department. Certain legal matters will be passed upon for the Bond Bank, the City and the
Waterworks Department by the Corporation Counsel to the City, and for the City and the Waterworks Department by their special counsel,
Sommer Barnard Ackerson, PC., Indianapolis, Indiana. Certain legal matters will be passed upon for the Underwriters by their counsel,
Baker & Daniels, Indianapolis, Indiana. H.J. Umbaugh & Associates, Certified Public Accountants, LLP, Indianapolis, Indiana has acted as the
financial advisor to the Bond Bank, the Waterworks Department and the City. It is expected that the 2004A Bonds will be available for delivery
through the facilities of DTC in New York, New York, on or about March 31, 2004.

City Securities Corporation
Co-Book Running Manager

Bear, Stearns & Co. Inc.
Co-Book Running Manager

SBK-Brooks Investment Corp.
Co-Manager

March 22, 2004
$50,000,000
THE INDIANAPOLIS LOCAL PUBLIC IMPROVEMENT
BOND BANK BONDS, SERIES 2004A
(Waterworks Project)
(Auction Rate Securities)

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<th>Auction Day Generally</th>
<th>Initial Interest Payment Date</th>
<th>Interest Payment Date Generally</th>
<th>Length of Initial Period</th>
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<tr>
<td>May 3, 2004</td>
<td>Every 5th Monday</td>
<td>May 4, 2004</td>
<td>Every 5th Tuesday</td>
<td>34 Days</td>
<td>35 Days</td>
<td>45528SDW3</td>
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The 2004A Bonds will bear interest from the date of original delivery for the initial period set forth above at the rate established by the Underwriters for the 2004A Bonds prior to the date of delivery. Thereafter, the 2004A Bonds will bear interest at an Auction Rate for each 35-day Auction Rate Period, until a conversion to a different Auction Rate Period or an Interest Rate Period other than an Auction Rate Period, as described herein. Interest on the 2004A Bonds will be payable on the initial Interest Payment Date set forth above and thereafter on the first Business Day following the end of each Auction Rate Period.

Purchasers of the 2004A Bonds should carefully review the terms of and conditions related to the Auction Procedures described in “THE 2004A BONDS” and “APPENDIX F—AUCTION PROCEDURES.”

Bear, Stearns & Co. Inc., City Securities Corporation and SBK-Brooks Investment Corp. will act as initial Broker- Dealers for the 2004A Bonds.
USE OF INFORMATION IN THIS OFFICIAL STATEMENT

No dealer, salesperson, or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the 2004A Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by the Bond Bank, the City, the Waterworks Department or the Underwriters. This Official Statement, which includes the cover page and the appendices, does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2004A Bonds by any person, in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation, or sale.

The information set forth in this Official Statement has been obtained from the Bond Bank, the City, the Waterworks Department and from the sources referenced throughout this Official Statement, which the Bond Bank, the City and the Waterworks Department believe to be reliable. No guarantee is made by the Bond Bank, the City and the Waterworks Department, however, as to the accuracy of information provided from sources other than the Bond Bank, the City and the Waterworks Department. The information, estimates, and expressions of opinion contained in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any statement nor any sale of the 2004A Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the Bond Bank, the City or the Waterworks Department, or in the information, estimates, or opinions set forth herein, since the date of this Official Statement.

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 a part of, their respective responsibilities 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, and it is not to be construed as the promise or guarantee of the Underwriters.

THE 2004A BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The statements contained in this Official Statement, including, but not limited to, the sections “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Waterworks Historical and Forecasted Debt Service Coverage” and “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT” and any other information provided by the Bond Bank, the City or the Waterworks Department, that are not purely historical, are forward-looking statements, including statements of the Waterworks Department’s expectations, hopes and intentions, or strategies regarding the future.

The forward-looking statements herein are necessarily based on various assumptions and estimates, are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements contained in this Official Statement would prove to be accurate.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Bond Bank, the City or the Waterworks Department on the date hereof, and the Bond Bank, the City and the Waterworks Department assume no obligation to update any such forward-looking statements.
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CITY OF INDIANAPOLIS, INDIANA

Bart Peterson, Mayor
Barbara A. Lawrence, Controller
Rozelle Boyd, City-County Council President
Dr. Philip Borst, City-County Council Minority Leader

THE INDIANAPOLIS LOCAL PUBLIC IMPROVEMENT BOND BANK

BOARD OF DIRECTORS

John J. Dillon, III, Chairperson
Mary Titsworth Chandler, Vice Chairperson
Jacob E. Hall
Thomas J. O’Donnell
Arnold Pinkston

Robert J. Clifford, Executive Director
Jennifer Weflen, Deputy Executive Director

CITY OF INDIANAPOLIS, INDIANA, DEPARTMENT OF WATERWORKS

BOARD OF DIRECTORS

Beulah Coughenour, Chairperson
Barbara Howard, Vice Chairperson
S. Michael Hudson, Secretary-Treasurer
Jack J. Bayt
Carmen Hansen-Rivera
Samuel L. Odle

BOND COUNSEL

Ice Miller
Indianapolis, Indiana

FINANCIAL ADVISOR

H.J. Umbaugh & Associates,
Certified Public Accountants, LLP
Indianapolis, Indiana

TRUSTEE

National City Bank of Indiana
Indianapolis, Indiana
OFFICIAL STATEMENT

$50,000,000
THE INDIANAPOLIS LOCAL PUBLIC IMPROVEMENT BOND BANK BONDS, SERIES 2004A
(Waterworks Project)
(Auction Rate Securities)

INTRODUCTION

General

The purpose of this Official Statement, including the cover page, the inside cover page, the other preliminary pages and the appendices, is to provide information in connection with the issuance and sale by The Indianapolis Local Public Improvement Bond Bank (the “Bond Bank”) of its Bonds, Series 2004A (Waterworks Project) (the “2004A Bonds”). The 2004A Bonds will be issued pursuant to Indiana Code 5-1.4 (the “Act”) and a Trust Indenture dated as of April 1, 2002 (the “Original Indenture”), as supplemented by the 2004 Supplemental Trust Indenture dated as of March 1, 2004 (the “2004 Supplemental Indenture”), as the same may be further amended from time to time as provided therein (collectively, the “Indenture”), between the Bond Bank and National City Bank of Indiana, Indianapolis, Indiana, as trustee (the “Trustee”). Unless otherwise defined herein, capitalized terms used in this Official Statement are defined in “APPENDIX B3—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Definitions.”

The Bond Bank is a body corporate and politic, separate from the City of Indianapolis, Indiana (the “City”), and established for the public purposes set forth in the Act. Pursuant to the Act, the purpose of the Bond Bank is to purchase and sell securities of “qualified entities,” which includes the City’s Department of Waterworks (the “Waterworks Department”) created pursuant to the Enabling Legislation (as defined in “APPENDIX B3—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Definitions”). The Bond Bank is governed by a board of five Directors, each appointed by the Mayor of the City (the “Bond Bank Board”). The Bond Bank has no taxing power.

The 2004A Bonds will be issued pursuant to the Indenture. National City Bank of Indiana will serve as registrar (“Registrar”) and paying agent (“Paying Agent”) for the 2004A Bonds (the Trustee, the Paying Agent and any authorized depository under the Indenture, collectively, are referred to herein as the “Fiduciaries”).

The offering of the 2004A Bonds is made only by way of this Official Statement, which supersedes any other information or materials used in connection with the offer or sale of the 2004A Bonds. The following introductory material is only a brief description of and is qualified by the more complete information contained throughout this Official Statement. A full review should be made of the entire Official Statement, including the appendices, and the documents summarized or described herein, particularly the sections entitled “CERTAIN FACTORS AFFECTING WATER UTILITIES” and “RISK FACTORS.” Detachment or other use of this “INTRODUCTION” without the entire Official Statement, including the cover page, inside cover page, other preliminary pages and appendices, is unauthorized.

Financing Plan

Proceeds of the 2004A Bonds will be used to: (i) purchase the City of Indianapolis, Indiana, Waterworks District Net Revenue Bonds, Series 2004 (the “2004 Waterworks Revenue Bonds”), the proceeds of which will be used to finance certain capital improvements to the public water utility owned and operated by the Waterworks Department and the City (the “Waterworks”) and to fund other related capital costs, (ii) acquire a financial guaranty insurance policy for the 2004A Bonds and a surety bond policy to partially fund the Bond Bank Common Reserve Account (as defined herein); and (iii) pay the costs of issuing the 2004A Bonds and the 2004 Waterworks Revenue Bonds. See “FINANCING PLAN.”
The 2004 Waterworks Revenue Bonds are secured by the Net Revenues (as defined herein) of the Waterworks and certain pledged funds on a parity with the 2002 Waterworks Revenue Bonds (as defined herein), outstanding in the aggregate principal amount of Five Hundred Eighty Million Three Hundred Seventy Thousand Dollars ($580,370,000), and the Assumed Obligations (as defined herein), outstanding in the aggregate principal amount of Thirty-Eight Million Eight Hundred Forty Thousand Dollars ($38,840,000). The Bond Bank purchased the 2002 Waterworks Revenue Bonds with the proceeds of the 2002 Bonds (as defined herein) issued pursuant to the Indenture. The 2004A Bonds are secured on a parity with the 2002 Bonds by revenues and funds of the Bond Bank under the Indenture, including payments received on the 2002 Waterworks Revenue Bonds and the 2004 Waterworks Revenue Bonds (together, the “Waterworks Revenue Bonds”). For a discussion of the security for the Waterworks Revenue Bonds, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

The 2004A Bonds

The 2004A Bonds are issued solely as fully registered certificates in the denomination of $25,000, or any integral multiple thereof while bearing interest at an Auction Rate. The 2004A Bonds initially will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), the securities depository for the 2004A Bonds. Purchases of the 2004A Bonds are to be made in book-entry form only. Purchasers will not receive certificates representing their beneficial ownership interest in the 2004A Bonds. See “THE 2004A BONDS—Book-Entry Only System.” The payment of principal of and interest on the 2004A Bonds is described under the caption “THE 2004A BONDS.”

Interest Rate and Tender

The 2004A Bonds initially will bear interest at an auction rate (the “Auction Rate”) as described herein under the caption “THE 2004A BONDS — Auction Rates.” The initial interest payment date and initial Auction Rate Period for the 2004A Bonds are set forth on the inside cover hereof. The 2004A Bonds will bear interest at the rate determined by the Underwriters for the initial Auction Rate Period and, thereafter, at an Auction Rate determined as described herein unless and until they are converted to a different Interest Rate Period (as defined herein), as described herein under the caption “THE 2004A BONDS.” During an Auction Rate Period, the interest rate on the 2004A Bonds may not exceed the lesser of twelve percent (12%) per annum and the maximum rate permitted by law. There are no provisions for optional tender of the 2004A Bonds during an Auction Rate Period (as defined herein), but 2004A Bonds which are converted to a different Interest Rate Period may be subject to optional tender for purchase.

The Indenture provides that the 2004A Bonds may (with the consent of the Bond Insurer or at the direction of the Bond Insurer in the event of a default under the Indenture) be converted to bear interest at an Adjustable Interest Rate (as defined herein) for one of the following Interest Rate Periods: Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period or Long-Term Interest Rate Period (all as defined herein). The Indenture also provides that the 2004A Bonds may (with the consent of the Bond Insurer or at the direction of the Bond Insurer in the event of a default under the Indenture) be converted to bear interest at a Fixed Interest Rate (as defined herein).

This Official Statement describes the 2004A Bonds only while bearing interest at an Auction Rate. Conversion of the 2004A Bonds to a Daily Interest Rate, a Weekly Interest Rate, a Bond Interest Term Rate or a Long-Term Interest Rate requires, among other things, that the Bond Bank provide either a Letter of Credit or a Liquidity Facility and appoint a Remarketing Agent. If any of the 2004A Bonds are converted from an Auction Rate to a Daily Interest Rate, a Weekly Interest Rate, a Bond Interest Term Rate, a Long-Term Interest Rate or a Fixed Interest Rate, the Bond Bank will supplement this Official Statement to describe such Interest Rate Period.

The 2004A Bonds will be subject to mandatory tender upon conversion from an Auction Rate Period to another Interest Rate Period as described under the caption “THE 2004A BONDS.”

The 2004A Bonds are subject to redemption prior to maturity at the option of the Bond Bank and also are subject to mandatory sinking fund redemption as described under the caption “THE 2004A BONDS—Redemption Provisions of 2004A Bonds.”
Security and Sources of Payment for the Bonds

**Bond Bank.** The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2002A (Waterworks Project), and The Indianapolis Local Public Improvement Bond Bank Taxable Bonds, Series 2002B (Waterworks Project) outstanding in the aggregate principal amount of Five Hundred Eighty Million Three Hundred Seventy Thousand Dollars ($580,370,000) (together, the “2002 Bonds”) and the 2004 Bonds (the 2002 Bonds and the 2004 Bonds, together, the “Bonds”) are limited obligations of the Bond Bank payable solely out of the revenues and funds of the Bond Bank pledged therefor under the Indenture, as more fully described herein, including payments received on the Waterworks Revenue Bonds. The Waterworks Revenue Bonds are payable solely from the Net Revenues (as defined herein) of the Waterworks and certain pledged funds. The Bonds do not constitute a debt, liability or loan of the credit of the State of Indiana (the “State”) or any political subdivision thereof, including the City, the Waterworks Department, or any other qualified entity, under the constitution and laws of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision thereof, including the City, the Waterworks Department or any other qualified entity. The sources of payment of, and security for, the Bonds are more fully described herein. The Bond Bank has no taxing power. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

The Bonds also are secured by a debt service reserve fund established under the Indenture (the “Bond Bank Reserve Fund”). Under the Indenture, the Common Reserve Account of the Bond Bank Reserve Fund (the “Bond Bank Common Reserve Account”) must contain an amount equal to fifty percent (50%) of the Combined Maximum Annual Principal and Interest Requirements (the “Bond Bank Reserve Requirement”). “Combined Maximum Annual Principal and Interest Requirements” means the maximum aggregate amount of principal and interest on all Bonds which have a claim on the Bond Bank Common Reserve Account falling due in any succeeding Fiscal Year (as defined in “APPENDIX B3—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Definitions”). Upon issuance of the 2004A Bonds, the Bond Bank Reserve Requirement will be fully satisfied from a surety bond policy (the “Surety Bond”) issued by MBIA Insurance Corporation, together with funds currently on deposit in the Bond Bank Common Reserve Account. Funds currently on deposit in the Bond Bank Common Reserve Account are invested pursuant to a forward delivery agreement with Morgan Stanley Capital Services Inc. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Bond Bank Reserve Fund.”

In addition, pursuant to the provisions of Indiana Code 5-1.4-5, the Bond Bank has covenanted to request replenishment of the Bond Bank Reserve Fund by an appropriation of the City-County Council of the City (the “City-County Council”) in the event of a deficiency in the Bond Bank Common Reserve Account until the later of (i) December 31, 2007, or (ii) the date on which the Waterworks Department has satisfied the requirements of the rate covenant in the Bond Resolution, as described herein, for the immediately preceding three (3) consecutive Fiscal Years. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Waterworks Rate Covenant.”

**Waterworks Revenue Bonds.** The principal of and interest on the Waterworks Revenue Bonds are payable from Net Revenues of the Waterworks, together with the moneys in the Interest Account, Principal Account and Hedge Payments Account of the Bond Fund (the “Senior Pledged Funds”). The 2004 Waterworks Revenue Bonds also are payable from the Construction Fund and the Common Reserve Subaccount of the Reserve Account (the “Waterworks Common Reserve Subaccount,” and together with the Construction Fund, the “2004 Pledged Funds”). Net Revenues are defined in the Bond Resolution of the Board of Directors of the Waterworks Department (the “Bond Resolution”), as the gross revenues derived from the operation and use of, and otherwise pertaining to, the Waterworks (the “Gross Revenues”), after provision is made for the payment of all necessary and reasonable Operation and Maintenance Expenses of the Waterworks. “Operation and Maintenance Expenses” means, generally, all reasonable and necessary current expenses of the Waterworks Department of operating, maintaining, and repairing the Waterworks. For more detailed definitions of Gross Revenues and Operation and Maintenance Expenses, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Waterworks Net Revenues.”

The Waterworks Revenue Bonds and the Assumed Obligations constitute an irrevocable and prior lien upon the Net Revenues. Subject to express conditions set forth in the Bond Resolution, obligations in addition to the Waterworks Revenue Bonds and the Assumed Obligations may be issued and made payable from the Net Revenues having a lien thereon on a parity with the lien of the Waterworks Revenue Bonds and the Assumed Obligations.
The 2004 Waterworks Revenue Bonds are being issued pursuant to provisions of the Bond Resolution permitting the issuance of additional bonds which constitute Waterworks Parity Bonds in an aggregate principal amount not to exceed Fifty Million Dollars ($50,000,000) on or before July 1, 2004 without complying with the parity test set forth in the Bond Resolution (as defined and described herein). See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Additional Waterworks Revenue Bonds.”

In addition to its authority to issue revenue bonds and set rates and charges for the use of the Waterworks, the Waterworks Department has the legal authority to issue special taxing district bonds. Both the City-County Council in creating the Waterworks Department, and the Board of Directors of the Waterworks Department, have made policy decisions not to levy any property taxes within the District (as defined in “APPENDIX B3—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Definitions”), or operate the Waterworks Department as a special taxing district by borrowing money for the District, and accordingly, no property taxes have been or are expected to be levied on property within the District or expected to be available to pay debt service on the Waterworks Revenue Bonds.

The Waterworks Revenue Bonds (but not the Assumed Obligations) also are secured by the Waterworks Common Reserve Subaccount. The Waterworks Common Reserve Subaccount is required to be funded in an amount equal to fifty percent (50%) of the maximum aggregate amount of principal of and interest on all Waterworks Senior Bonds (as defined herein) which have a claim for payment from the Waterworks Common Reserve Subaccount falling due in any succeeding Fiscal Year (the “Waterworks Common Reserve Requirement”). In lieu of all or a portion of any moneys required to be deposited in the Waterworks Common Reserve Subaccount, the Waterworks Department may deposit a Reserve Account Credit Facility (as defined in “APPENDIX B3—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Definitions”) in the Waterworks Common Reserve Subaccount in full or partial satisfaction of the Waterworks Common Reserve Requirement. The Waterworks Common Reserve Requirement is treated as fully satisfied if the Bond Bank Reserve Requirement is satisfied for the Bond Bank Common Reserve Account. No additional deposit will be made to the Waterworks Common Reserve Subaccount because the Bond Bank Common Reserve Account will be fully funded from the Surety Bond, together with funds currently on deposit in the Bond Bank Common Reserve Account. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Waterworks Reserve Account.”

Bond Insurance

The scheduled payment of principal of and interest on the 2004A Bonds when due will be guaranteed under a financial guaranty insurance policy (the “Policy”) to be issued by MBIA Insurance Corporation (“MBIA” or the “Bond Insurer”) concurrently with the delivery of the 2004A Bonds. The Bond Insurer also will issue the Surety Bond concurrently with the issuance of the 2004A Bonds to fund a portion of the Bond Bank Reserve Requirement. See “BOND INSURANCE AND SURETY BOND.”

Beneficial Owners of the 2004A Bonds should be aware that the issuance of the Policy gives the Bond Insurer certain rights, including the sole right to direct remedies with respect to the 2004A Bonds in the event of a default. See “APPENDIX B1—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Summary of Certain Provisions of the Indenture.”

The Waterworks

The Waterworks Department is a department of the City created pursuant to Indiana Code 8-1.5, Indiana Code 36-3-4-23, City-County Council General Ordinance No. 112, 2001, and other applicable authorizing statutes including Indiana Code 36-1-3 and Indiana Code 36-9-2-14 (the “Enabling Legislation”). The Waterworks Department was formed in order to facilitate the acquisition of the Waterworks, undertake the water utility operations of the Waterworks and to develop, manage and maintain supplies of water for the benefit of the customers of the Waterworks Department.
The Waterworks Department’s geographic boundaries include the area consisting primarily of the Indianapolis metropolitan statistical area (the “District”). See “THE WATERWORKS—Service Area” for a further description of the District and the area served by the Waterworks Department. A map identifying the area to be served by the Waterworks may be found on the inside back cover of this Official Statement.

The Manager and the Management Agreement

The Waterworks Department has entered into a Management Agreement (the “Management Agreement”) with Veolia Water North America Operating Services, Inc. (formerly US Filter Operating Services Inc.), which was assigned to Veolia Water Indianapolis, LLC, a subsidiary of Veolia Environnement (the “Manager”). The Manager has assumed management and operation of the Waterworks. For more information about the Management Agreement and the Manager, see “THE MANAGER AND THE MANAGEMENT AGREEMENT” and “APPENDIX C—SUMMARY OF MANAGEMENT AGREEMENT” herein.

Financial Information

The Waterworks Department is a department of the City, and financial information relating to the Waterworks is incorporated in the City’s financial statements. However, the Waterworks Department began operating the Waterworks on May 1, 2002, and, accordingly, no financial statements for the Waterworks Department are available prior to May 1, 2002. The 2002 audited financial statements of the City, together with the Report of KPMG, and statistical tables of the 2002 Comprehensive Annual Financial Report of the City are filed with and available from the Nationally Recognized Municipal Securities Information Repositories. See “AVAILABILITY OF DOCUMENTS AND FINANCIAL INFORMATION” herein.

Selected historical financial information and forecasted annual debt service coverage for the Waterworks Revenue Bonds through December 31, 2006, is set forth in “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT.”

Accountant’s Financial Forecast Report

The Accountant’s Financial Forecast Report attached to this Official Statement as APPENDIX A has been prepared by H.J. Umbaugh & Associates, Certified Public Accountants, LLP.

Investors should review the entire contents of “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT” in order to obtain an understanding of the scope and results of the Accountant’s Financial Forecast Report. Special attention should be paid to the sections of each report detailing the limitations of such report and to the assumptions used in formulating the various estimates and conclusions contained therein. The report is based upon estimates, assumptions and other information, the sources of which are stated in the report. Inevitably, some of these assumptions may not materialize and unanticipated events and circumstances will occur. Therefore, actual results are likely to vary from those forecasted and the variations could be material. Consequently, the financial forecasts set forth in the Accountant’s Financial Forecast Report should not be regarded as a representation that the forecasted results will be achieved. To the extent that the forecasts prove to be inaccurate, Net Revenues may not be sufficient to pay the principal of and interest on the Waterworks Revenue Bonds when due, which ultimately would negatively impact the ability of the Bond Bank to pay debt service on the 2004A Bonds. Also see “RISK FACTORS—Forward-Looking Statements.”

Additional Information

This introduction is only a brief summary of certain materials relating to the 2004A Bonds and a full review of the entire Official Statement, including the appendices hereto, should be made by potential investors. Brief descriptions of the 2004A Bonds, the Indenture, the Waterworks Revenue Bonds, the Bond Resolution, the Board Policy, the Management Agreement, the Waterworks and the Waterworks Department are included in this Official Statement. All references herein to the 2004A Bonds, the Indenture, the Waterworks Revenue Bonds, the Bond Resolution, the Board Policy, the Management Agreement and other documents are qualified in their entirety by reference to such documents. This Official Statement speaks only as of its date and the information contained herein is subject to change.
Copies of the documents referred to herein are available from The Indianapolis Local Public Improvement Bond Bank, 200 East Washington Street, Room 2421, City-County Building, Indianapolis, Indiana 46204, (317) 327-4220.

FINANCING PLAN

The Acquisition

Prior to May 1, 2002, water utility service for the greater Indianapolis area was provided by IWC Resources Inc. (together with its subsidiaries, “IWCR”), a subsidiary of NiSource, Inc. (“NiSource”). In November, 2001, the City entered into an asset purchase agreement (the “Asset Purchase Agreement”) with IWCR concerning the terms and conditions of the City’s acquisition of the Waterworks. The asset purchase transaction (the “Acquisition”) was completed on April 30, 2002. Pursuant to the Bond Resolution, the Waterworks Department issued its City of Indianapolis, Indiana, Waterworks District Net Revenue Bonds, Series 2002A (Tax-Exempt) and Series 2002B (Taxable), outstanding in the aggregate principal amount of $580,370,000 (together, the “2002 Waterworks Revenue Bonds”) to finance the Acquisition.

In connection with the Acquisition, the Waterworks Department assumed certain of IWCR’s outstanding indebtedness consisting of the Town of Fishers, Indiana Economic Development Water Facilities Refunding Revenue Bonds, Series 1998 (Indianapolis Water Company Project) currently outstanding in the principal amount of Twenty-Nine Million One Hundred Forty-Five Thousand Dollars ($29,145,000) (the “Fishers Bonds”) and the City of Indianapolis, Indiana Economic Development Water Facilities Refunding Revenue Bonds, Series 1998 (Indianapolis Water Company Project) outstanding in the principal amount of Nine Million Six Hundred Ninety-Five Thousand Dollars ($9,695,000) (the “Indianapolis Bonds”). The obligations of IWCR relating to the Fishers Bonds and the Indianapolis Bonds assumed by the Waterworks Department are referred to as the “Assumed Obligations.” The Assumed Obligations have interest rates of five and five one-hundredths percent (5.05%), a single maturity of July 15, 2028, and are subject to optional redemption on July 15, 2005. The Assumed Obligations are payable from Net Revenues and the Senior Pledged Funds on a parity with the Waterworks Revenue Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Additional Waterworks Revenue Bonds.”

The 2004 Project

The significant majority of the proceeds of the 2004 Waterworks Revenue Bonds will be used to finance various capital improvements to the Waterworks, including without limitation, filter upgrades, boiler upgrades, well upgrades, roof replacements, improvements to elevated tanks, repair and upgrades to several reinforcement and feeder mains, valve replacements and treatment plant expansion (collectively, the “2004 Project”).

Sources and Uses of Bond Proceeds

Sources of Funds

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Principal Amount of 2004A Bonds</td>
<td>$ 50,000,000</td>
</tr>
</tbody>
</table>

Uses of Funds

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs of Issuance, Underwriters’ Discount, Bond Insurance Premium and Surety Bond Premium</td>
<td>$ 1,500,000</td>
</tr>
<tr>
<td>Deposit to Construction Fund for the 2004 Project</td>
<td>$ 48,500,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 50,000,000</strong></td>
</tr>
</tbody>
</table>
FORECASTED DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for the 2002 Bonds, the Assumed Obligations, the forecasted debt service due on the 2004A Bonds and the forecasted total debt service due on the 2002 Bonds, the Assumed Obligations and the 2004A Bonds in each year ending on January 15 of each year shown.

<table>
<thead>
<tr>
<th>Bond Year Ending January 15th</th>
<th>2002 Bonds</th>
<th>Assumed Obligations</th>
<th>2004A Bonds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$31,477,043</td>
<td>$1,961,420</td>
<td>$1,223,264</td>
<td>$34,661,727</td>
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<tr>
<td>2005</td>
<td>$31,808,950</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$35,395,370</td>
</tr>
<tr>
<td>2006</td>
<td>$32,223,730</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$35,810,150</td>
</tr>
<tr>
<td>2007</td>
<td>$33,578,963</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$37,165,383</td>
</tr>
<tr>
<td>2008</td>
<td>$34,159,213</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$37,745,633</td>
</tr>
<tr>
<td>2009</td>
<td>$34,746,088</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$38,332,508</td>
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<tr>
<td>2010</td>
<td>$35,347,763</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$38,934,183</td>
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<tr>
<td>2011</td>
<td>$35,960,531</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$39,546,951</td>
</tr>
<tr>
<td>2012</td>
<td>$36,574,500</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$40,160,920</td>
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<tr>
<td>2013</td>
<td>$37,204,300</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$40,790,720</td>
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<tr>
<td>2014</td>
<td>$37,845,400</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$41,431,820</td>
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<tr>
<td>2015</td>
<td>$38,493,113</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$42,079,533</td>
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<tr>
<td>2016</td>
<td>$39,153,450</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$42,739,870</td>
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<td>2017</td>
<td>$39,822,150</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$43,408,570</td>
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<tr>
<td>2018</td>
<td>$40,504,400</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$44,090,820</td>
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<tr>
<td>2019</td>
<td>$41,195,525</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$44,781,945</td>
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<tr>
<td>2020</td>
<td>$41,904,231</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$45,490,651</td>
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<tr>
<td>2021</td>
<td>$42,615,728</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$46,202,148</td>
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<tr>
<td>2022</td>
<td>$43,340,984</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$46,926,904</td>
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<tr>
<td>2023</td>
<td>$44,078,119</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$47,664,539</td>
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<tr>
<td>2024</td>
<td>$44,828,122</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$48,414,542</td>
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<tr>
<td>2025</td>
<td>$45,599,984</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$49,186,404</td>
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<tr>
<td>2026</td>
<td>$46,367,300</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$49,953,720</td>
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<tr>
<td>2027</td>
<td>$30,819,431</td>
<td>$1,961,420</td>
<td>$1,625,000</td>
<td>$34,405,851</td>
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<tr>
<td>2028</td>
<td>$32,376,225</td>
<td>$39,820,710</td>
<td>$1,625,000</td>
<td>$73,821,935</td>
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<tr>
<td>2029</td>
<td>$50,269,656</td>
<td>--</td>
<td>$1,625,000</td>
<td>$51,894,656</td>
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<tr>
<td>2030</td>
<td>$50,270,538</td>
<td>--</td>
<td>$1,625,000</td>
<td>$51,895,538</td>
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<tr>
<td>2031</td>
<td>$50,271,025</td>
<td>--</td>
<td>$1,625,000</td>
<td>$51,896,025</td>
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<tr>
<td>2032</td>
<td>$50,270,606</td>
<td>--</td>
<td>$1,625,000</td>
<td>$51,895,606</td>
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<tr>
<td>2033</td>
<td>$50,268,506</td>
<td>--</td>
<td>$1,625,000</td>
<td>$51,893,506</td>
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<tr>
<td>2034</td>
<td>$50,272,710</td>
<td>--</td>
<td>$1,625,000</td>
<td>$51,897,710</td>
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<tr>
<td>2035</td>
<td>$51,218,750</td>
<td>--</td>
<td>$1,625,000</td>
<td>$51,218,750</td>
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<tr>
<td>Totals</td>
<td>$1,253,647,784</td>
<td>$86,894,790</td>
<td>$101,192,014</td>
<td>$1,441,734,588</td>
</tr>
</tbody>
</table>

1Interest on the 2004A Bonds is calculated at the rate of 3.25% per annum based upon the 10-year average of the Bond Market Association Index, which rate includes the Auction Agent and Broker-Dealer fees, and is not calculated in accordance with the rate covenant or parity provisions of the Bond Resolution. Actual results may vary. See “RISK FACTORS—Interest Rate Risk.”

2The principal amount of approximately Thirty-Eight Million Eight Hundred Forty Thousand Dollars ($38,840,000) of Assumed Obligations will mature July 15, 2028, and consequently, no 2002 Bonds are scheduled to mature on January 1, 2028 or July 1, 2028.
THE 2004A BONDS

The following is a summary of certain provisions of the 2004A Bonds during such time as the 2004A Bonds are subject to the DTC book-entry system and bear interest at an Auction Rate. Reference is hereby made to the Indenture in its entirety for the detailed provisions pertaining to the 2004A Bonds, including provisions applicable upon discontinuation of participation in the DTC book-entry system or conversion to a Daily Interest Rate, a Weekly Interest Rate, a Bond Interest Term Rate, a Long-Term Interest Rate or a Fixed Interest Rate. Certain definitions and provisions applicable to 2004A Bonds bearing interest at an Auction Rate are set forth in “APPENDIX F—AUCTION PROCEDURES.” See also “APPENDIX B1—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS – Summary of Certain Provisions of the Indenture.”

General

The 2004A Bonds will be issued in the aggregate principal amount set forth on the cover page of this Official Statement. The 2004A Bonds will be dated their date of delivery and will be initially issued in fully registered form in the denomination of $25,000 or integral multiples thereof. Upon initial issuance, the 2004A Bonds will be registered in the name of Cede & Co. as registered owner and nominee of DTC. As long as the 2004A Bonds are registered in such name or in the name of a successor nominee, the ownership of the 2004A Bonds will be evidenced by book-entry as described under “—Book-Entry-Only System.” Purchasers will not receive certificated 2004A Bonds. So long as Cede & Co. is the registered owner of the 2004A Bonds, reference herein to the Bondholders or registered owners will mean Cede & Co. as aforesaid and will not mean the Beneficial Owners (as defined herein) of the 2004A Bonds.

So long as Cede & Co. is the registered owner of the 2004A Bonds, principal of, premium, if any, and interest on the 2004A Bonds are payable by wire transfer of funds by the Trustee to Cede & Co., as nominee of DTC. DTC is obligated, in turn, to remit such amounts to its participants as described herein for subsequent disbursement to the Beneficial Owners. See “—Book-Entry-Only System,” under this caption.

Auction Rates

The 2004A Bonds will be issued initially as auction rate securities that, except for the initial interest rate set by the Underwriters, bear interest at an Auction Rate. However, the 2004A Bonds may be converted, at the option of the Bond Bank and subject to certain conditions and restrictions, to bonds bearing interest at a Daily Interest Rate, a Weekly Interest Rate, a Bond Interest Term Rate, a Long-Term Interest Rate or a Fixed Interest Rate, in which event such 2004A Bonds are subject to mandatory tender. See “—Conversion from an Auction Rate Period to a Different Adjustable Interest Rate Period” and “—Fixed Interest Rate,” under this caption.

This Official Statement describes the 2004A Bonds only while bearing interest at an Auction Rate. Conversion of the 2004A Bonds to a Daily Interest Rate, a Weekly Interest Rate, a Bond Interest Term Rate or a Long-Term Interest Rate requires, among other things, that the Bond Bank provide either a Letter of Credit or a Liquidity Facility and appoint a Remarketing Agent. If any of the 2004A Bonds are converted from an Auction Rate to a Daily Interest Rate, a Weekly Interest Rate, a Bond Interest Term Rate, a Long-Term Interest Rate or a Fixed Interest Rate, the Bond Bank will supplement this Official Statement to describe such Interest Rate Period.

The 2004A Bonds will be dated their date of delivery and bear interest from the date of delivery thereof to and including the initial Auction Date set forth on the inside front cover page of this Official Statement at the rate established by the Underwriters and thereafter at the Auction Rate established by the Auction Agent (initially Wilmington Trust Company) pursuant to the Auction Procedures. See “APPENDIX F—AUCTION PROCEDURES.” In no event will the interest rate on the 2004A Bonds be greater than the Maximum Interest Rate. The Maximum Interest Rate is defined as the lesser of (a) twelve percent (12%) per annum and (b) the maximum rate of interest permitted under the laws of the State. Following the initial period from the delivery date to the initial auction date set forth on the inside front cover, the 2004A Bonds will bear interest initially in 35-day Auction Rate Periods, but the 2004A Bonds may be converted to a daily, seven-day, 28-day, 35-day, three-month or six-month Auction Rate Period or a Flexible Auction Rate Period. See “—Changes to Auction Rate Period” below. A Flexible Auction Rate Period is any period of not less than seven (7) days nor more than one thousand ninety-two (1,092)
days which is not another Auction Rate Period. The initial Auction Date and the first Auction Rate Interest Payment Date are set forth on the inside front cover of this Official Statement.

Interest on the 2004A Bonds during an Auction Rate Period of less than one hundred eighty (180) days will be computed on the basis of a 360-day year and the number of days actually elapsed. Interest on the 2004A Bonds during an Auction Rate Period equal to or greater than one hundred eighty (180) days will be computed on the basis of a 360-day year, consisting of twelve 30-day months. Interest on the 2004A Bonds will be payable on the Auction Rate Interest Payment Dates. See “APPENDIX F—AUCTION PROCEDURES—Definitions” for a complete definition of Auction Rate Interest Payment Date. Interest payments on the 2004A Bonds will be made by the Trustee to the persons who are Registered Owners of such 2004A Bonds as of the Business Day immediately preceding such Auction Rate Interest Payment Date (the “Record Date”).

Notwithstanding the foregoing:

(a) In the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Rate Period, (i) if the preceding Auction Rate Period was a period of thirty-five (35) days or less, the new Auction Rate Period will be the same as the preceding Auction Rate Period and the Auction Rate for the new Auction Rate Period will be the same as the Auction Rate for the preceding Auction Rate Period; and (ii) if the preceding Auction Rate Period was a period of greater than thirty-five (35) days, the preceding Auction Rate Period will be extended to the seventh (7th) day following the day that would have been the last day of such Auction Rate Period had it not been extended (or if such seventh (7th) day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Rate in effect for the preceding Auction Rate Period will continue in effect for the Auction Rate Period as so extended. In the event an Auction Rate Period is extended as set forth in clause (ii) of the preceding sentence, an Auction will be held on the last Business Day of the Auction Rate Period as so extended to take effect for an Auction Rate Period beginning on the Business Day immediately following the last day of the Auction Rate Period as extended which Auction Rate Period will end on the date it would otherwise have ended on had the prior Auction Rate Period not been extended.

(b) In the event that the Auction Procedures are suspended due to the failure by the Bond Insurer to make a payment pursuant to the terms of the Policy on the 2004A Bonds, the Auction Rate for the next succeeding Auction Rate Period will be the Default Rate.

(c) In the event of a failed conversion with respect to the 2004A Bonds to a Daily Interest Rate, a Weekly Interest Rate, a Bond Interest Term Rate, a Long-Term Interest Rate or a Fixed Interest Rate, or in the event of a failure to change the length of the current Auction Rate Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Rate Period, the Auction Rate for the next Auction Rate Period will be the Maximum Auction Rate and the Auction Rate Period will be a seven-day Auction Rate Period.

(d) If the 2004A Bonds are not rated or if the 2004A Bonds are no longer registered in the name of the Securities Depository, then the Auction Rate will be the Default Rate or the Maximum Auction Rate, respectively, the succeeding Auction Rate Period will be a seven-day Auction Rate Period and the 2004A Bonds will be converted to a non-Auction Rate Period as soon as possible.

Promptly after the Auction Agent has determined the Auction Rate the Auction Agent will advise the Bond Bank by telephone (promptly confirmed in writing), telex or facsimile or other electronic communication acceptable to the parties of the Auction Rate for the next succeeding Auction Rate Period and the Auction Agent will promptly notify DTC of such Auction Rate.

Auction Agent

The Bond Bank will enter into an Auction Agreement (the “Auction Agreement”) initially with Wilmington Trust Company (the “Auction Agent”), pursuant to which the Auction Agent, as agent to the Bond Bank, will undertake to perform the duties of Auction Agent under the Indenture. The Auction Agreement provides, among other things, that the Auction Agent will determine the Auction Rate (except the initial interest rate) for each Auction in accordance with the Auction Procedures.
Broker-Dealers

The Bond Bank will enter into Broker-Dealer Agreements (the “Broker-Dealer Agreements”) initially with Bear, Stearns & Co. Inc., City Securities Corporation and SBK-Brooks Investment Corp. (collectively, the “Broker-Dealers”) with respect to the 2004A Bonds. Pursuant to the Broker-Dealer Agreements, the Broker-Dealers will undertake to perform the duties of Broker-Dealers under the Indenture.

The Broker-Dealer Agreements provide that a Broker-Dealer may submit an Order in Auctions for its own account. If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders in that it would have knowledge of Orders placed through it by its customers for that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. In the Broker-Dealer Agreements, the Broker-Dealers agree to handle customer orders in accordance with their duties under applicable securities laws and regulations.

Amendment of Terms and Auction Procedures

During an Auction Rate Period, the provisions of the Indenture, including, without limitation, the definitions of Auction Multiple, Auction Rate, Default Rate, Index, Maximum Auction Rate, Maximum Interest Rate, and All Hold Rate, may be amended pursuant to the Indenture by obtaining the consent of the Bond Insurer and the consent of the respective owners of all outstanding 2004A Bonds bearing interest at an Auction Rate as follows. If on the first Auction Date occurring at least twenty (20) days after the date on which the Bond Bank mailed notice by mail of such proposed amendment to the respective owners of the outstanding 2004A Bonds as required by the Indenture, (i) the Auction Rate which is determined on such date is the Winning Bid Rate; and (ii) there is delivered to the Bond Bank a Favorable Opinion of Bond Counsel, the proposed amendment will be deemed to have been consented to by the respective owners of all affected outstanding 2004A Bonds bearing interest at an Auction Rate.

Changes to Auction Rate Period

During any Auction Rate Period, the Bond Bank may, from time to time on any Auction Rate Interest Payment Date, change the length of the Auction Rate Period with respect to the 2004A Bonds among daily, seven-days, 28-days, 35-days, three months, six months and a Flexible Auction Rate Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Rate Period and the interest rate borne by the 2004A Bonds. If the changed Auction Rate Period is to be greater than ninety (90) days in length, the Bond Insurer must consent to such change. The Bond Bank will initiate the change in the length of the Auction Rate Period by giving notice by mail to the Notice Parties and DTC that the Auction Rate Period will change if the conditions described in the Indenture are satisfied and the proposed effective date of the change is at least ten (10) Business Days prior to the Auction Date for such Auction Rate Period. However, the change in the length of the Auction Rate Period for the 2004A Bonds will not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided above and the Auction immediately preceding the proposed change. The Bond Insurer may direct a change in the length of the Auction Rate Period if there is an Event of Default under the Indenture.

Conversion from an Auction Rate Period to a Different Adjustable Interest Rate Period

Prior to the Conversion of the 2004A Bonds to a Fixed Interest Rate Period, the 2004A Bonds, as specified by the Bond Bank, may be converted to bear interest from an Auction Rate to a different Adjustable Interest Rate (a Daily Interest Rate, a Weekly Interest Rate, a Bond Interest Term Rate or a Long-Term Interest Rate). The Bond Insurer must consent to such Conversion. The Bond Bank will deliver written notice of its desire to convert the 2004A Bonds from an Auction Rate to a different Adjustable Interest Rate to the Notice Parties. The Trustee will mail notice of a Conversion from an Auction Rate to another Adjustable Interest Rate to the applicable Bondholders at least thirty (30) days prior to the effective date of the new Adjustable Interest Rate. The 2004A Bonds will be subject to mandatory tender for purchase on the first day of a new Interest Rate Period; provided, however, in the case of a failed Conversion of 2004A Bonds bearing interest at an Auction Rate, no mandatory purchase will occur. Prior to the Conversion to a new Adjustable Interest Rate the Bond Bank will have appointed a Remarketing Agent meeting the requirements of the Indenture, and secured a Letter of Credit or a Liquidity Facility (except no Letter of Credit or Liquidity Facility is required for the Conversion to a Long-Term Interest Rate whereby the Long-Term
Interest Rate Period is two years or longer, or a Long-Term Interest Rate whereby the Long-Term Interest Rate Period is effective to the maturity date of the 2004A Bonds) meeting the requirements of the Indenture has been delivered to the Trustee. The Bond Insurer may direct a Conversion to a different Adjustable Interest Rate if there is an Event of Default under the Indenture.

Fixed Interest Rate

The Bond Bank, with the consent of the Bond Insurer, will have the option, exercisable one time for the 2004A Bonds (unless a Fixed Interest Rate is not determined as provided in the following paragraph in which case the Bond Bank may exercise the option until such Fixed Interest Rate is determined), to convert the interest payable with respect to the 2004A Bonds to a Fixed Interest Rate. Any 2004A Bonds converted to a Fixed Interest Rate will bear interest at such Fixed Interest Rate until the maturity date of the 2004A Bonds. The Bond Bank may exercise such option by giving, not less than thirty (30) days prior to the Fixed Interest Rate Date, notice to the other Notice Parties of its election to convert the interest payable with respect to the 2004A Bonds to a Fixed Interest Rate. Such notice will specify the Fixed Interest Rate Date, which may be any Business Day for which Bondholders may be given timely notice of Conversion as provided for in the Indenture. The 2004A Bonds will be subject to mandatory tender for purchase on the Fixed Interest Rate Date; provided, however, in the case of a failed Conversion of 2004A Bonds bearing interest at an Auction Rate, no mandatory purchase will occur. No later than the Business Day prior to the Fixed Interest Rate Date, the Remarketing Agent (which will required to be appointed by the Bond Bank prior to the Fixed Interest Rate Date) will determine the Fixed Interest Rate, as provided in the Indenture. The Bond Insurer may direct Conversion to a Fixed Interest Rate in the event of a default under the Indenture.

Failure to Receive a Favorable Opinion of Bond Counsel

In connection with a Conversion from an Auction Rate to another Adjustable Interest Rate or a Fixed Interest Rate, the Bond Bank will cause to be provided to the Notice Parties a Favorable Opinion of Bond Counsel on the effective date of such Conversion. In the event that Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on any such date, then the Interest Rate Period on the 2004A Bonds will not be converted, and the 2004A Bonds bearing interest at an Auction Rate will bear interest at the Maximum Auction Rate for the first Auction Rate Period (which Auction Rate Period will be a seven-day Auction Rate Period) following the failed Conversion and thereafter at an Auction Rate as determined pursuant to the Auction Procedures.

Redemption Provisions of 2004A Bonds

Optional Redemption During an Auction Rate Period. 2004A Bonds bearing interest at an Auction Rate are subject to redemption prior to their maturity, at the option of the Bond Bank, on the Business Day following any Auction Rate Period in whole or in part, in integral multiples of $25,000, by lot within a maturity in such manner as the Trustee shall determine, at a redemption price of 100% of the principal amount thereof to be redeemed, plus accrued and unpaid interest thereon to the redemption date; provided, however, that in the event of a partial redemption of 2004A Bonds bearing interest at an Auction Rate, the aggregate principal amount not so redeemed will be an Authorized Denomination.

Mandatory Sinking Fund Redemption. The 2004A Bonds are subject to mandatory sinking fund redemption, in part, by lot in such manner as the Trustee shall determine, on January 1 and July 1 of each of the years set forth below, at a price equal to one hundred percent (100%) of the principal amount of each 2004A Bond or portion thereof so redeemed, plus accrued interest thereon to the redemption date:

<table>
<thead>
<tr>
<th>Redemption Date</th>
<th>Principal Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1, 2035</td>
<td>$25,000,000</td>
</tr>
<tr>
<td>January 1, 2036 (final maturity)</td>
<td>25,000,000</td>
</tr>
</tbody>
</table>

Notwithstanding the foregoing, when the 2004A Bonds are bearing interest at an Auction Rate, if July 1, 2035, is not an Auction Rate Interest Payment Date, the mandatory sinking fund redemption will occur on the Auction Rate Interest Payment Date immediately preceding such July 1.
On or before the forty-fifth (45th) day prior to any mandatory sinking fund redemption date, the Trustee will proceed to select for redemption (by lot in such manner as the Trustee may determine), an aggregate principal amount of 2004A Bonds equal to the amount for such year as set forth in the table above and will call such 2004A Bonds or portions thereof (in Authorized Denominations) for redemption and give notice of such redemption in accordance with the terms of the Indenture.

Notwithstanding the mandatory sinking fund payments established above, the Bond Bank may modify such mandatory sinking fund payments at any time the Bond Bank decides to convert the 2004A Bonds from one Interest Rate Period to a different Interest Rate Period. In order for any such modification to become effective, the Bond Bank will first deliver to the Notice Parties a Favorable Opinion of Bond Counsel.

The Bond Bank may receive a credit against its sinking fund redemption obligation in any year upon satisfaction of certain conditions set forth in the Indenture.

General Redemption Provisions; Notice of Redemption

Notice of any redemption shall be given by the Trustee in the name of the Bond Bank by sending a copy of such notice by first class mail, at least fifteen (15) days but not more than sixty (60) days prior to the redemption date to the registered owner of any Bond all or a portion of which is called for redemption at the address as it appears on the registration records kept by the Trustee. Failure to give such notice by mailing to the registered owner of any Bond, or any defect therein, shall not affect the validity of the proceedings for the redemption of any other Bonds.

Any notice of redemption may contain a statement that the redemption is conditioned upon the receipt by the Trustee of funds not later than the opening of business five (5) Business Days prior to the date fixed for redemption sufficient to pay the redemption price of the 2004A Bonds so called for redemption, and that if such funds are not available, such redemption will be canceled by written notice to the owners of the 2004A Bonds called for redemption in the same manner as the original redemption notice was mailed.

Book-Entry Only System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2004A Bonds. The 2004A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2004A Bond will be issued for each maturity of the 2004A Bonds and will be deposited with DTC.

SO LONG AS CEDE & CO, AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF THE 2004A BONDS, REFERENCES IN THIS OFFICIAL STATEMENT TO THE REGISTERED OWNERS (OR THE OWNERS) WILL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 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 (“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, GS CCC, 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, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear
through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2004A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2004A Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2004A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2004A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the 2004A Bonds is discontinued.

To facilitate subsequent transfers, all 2004A 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 2004A 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 2004A Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2004A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2004A Bonds unless authorized by a Direct Participant in accordance with DTC’s procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the 2004A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and interest payments on the 2004A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Bond Bank or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent, any other Fiduciary or the Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Bank or the Paying Agent, or any other Fiduciary, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursements of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2004A Bonds at any time by giving reasonable notice to the Bond Bank or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, 2004A Bond certificates are required to be printed and delivered.

The Bond Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2004A Bond certificates will be printed and delivered.
The information contained in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the Bond Bank believes to be reliable, but none of the Bond Bank, the Waterworks Department or the Underwriters take any responsibility for the accuracy thereof, including any information contained on DTC’s website.

In the event that the book-entry system for the 2004A Bonds is discontinued, the Paying Agent will provide for the registration of the 2004A Bonds in the name of the Beneficial Owners thereof. The Bond Bank, the Trustee, the Paying Agent and any other Fiduciary would treat the person in whose name any 2004A Bond is registered as the absolute owner of such 2004A Bond for the purposes of making and receiving payment of the principal thereof and interest thereon, and for all other purposes, and none of these parties would be bound by any notice or knowledge to the contrary.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

The Bonds are limited obligations of the Bond Bank payable solely from the revenues and funds of the Bond Bank pledged therefor under the Indenture, as described herein, including payments received on the Waterworks Revenue Bonds. The Waterworks Revenue Bonds are payable from the Net Revenues of the Waterworks, the Senior Pledged Funds and certain other pledged funds. The Bonds do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof, including the City, the Waterworks Department or any other qualified entity, under the constitution and the laws of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision thereof, including the City, the Waterworks Department or any other qualified entity. The sources of payment of, and security for, the Bonds are more fully described herein. The Bond Bank has no taxing power.

From the proceeds of the 2004A Bonds, the Bond Bank intends to purchase, and upon purchase, will pledge to the Trustee, the 2004 Waterworks Revenue Bonds. The Bond Bank expects to enter into a Qualified Entity Purchase Agreement with the Waterworks Department for the purchase of the 2004 Waterworks Revenue Bonds (the “2004 Purchase Agreement”).

The Waterworks Revenue Bonds

The 2004 Waterworks Revenue Bonds will be issued in a principal amount equal to the aggregate principal amount of the 2004A Bonds, and will be dated the date of delivery thereof. The 2004 Waterworks Revenue Bonds will mature in the same amounts and on the same maturity dates as the 2004A Bonds, and will bear interest payable at the same per annum interest rates as the 2004A Bonds. Principal of, premium, if any and interest on the 2004 Waterworks Revenue Bonds will be paid directly to the Trustee pursuant to the 2004 Purchase Agreement. The 2004 Waterworks Revenue Bonds are subject to redemption prior to maturity upon terms substantially identical to the terms of redemption of the 2004A Bonds. See “THE 2004A BONDS.”

The Waterworks Revenue Bonds and the Assumed Obligations are payable solely from and secured by an irrevocable pledge of and shall constitute a first charge upon the Net Revenues and the Senior Pledged Funds. Additionally, the 2004 Pledged Funds are pledged to the payment of the 2004 Waterworks Revenue Bonds. See “—Waterworks Net Revenues” and “—Additional Waterworks Revenue Bonds—Assumed Obligations” herein.

Payment on the Waterworks Revenue Bonds is dependent upon the generation of sufficient Net Revenues of the Waterworks. If the Waterworks becomes inoperable for any reason, if the Waterworks Department should lack raw water or lack treatable water for any reason, or if the Waterworks Department incurs unanticipated expenses or reduced revenues for any reason, the Waterworks Department may be unable to generate adequate revenues from the Waterworks to pay debt service on the Waterworks Revenue Bonds. See “CERTAIN FACTORS AFFECTING WATER UTILITIES” and “RISK FACTORS” herein.
In addition to its authority to issue revenue bonds and set rates and charges for the use of the Waterworks, the Waterworks Department has the legal authority to issue special taxing district bonds. Both the City-County Council in creating the Waterworks Department, and the Board of Directors of the Waterworks Department, have made policy decisions not to levy any property taxes within the District, or operate the Waterworks Department as a special taxing district by borrowing money for the District, and accordingly, no property taxes have been or are expected to be levied on property within the District or expected to be available to pay debt service on the Waterworks Revenue Bonds.

**Waterworks Net Revenues**

The principal of and interest on the Waterworks Revenue Bonds and the Assumed Obligations are payable from Net Revenues, together with the Senior Pledged Funds. Additionally, the 2004 Pledged Funds are pledged to the payment of the 2004 Waterworks Revenue Bonds. “Net Revenues” are defined in the Bond Resolution as Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Waterworks, or any other facilities in connection with which the defined term is used.

“Gross Revenues” are defined in the Bond Resolution as all income and revenues received or accrued under generally accepted accounting principles derived directly or indirectly by the Waterworks Department from the water and any other goods and services provided by, or from the operation and use of and otherwise pertaining to, the Waterworks, including, without limitation, all rates, fees, and other charges for the use of the Waterworks, or for any service rendered by the Waterworks Department in the operation thereof, or any part thereof, directly or indirectly, the availability of any such service or the sale or other disposal of any commodity derived therefrom, but excluding any moneys borrowed and used for the acquisition of capital improvements and any moneys received as grants, appropriations or gifts from the United States, the State or other sources, the use of which is limited by the grantor or donor to the acquisition, construction, installation, improvement or equipping of capital improvements for the Waterworks, except to the extent any such moneys shall be received as payments for the use of the Waterworks, services rendered thereby, the availability of any such service or the disposal of any such commodities. “Gross Revenues” also include: (i) all income or other gain from the investment of such income and revenues and of the proceeds of any bonds payable from Net Revenues; and (ii) all amounts withdrawn from the Rate Stabilization Account, if any, and deposited in the Revenue Fund, all as more fully defined and described herein. See “—Waterworks Funds and Accounts; Flow of Funds” under this caption.

“Operation and Maintenance Expenses” are defined in the Bond Resolution as all reasonable and necessary current expenses of the Waterworks Department, determined under generally accepted accounting principles, of operating, maintaining, and repairing the Waterworks but excluding interest expense and any allowance for depreciation or amortization; further, the term includes, without limitation:

(a) The service fee to be paid to the initial Manager pursuant to the Management Agreement and any similar or comparable management fees to be paid to any future manager of all or a portion of the Waterworks;

(b) Engineering, auditing, reporting, legal, planning and other overhead expenses relating to the administration, operation, and maintenance of the Waterworks;

(c) Fidelity bond and property and liability insurance premiums pertaining to the Waterworks, or a reasonably allocable share of a premium of any blanket bond or policy pertaining to the Waterworks;

(d) Payments to pension, retirement, health, and hospitalization funds, and other insurance, and to any self-insurance fund as insurance premiums not in excess of such premiums which would otherwise be required for such insurance;

(e) Any general taxes, payments in lieu of taxes, assessments, excise taxes, or other charges which may be lawfully imposed on the Waterworks Department, the Waterworks, revenues therefrom, or the Waterworks’ income from or operations of any properties under its control and pertaining to the Waterworks, or any privilege in connection with the Waterworks or its operation;
The reasonable charges of the Trustee, Paying Agent, Registrar and any other depositary bank, fiduciary or receiver under the Bond Resolution pertaining to the Waterworks Revenue Bonds;

(g) Contractual services, professional services, salaries, other administrative expenses, and costs of materials, supplies, repairs, and labor pertaining to the Waterworks;

(h) Any costs of utility services furnished to the Waterworks;

(i) Any lawful refunds of any Net Revenues;

(j) The cost of funding any amount due the United States as rebate payments under §148(f) of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Waterworks Revenue Bonds (the “Code”), and the cost of calculating and verifying the amount of such rebate payments;

(k) Fees and charges payable to the Bond Bank pursuant to the 2004 Purchase Agreement and the Qualified Entity Purchase Agreement between the Bond Bank and the Waterworks Department with respect to the 2002 Waterworks Revenue Bonds (the “2002 Purchase Agreement” and, together with the 2004 Purchase Agreement, the “Purchase Agreement”); and

(l) All other administrative, general, and commercial expenses incurred by the Waterworks Department in connection with the Waterworks.

See “WATERWORKS FINANCIAL INFORMATION” for a discussion of the Waterworks Department’s billing and collection procedures, customer information and rates and charges.

Waterworks Funds and Accounts; Flow of Funds

Funds and Accounts. The Bond Resolution creates numerous funds and accounts to account for the collection and disbursement of Gross Revenues. Each of the funds and accounts is described in “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Summary of Certain Provisions of the Bond Resolution” and discussed in further detail in “—Flow of Funds Under the Bond Resolution” below. The Bond Resolution creates the Water Fund. The Water Fund includes the Bond Fund, the Revenue Fund, the Operation and Maintenance Fund and the Rebate Fund. The Bond Fund consists of the Interest Account, the Principal Account, the Hedge Payments Account and the Reserve Account, including the Waterworks Common Reserve Subaccount. The Bond Resolution also creates the Construction Fund.

The Bond Fund (including the Reserve Account), the Construction Fund and the Rebate Fund will be held by the Trustee on behalf of the Bond Bank and will be invested by the Bond Bank pursuant to the Purchase Agreement. The Revenue Fund and the Operation and Maintenance Fund will be under the control of the Waterworks Department and will be held by the City Controller. The Waterworks Department has adopted a board policy, which may be changed from time to time at the discretion of the Board of Directors of the Waterworks Department (the “Board Policy”) that has established separate accounts within the Revenue Fund, including the Senior Bond Accrual Account, the Renewal and Replacement Account, the Rate Stabilization Account, and the Department Purposes Account.

Flow of Funds Under the Bond Resolution. So long as any of the Waterworks Revenue Bonds, the Assumed Obligations and any Waterworks Parity Bonds (collectively, the “Waterworks Senior Bonds”) are outstanding, all Gross Revenues, upon their receipt from time to time by the Waterworks Department, will be deposited daily, as far as practicable, and set aside and credited immediately to the Revenue Fund. Pursuant to the Bond Resolution, in each Fiscal Year, the moneys on deposit in the Revenue Fund must be applied at the following times and in the following order of priority (see “APPENDIX B3—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Definitions” for definitions of capitalized terms not previously defined in this Official Statement):

1. Operation and Maintenance Expenses. First, as a first charge on the Revenue Fund, Gross Revenues are set aside in and credited to the Operation and Maintenance Fund, on or before the last business day of each calendar
month, in an amount sufficient to pay Operation and Maintenance Expenses for the next calendar month. Any surplus remaining at the end of the Fiscal Year and not needed for Operation and Maintenance Expenses is to be transferred for credit to the Revenue Fund and used for the purposes thereof.

(2) **Bond Fund Payments.** Second, Gross Revenues are set aside in and credited to the Bond Fund, in the following amounts and at the following times:

(a) **Interest Account.** At least one business day prior to each Interest Payment Date or Redemption Date on the Waterworks Senior Bonds, the Waterworks Department will transfer from the Revenue Fund, into the Interest Account, an amount which, together with any other moneys available or on deposit in such Interest Account, is sufficient to pay the interest on the Waterworks Senior Bonds. At least one business day prior to each Interest Payment Date or Redemption Date on the Assumed Obligations, the Trustee will transfer from the Interest Account to the National City Bank of Indiana, as trustee for the Assumed Obligations (the “1998 Trustee”), an amount sufficient to pay the interest due on such Assumed Obligations.

(b) **Hedge Payments Account.** At least one business day prior to each payment date for Hedge Payments under any Senior Hedge Agreement which are on a parity with Waterworks Senior Bonds, the Waterworks Department will transfer from the Revenue Fund into the Hedge Payments Account an amount which, together with any other moneys already on deposit therein and available to make such payment, is not less than such Hedge Payments coming due on such payment date.

(c) **Principal Account.** At least one business day prior to each Principal Payment Date or Redemption Date on the Waterworks Senior Bonds, the Waterworks Department will transfer from the Revenue Fund, into the Principal Account, an amount which, together with any other moneys available or on deposit in such Principal Account, is sufficient to pay principal (including any mandatory sinking fund or prior redemption payments then due) and premium, if any, of the Waterworks Senior Bonds. At least one business day prior to each Principal Payment Date or Redemption Date on the Assumed Obligations, the Trustee will transfer from the Principal Account to the 1998 Trustee an amount sufficient to pay the principal (including any prior redemption payments then due) on such Assumed Obligations.

(3) **Reserve Account Deposits.** Third, but subsequent to the payments into the Interest Account, the Hedge Payments Account and the Principal Account described above (except as otherwise provided in the Bond Resolution), Gross Revenues are set aside and credited to the Reserve Account within the Bond Fund, on the first business day of each month, on a pro rata basis (based on the outstanding principal amount of the related Waterworks Senior Bonds), (i) the amount of any monthly deposit required to restore any deficiency in any subaccount of the Reserve Account as a result of (a) a transfer to the Interest Account or the Principal Account for the payment of interest on or principal of Waterworks Senior Bonds, or (b) an annual valuation, or (ii) the amount required to fund the applicable Reserve Requirement, as described below.

If a deficiency exists in the Waterworks Common Reserve Subaccount, the monthly deposits to the Reserve Account will be equal to the difference between the Waterworks Common Reserve Requirement and the amount of cash and securities (together with the balance available to be drawn on any applicable Reserve Account Credit Facility) on deposit in the Waterworks Common Reserve Subaccount, on such date divided by twenty-four (24). In the event that a deficiency exists in a Waterworks Series Reserve Subaccount, the monthly deposit will be calculated in accordance with the terms of the supplemental resolution pursuant to which such Waterworks Series Reserve Subaccount was created. The provider of a Reserve Account Credit Facility which has been drawn upon may be reimbursed from amounts deposited in the applicable subaccount of the Reserve Account from the Net Revenues as described above.

Upon the issuance of Waterworks Parity Bonds, the Waterworks Department may determine (i) not to fund a reserve, (ii) to fund any required increase to the Waterworks Common Reserve Requirement or (iii) to fund a Waterworks Series Reserve Requirement, by providing in a supplemental resolution that monthly deposits of Net Revenues will be made into the applicable subaccount of the Reserve Account following the issuance of such Waterworks Parity Bonds. In the case of an increase to the Waterworks Common Reserve Subaccount, such monthly deposits for a series of Waterworks Parity Bonds will commence on the first day of the month following the date of issuance of such Waterworks Parity Bonds and will continue monthly thereafter for a period of sixty (60)
months or such lesser number of months specified in such supplemental resolution. In the case of a Waterworks Series Reserve Requirement, such monthly deposits for a series of Waterworks Parity Bonds will commence on the date of issuance of such Waterworks Parity Bonds and will continue monthly thereafter for the number of months specified in the supplemental resolution pursuant to which such Waterworks Series Reserve Requirement is established.

If on an Interest Payment Date or Principal Payment Date for any Waterworks Senior Bonds which have a claim on a subaccount of the Reserve Account, there is not on deposit in the Interest Account and the Principal Account a sufficient amount to pay the amounts of principal of or interest due on such Waterworks Senior Bonds, then the Trustee shall transfer into the Interest Account or the Principal Account from the applicable subaccount of the Reserve Account an amount not to exceed the deficiency in the Interest Account or Principal Account on such Interest Payment Date or Principal Payment Date. If the applicable subaccount of the Reserve Account contains a Reserve Account Credit Facility and cash, the cash in the applicable subaccount of the Reserve Account must be drawn down completely before any demand is made on a Reserve Account Credit Facility. If the applicable subaccount of the Reserve Account contains more than one Reserve Account Credit Facility, each Reserve Account Credit Facility must be drawn down on a pro rata basis.

The Assumed Obligations are not secured by and do not have a claim on the Reserve Account or any subaccount thereof.

(4) Rebate Fund. Fourth, and subsequent to the deposits required by paragraphs (1) through (3) above, the Waterworks Department will transfer to the Rebate Fund, such amounts as are required to be deposited in the Rebate Fund to meet the Waterworks Department’s obligations under the tax covenant contained in the Bond Resolution with respect to the Bonds and any other tax-exempt bonds (see “TAX MATTERS” and “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Summary of Certain Provisions of the Bond Resolution—Tax Covenants” for a description of the tax covenant), in accordance with Section 148(f) of the Code. Amounts in the Rebate Fund shall be used for the purpose of making the payments to the United States required by such covenant and Section 148(f) of the Code. Any amounts in the Rebate Fund in excess of those required to be on deposit therein may be withdrawn and used for any lawful purpose as provided in the Bond Resolution.

(5) Water Fund. Fifth, and subsequent to the deposits required by paragraphs (1) through (4) above, any moneys remaining in the Revenue Fund may be transferred by the Waterworks Department to any other account or subaccount of the Water Fund as provided by Board Policy or any supplemental resolution.

Board Policy Flow of Funds. From time to time the Board of Directors of the Waterworks Department may in its sole discretion adopt or amend the Board Policy which governs the administration and application of the Water Fund and all separate accounts and subaccounts thereof. However, no moneys may be transferred to any fund of the City except as provided in the Bond Resolution or in the Purchase Agreement as to repayments of City appropriations made pursuant to Indiana Code 5-1.4 for replenishment of the Bond Bank Reserve Fund. The Board Policy may not change the priority of application of Gross Revenues described above in a manner which would have a material adverse effect on the Bond Bank, the Bond Insurer or holders of the Waterworks Senior Bonds.

The Board Policy in effect on the date hereof requires deposits from the Revenue Fund of the Water Fund to the following accounts in the following order of priority:

(a) Senior Bond Accrual Account. First, from any moneys remaining in the Revenue Fund, but after the deposits set forth above, there will be transferred and credited to the Senior Bond Accrual Account monthly, the following:

(i) Into the 2002 Interest Subaccount on or before the twenty-fifth day of each month, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefor from whatever source (including capitalized interest), to pay the next maturing installment of interest on the 2002 Waterworks Revenue Bonds, prior to the due date thereof.

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(ii) Into the 2002 Principal Subaccount on or before the twenty-fifth day of each month, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefrom from whatever source, to pay the next maturing installment of principal (including any mandatory sinking fund or prior redemption payments then due) of the 2002 Waterworks Revenue Bonds, prior to the due date thereof.

(iii) Into the Assumed Obligations Interest Subaccount on or before the tenth day of each month, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefrom from whatever source, to pay the next maturing installment of interest on the Assumed Obligations, prior to the due date thereof.

(iv) Into the Assumed Obligations Principal Subaccount, commencing on August 10, 2027, and on or before the tenth day of each month thereafter, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefrom from whatever source, to pay the next maturing installment of principal (including any prior redemption payments then due) of the Assumed Obligations prior to the due date thereof.

(v) Into the 2004 Interest Subaccount at least three (3) days prior to each Interest Payment Date an amount, together with other moneys from time to time available therefrom from whatever source, to pay the next maturing installment of interest on the 2004 Waterworks Revenue Bonds, prior to the due date thereof.

(vi) Into the 2004 Principal Subaccount on the twenty-fifth day of the January or July preceding the first maturing installment of principal (including any mandatory sinking fund payment) of the 2004 Waterworks Bonds, and on or before the twenty-fifth day of each month thereafter, an amount in substantially equal monthly installments necessary, together with any other moneys from time to time available therefrom from whatever source, to pay the next maturing installment of principal (including mandatory sinking fund or prior redemption payments then due), of the 2004 Waterworks Revenue Bonds prior to the due date thereof.

The moneys credited to the 2002 Interest Subaccount and the 2002 Principal Subaccount within the Senior Bond Accrual Account shall be transferred to the Interest Account and Principal Account in accordance with the provisions of the Bond Resolution to pay Debt Service Requirements on the 2002 Waterworks Revenue Bonds at least three (3) days before the applicable Interest Payment Date or Principal Payment Date.

The moneys credited to the Assumed Obligations Interest Subaccount and the Assumed Obligations Principal Subaccount within the Senior Bond Accrual Account will be transferred to the Interest Account and the Principal Account (each within the Bond Fund) in accordance with the Bond Resolution to pay Debt Service Requirements on the Assumed Obligations at least three (3) days before the applicable Interest Payment Date or Principal Payment Date.

The moneys credited to the 2004 Interest Subaccount and the 2004 Principal Subaccount within the Senior Bond Accrual Account shall be transferred to the Interest Account and Principal Account in accordance with the provisions of the Bond Resolution to pay Debt Service Requirements on the 2004 Waterworks Revenue Bonds at least three (3) days before the applicable Interest Payment Date or Principal Payment Date.

If the 2004A Bonds are converted to bear interest at a different Auction Rate Period or another Interest Rate Period, the Board Policy regarding deposits to the 2004 Interest Subaccount and 2004 Principal Subaccount will be amended accordingly.

Current Board Policy further provides that in the event that any monthly deposit with respect to the Waterworks Revenue Bonds is not made in full to the Senior Bond Accrual Account, the City Controller will within five (5) business days, notify the Secretary-Treasurer, the Board and the Executive Director of the Bond Bank. The Executive Director of the Bond Bank is required to notify the President of the City-County Council that such event has occurred and that a request for an appropriation may be forthcoming to replenish the Bond Bank Common Reserve Account; provided, however, no request for an appropriation will be made after the
later of (i) December 31, 2007, or (ii) the date on which the Waterworks Department has satisfied the requirements of the rate covenant in the Bond Resolution described herein for the immediately preceding three (3) consecutive Fiscal Years. The Board will also take action immediately to determine whether an increase in rates is necessary, and if so, will petition the IURC as soon as practical for emergency or permanent rate relief. The Waterworks Department may also authorize the issuance of revenue anticipation obligations to provide funds to cover debt service until such petition can be approved by the IURC.

(b) Renewal and Replacement Account. Second, from any moneys remaining in the Revenue Fund, there will be transferred and credited to the Renewal and Replacement Account an amount to be established by a supplement to Board Policy. The Waterworks Department will expend moneys in the Renewal and Replacement Account only to make up deficiencies in the Bond Fund and to pay the cost of, and to create a reserve for the payment of the cost of, capital improvements, extraordinary maintenance, repairs, renewals, and replacements to the Waterworks as are not annually recurring in nature, as determined by the Board of Directors of the Waterworks Department.

(c) Rate Stabilization Account. Third, and subject to the above provisions, any moneys remaining in the Revenue Fund will be credited monthly, to the Rate Stabilization Account, in an amount to be established by the Board pursuant to a supplement to the Board Policy. The Board has not yet established the amount or commencement date of such monthly deposits. Such amounts will be used for expenditure from time to time for any lawful purpose or purposes of the Waterworks Department pertaining to the Waterworks, at the direction of the Board. Expenditures from the Rate Stabilization Account will be in accordance with an annual budget established by the Board. Amounts in the Rate Stabilization Account at the beginning of a Fiscal Year which are deposited into the Revenue Fund in that Fiscal Year are deemed to be Gross Revenues for Fiscal Year in which they are deposited into the Revenue Fund, subject to the limitations set forth in the Bond Resolution.

(d) Department Purposes Account. Fourth, and subject to the above provisions, any moneys remaining in the Revenue Fund, at least annually by the last business day of each Fiscal Year, there will be transferred and credited to the Department Purposes Account. Moneys in such account, as may be determined and directed from time to time by the Secretary-Treasurer of the Board within the annual budget established by the Board, but subject to any limitations set forth in the Board Policy or in any other contract pertaining to such account, may be withdrawn in any priority for any one, all, or any other combination of the following, as the Secretary-Treasurer of the Board may from time to time determine:

(i) To pay the costs of constructing or otherwise acquiring any betterments of, enlargement of, extensions of, or any other improvements to the Waterworks, or any part thereof, and any equipment therefor, authorized by law;

(ii) To pay the costs of extraordinary and major repairs, renewals, replacements, or maintenance items pertaining to any properties of the Waterworks of a type not recurring annually or at shorter intervals and not otherwise paid as Operation and Maintenance Expenses;

(iii) To fund any shortfall in any other Account;

(iv) To pay any liabilities of the Waterworks Department, including indebtedness not consisting of Waterworks Senior Bonds; and

(v) For any other lawful purpose of the Waterworks Department.

Although it is the present intention of the Waterworks Department to maintain the existing Board Policy, there can be no assurance that the current Board Policy will not change as a result of unforeseen circumstances or for any other reason in the sole discretion of the Board of Directors.
Waterworks Historical and Forecasted Debt Service Coverage

The following table sets forth a calculation of the historical debt service coverage for 2003 and the forecasted debt service coverage produced when comparing forecasted Net Revenues through December 31, 2006, to the forecasted debt service payable on the Waterworks Revenue Bonds plus debt service on the Assumed Obligations.

The historical figures in this table have not been audited. The forecasted figures in this table have been derived from the Accountant’s Financial Forecast Report attached to this Official Statement as APPENDIX A. The forecasts set forth in the following table are subject to all of the assumptions and limitations described in the Accountant’s Financial Forecast Report and should be reviewed in conjunction with the Accountant’s Financial Forecast Report in its entirety. The accompanying prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information but, in the view of the Waterworks Department’s management, was prepared on a reasonable basis and, to the best of management’s knowledge, reflects currently available estimates and the expected future debt service coverage on the Waterworks Revenue Bonds. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information. See “RISK FACTORS—Forward-Looking Statements.” See also “WATERWORKS FINANCIAL INFORMATION—System Rates and Charges.”

### HISTORICAL AND FORECASTED ANNUAL DEBT SERVICE COVERAGE

<table>
<thead>
<tr>
<th>(in 1,000's)</th>
<th>Historical</th>
<th>Forecasted</th>
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<tr>
<td></td>
<td>2003 (unaudited)</td>
<td>2004</td>
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<tr>
<td>Operating Revenues</td>
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<td>Interest Earnings</td>
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<td>Less Annual Cash Operation &amp; Maintenance Expenses</td>
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<td>Net Revenues</td>
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<td>Annual Debt Service</td>
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<tr>
<td>2002 Waterworks Revenue Bonds</td>
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<td>2004 Waterworks Revenue Bonds</td>
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<td>Assumed Obligations</td>
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<td>Total Debt Service</td>
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<tr>
<td>Debt Service Coverage</td>
<td>144%</td>
<td>134%</td>
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Waterworks Rate Covenant

In the Bond Resolution, the Waterworks Department has covenanted to maintain a schedule of rates, fees, and other charges for water and other goods and services provided by the Waterworks as may be necessary or proper in order that the amount of the Gross Revenues in each Fiscal Year equals at least the sum of:

(a) the amount of Gross Revenues required to pay Operation and Maintenance Expenses for such Fiscal Year; plus

(b) the greater of (i) 1.10 times the Debt Service Requirements for such Fiscal Year, or (ii) all amounts payable from the Gross Revenues, including, without limitation, debt service on any Waterworks Senior Bonds or Waterworks Subordinate Bonds, funding of reserves for Operation and Maintenance Expenses, payments due in accordance with any Hedge Agreement, Credit Facility Agreement (all as defined in “APPENDIX B3—
“Debt Service Requirements” means with respect to a period of time for which calculated, the aggregate of the payments required to be made by the Waterworks Department in respect of the principal of, whether at maturity or as a result of a mandatory prepayment, and the interest on outstanding Waterworks Senior Bonds and any Hedge Payments or Hedge Receipts with respect to Senior Hedge Agreements (all as defined in “APPENDIX B3—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Definitions”); however, excluding such principal or interest payments on Waterworks Senior Bonds to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied and are sufficient to pay such principal of, premium, if any, or interest on the scheduled payment dates at maturity or redemption; provided, further that in calculating the Debt Service Requirements for such period, the principal amount of any Waterworks Senior Bonds included in such calculation which is paid during such period will be excluded to the extent such amount is paid from a source other than Net Revenues, including but not limited to the proceeds of the Waterworks Revenue Bonds, Waterworks Parity Bonds or Waterworks Subordinate Bonds. For purposes of the rate covenant, the interest portion of the Debt Service Requirements for the 2004 Waterworks Revenue Bonds, in any Interest Rate Period other than the Fixed Interest Rate Period, will be calculated using a per annum interest rate assumed to be the lesser of (i) the average interest rate on the 2004 Waterworks Revenue Bonds for the most recent twelve (12) month period preceding the date of the calculation or (ii) twelve percent (12%); provided, the assumed rate shall be the lesser of (i) the average of The Bond Market Association Index ™ for the proceeding twelve (12) month period and (ii) twelve percent (12%) if, at the time of the calculation, the 2004 Waterworks Revenue Bonds shall not have been outstanding for a full twelve (12) month period.

If the rate covenant is not satisfied for any Fiscal Year, the Waterworks Department shall seek to revise the schedule of rates, fees and other charges for water and other goods and services provided by the Waterworks in a manner as may be necessary to produce Gross Revenues to satisfy the rate covenant for the succeeding Fiscal Year. However, no Event of Default will be deemed to occur so long as the Debt Service Requirements are being paid by the Waterworks Department when due and payable.

For purposes of satisfying the rate covenant, the Waterworks Department may transfer funds from the Rate Stabilization Account of the Water Fund, if any, to the Revenue Fund in any Fiscal Year. See “—Board Policy Flow of Funds” herein. The amount so transferred shall be treated as Gross Revenues for such Fiscal Year for purposes of determining compliance with the foregoing rate covenant and the conditions for issuance of Waterworks Parity Bonds described herein; provided, however, the amount of any such transfer from the Rate Stabilization Account treated as Gross Revenues for any Fiscal Year may not exceed ten percent (10%) of the Debt Service Requirements for such Fiscal Year.

Notwithstanding the foregoing, the covenant described above is subject to compliance by the Waterworks Department with any legislation of the United States, the State, or other governmental body, or any regulation or other action taken by the federal government, any State agency, including the IURC, or any political subdivision of the State pursuant to such legislation, in the exercise of the police power thereof for the public welfare, which legislation, regulation, or action limits or otherwise inhibits the amounts of any rates, fees, and other charges due to the Waterworks Department for the use of or otherwise pertaining to any and all services rendered by or at the Waterworks, including, without limitation, increases in the amounts of such rates, fees, or other charges (or any combination thereof). Specifically, the establishment of new rates, fees and other charges for water and other goods and services provided by the Waterworks Department is subject to the approval of the IURC. See “CERTAIN FACTORS AFFECTING WATER UTILITIES—Regulatory Risks” and “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT.”
Current Board Policy which may be changed from time to time establishes a rate covenant which is similar to that set forth above as established by the Bond Resolution except that the amount of Gross Revenues in each Fiscal Year must equal at least the sum of:

(a) the amount of Gross Revenues required to pay Operation and Maintenance Expenses for such Fiscal Year; plus

(b) the greater of (i) 1.25 times the Debt Service Requirements for such Fiscal Year, or (ii) all amounts payable from the Gross Revenues, including, without limitation, debt service on any Waterworks Senior Bonds or Waterworks Subordinate Bonds, funding of reserves for Operation and Maintenance Expenses, payments due in accordance with any Hedge Agreement, Credit Facility Agreement or Reserve Account Credit Facility, and any payments to be made (including funds to satisfy prior deficiencies) in any fund, account or subaccount of the Water Fund. See also “WATERWORKS FINANCIAL INFORMATION—System Rates and Charges.”

**Additional Waterworks Revenue Bonds**

*Superior Obligations Prohibited; Subordinate Obligations Permitted.* The Waterworks Senior Bonds from time to time outstanding and Hedge Payments under the Senior Hedge Agreements are equally and ratably secured by a lien on the Net Revenues and the “Senior Pledged Funds” (which consists of the Interest Account, the Principal Account, the Hedge Payment Account and any other funds and accounts pledged by a supplemental resolution to the payment of Waterworks Senior Bonds and any Hedge Payments under Senior Hedge Agreements) and shall not be entitled to any priority one over the other in the application of the Net Revenues and the Senior Pledged Funds regardless of the time or times of issuance thereof. The Waterworks Department may issue Waterworks Parity Bonds and enter into Senior Hedge Agreements in accordance with the Bond Resolution, and the Waterworks Department will issue no other obligations of any kind or nature payable from or enjoying a lien on the Net Revenues and the Senior Pledged Funds having a priority over, or except as permitted by the Bond Resolution, on a parity with the Waterworks Senior Bonds (and any Hedge Payments under Senior Hedge Agreements). Notwithstanding the foregoing, the Waterworks Department may issue Waterworks Subordinate Bonds or other obligations payable from Net Revenues pursuant to a supplemental resolution if the Waterworks Subordinate Bonds or such other obligations are junior and subordinate in lien on and right of payment from Net Revenues and Senior Pledged Funds to all Waterworks Senior Bonds and Senior Hedge Agreements.

*Assumed Obligations.* The Waterworks Department assumed the obligations of IWCR relating to the Town of Fishers, Indiana Economic Development Water Facilities Refunding Revenue Bonds, Series 1998 (Indianapolis Water Company Project) outstanding in the principal amount of Twenty-Nine Million One Hundred Forty-Five Thousand Dollars ($29,145,000) and the City of Indianapolis, Indiana Economic Development Water Facilities Refunding Revenue Bonds, Series 1998 (Indianapolis Water Company Project) outstanding in the principal amount of Nine Million Six Hundred Ninety-Five Thousand Dollars ($9,695,000). The Assumed Obligations have interest rates of five and five one-hundredths percent (5.05%), a single maturity of July 15, 2028, and are subject to optional redemption on July 15, 2005. The principal of and interest on the Assumed Obligations are payable from Net Revenues of the Waterworks and the Senior Pledged Funds, on parity with the Waterworks Revenue Bonds. However, the Assumed Obligations have no claim to and are not secured by the Waterworks Common Reserve Subaccount under the Bond Resolution. Further, the Assumed Obligations have no claim to and are not secured by the Bond Bank Common Reserve Account or any other fund or account under the Indenture, nor will the Bond Bank be obligated to request an appropriation from the City-County Council to replenish the Bond Bank Reserve Fund in the event of a deficiency therein, or in the event of a deficiency in Net Revenues to pay the Assumed Obligations. The Assumed Obligations are subject to acceleration of principal of and interest thereon in the event of a default thereunder. Further, the indenture pursuant to which the Assumed Obligations were issued provides that existing holders of the Assumed Obligations have an optional right to put the Assumed Obligations in the event of the death of a holder, provided that the total amount of Assumed Obligations that may be put in any calendar year is limited to Eight Hundred Thousand Dollars ($800,000). To the extent that any holders of the Assumed Obligations exercise this put right, the Waterworks Department would be required to make payments to the holders thereof from available Net Revenues, which amounts are in excess of scheduled principal and interest on the Assumed Obligations. The payment of scheduled principal of and interest on the Assumed Obligations (but not additional amounts required to be paid in the event holders exercise their put rights as described above) is currently guaranteed pursuant to a municipal bond insurance policy issued by MBIA.
**Waterworks Parity Bonds.** The Bond Resolution permits the Waterworks Department to issue additional obligations having a lien on Net Revenues on a parity with the lien of the Waterworks Revenue Bonds and the Assumed Obligations upon the satisfaction of certain conditions. Except as described below, Waterworks Parity Bonds may be issued only if the following conditions are met:

1. The Waterworks Department certifies that no Event of Default has occurred and is continuing or any such existing Event of Default would be cured following the issuance of such Waterworks Parity Bonds; and

2. Either: (a) the Net Revenues were at least equal to 1.1 times the Debt Service Requirements for the most recent Fiscal Year for which audited financial statements are available, or (b) the Net Revenues were at least equal to 1.1 times the Debt Service Requirements for such Fiscal Year if the Net Revenues had been adjusted as described below.

For purposes of meeting these conditions, the interest portion of the Debt Service Requirements for the 2004 Waterworks Revenue Bonds in any Interest Rate Period other than the Fixed Interest Rate Period will be calculated using a per annum interest rate assumed to be the lesser of (i) the Municipal Market Data AAA bond scale for bonds with a maturity of thirty (30) years as certified by the Bond Bank as of the date of issuance of the 2004 Waterworks Bonds (the “Certified Rate”) or (ii) the actual variable interest rate on the 2004 Waterworks Revenue Bonds on a date selected by the Waterworks Department no more than two (2) weeks prior to the sale date of such Waterworks Parity Bonds.

In any calculation to determine whether or not Waterworks Parity Bonds may be issued as provided in paragraphs 2(a) or (b) above, the amount of Net Revenues may be increased by the amount estimated by the financial consultant making the computations, which increase results from any change in any schedule of rates, fees and charges or any annexations or extensions to the Waterworks which have been approved at the time such computations are being made, based on the number of ratepayers during such next preceding Fiscal Year as if such modified schedule of rates, fees and number of ratepayers had been in effect during the entire next preceding Fiscal Year. Such calculation may be adjusted by any transfer from any Rate Stabilization Account to the Revenue Fund; provided, the amount of any such transfer treated as Gross Revenues for any Fiscal Year may not exceed ten percent (10%) of the Debt Service Requirements for such Fiscal Year.

The 2004 Waterworks Revenue Bonds are being issued pursuant to the provisions of the Bond Resolution permitting the issuance of Waterworks Parity Bonds in an aggregate principal amount not to exceed Fifty Million Dollars ($50,000,000) on or before July 1, 2004, without complying with the parity test requirements set forth above. Nonetheless, the Waterworks Department expects that the parity test would be met with respect to the 2004 Waterworks Revenue Bonds, however, no formal parity report will be prepared in connection with the issuance of the 2004 Waterworks Revenue Bonds.

**Refunding Bonds.** The Waterworks Department may issue refunding bonds upon satisfaction of conditions for the issuance of Waterworks Parity Bonds or, if the bonds to be refunded are Waterworks Senior Bonds, the refunding bonds may be issued as Waterworks Parity Bonds if the Waterworks Department certifies that the present value of the total annual Debt Service Requirements relating to the refunding bonds is less than or equal to the present value of the total annual Debt Service Requirements of the Waterworks Senior Bonds being refunded without complying with the conditions for the issuance of Waterworks Parity Bonds. See “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Summary of Certain Provisions of the Bond Resolution—Waterworks Parity Bonds.”

**Waterworks Reserve Account**

The Waterworks Revenue Bonds (but not the Assumed Obligations) also are secured by the Waterworks Common Reserve Subaccount. The Waterworks Common Reserve Subaccount is required to be maintained as a continuing reserve in an amount equal to the Waterworks Common Reserve Requirement. “Waterworks Common Reserve Requirement” is defined as fifty percent (50%) of the maximum aggregate amount of principal and interest requirements on all Waterworks Senior Bonds which have a claim for payment on the Waterworks Common Reserve Subaccount falling due in any succeeding Fiscal Year. In lieu of all or a portion of any moneys required to be deposited in the Reserve Account, the Waterworks Department may deposit a Reserve Account Credit Facility in
the applicable subaccount of the Reserve Account in full or partial satisfaction of the Reserve Requirement. Amounts on deposit in the Waterworks Common Reserve Subaccount may only be used to meet any deficiencies in the Interest Account or Principal Account of the Bond Fund. Upon issuance of the 2004 Waterworks Revenue Bonds, the Waterworks Common Reserve Requirement will be approximately Twenty-Six Million Two Hundred Sixteen Thousand Three Hundred Fifty-Five Dollars ($26,216,355). As required by the Bond Insurer, the per annum rate of interest assumed on the 2004 Waterworks Revenue Bonds for purposes of calculating the Waterworks Common Reserve Requirement will be the Certified Rate. The Waterworks Common Reserve Requirement will be treated as satisfied if the Bond Bank Reserve Requirement is met. No deposit will be made to the Waterworks Common Reserve Subaccount because the amount necessary to satisfy the Bond Bank Reserve Requirement will be on deposit in to the Bond Bank Common Reserve Account upon issuance of the 2004A Bonds and the 2004 Waterworks Revenue Bonds from the Surety Bond and funds currently on deposit in the Bond Bank Common Reserve Account. See “—Bond Bank Reserve Fund.” See “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Summary of Certain Provisions of the Bond Resolution—Bond Fund—Reserve Account” for additional information and definitions regarding the Waterworks Reserve Account.

Upon the issuance of a series of Waterworks Parity Bonds, the Waterworks Department shall determine, in its discretion, whether or not such series of Waterworks Parity Bonds shall have a claim for payment of principal of and interest on the Reserve Account or any subaccount thereof. Waterworks Subordinate Bonds shall not have a claim for payment on the Reserve Account. See “—Waterworks Funds and Accounts; Flow of Funds—Flow of Funds Under the Board Resolution” under this caption and “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Summary of Certain Provisions of the Bond Resolution—Bond Fund—Reserve Account” for a further discussion of the Reserve Account.

Enforcement of the Waterworks Revenue Bonds

As owner of the Waterworks Revenue Bonds, the Bond Bank has available to it all remedies available to owners or holders of securities issued by a qualified entity, as defined in the Act. The Act provides that upon the sale and delivery of any Waterworks Revenue Bonds to the Bond Bank, the Waterworks Department is deemed to have agreed that all statutory defenses to nonpayment are waived in the event that the Waterworks Department fails to pay principal of, or interest on, the Waterworks Revenue Bonds.

The Act authorizes the Bond Bank to collect from the Waterworks Department, as a qualified entity, fees and charges for its services and empowers the Waterworks Department, as a qualified entity, to contract for and pay such fees and charges. Pursuant to the Purchase Agreement, the Waterworks Department will agree to pay to the Bond Bank any costs of issuance and administrative expenses, and an amount, if any, equal to all costs and expenses incurred by or on behalf of the Bond Bank from time to time as a result of any failure by the Waterworks Department to comply with any of the provisions of the Purchase Agreement.

The Waterworks Department will agree under the Purchase Agreement to report to the Bond Bank on its compliance with certain covenants which the Waterworks Department makes regarding various actions and conditions necessary to preserve the tax-exempt status of interest paid on the tax-exempt Waterworks Revenue Bonds. The Bond Bank has also determined to consult with the Waterworks Department, as necessary from time to time, with regard to the actions needed to be taken by the Waterworks Department to preserve the excludability of the interest on the Bonds from gross income of the holders of the Bonds.

Pursuant to the Bond Resolution, upon the occurrence of an Event of Default, the Trustee with the consent of the Bond Insurer may, or shall at the direction of the Bond Insurer, proceed against the Waterworks Department to enforce the rights of holders of the Waterworks Revenue Bonds by mandamus or by other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, either for the appointment of a receiver or for the specific performance of any covenant or agreement contained in the Bond Resolution. Any receiver appointed in any such proceeding may take possession of the Waterworks, subject to the rights and privileges of the Manager under the Management Agreement or other contract, may operate and maintain the Waterworks, may prescribe rates, fees and other charges, and may collect, receive and apply all Gross Revenues and any other revenues pertaining to the Waterworks in the manner set forth in the Bond Resolution. Notwithstanding the foregoing, nothing in the Bond Resolution permits the acceleration of the time or terms for payment of the Waterworks Revenue Bonds prior to
their respective maturities, even if the Waterworks Department defaults on the payment of Waterworks Revenue Bonds, except to the extent ordered by a court of competent jurisdiction. The Assumed Obligations are subject to acceleration of principal of and interest thereon in the event of a default thereunder.

Bond Bank Reserve Fund

Pursuant to the Indenture, the Bond Bank has established the Bond Bank Common Reserve Account within the Bond Bank Reserve Fund, which will be held as security for the Bonds and is required to be maintained in an amount at least equal to the Bond Bank Reserve Requirement. Upon issuance of the 2004A Bonds, the Bond Bank Common Reserve Account will be fully funded in an amount of approximately Twenty-Six Million Two Hundred Sixteen Thousand Three Hundred Fifty-Five Dollars ($26,216,355) from funds currently on deposit therein, together with the Surety Bond. The Surety Bond, together with funds currently on deposit in the Bond Bank Common Reserve Account, also will satisfy the Common Reserve Requirement for the Waterworks Revenue Bonds. The Surety Bond will be held by the Trustee for the benefit of the Bond Bank Common Reserve Account and will be issued in the face amount of approximately One Million Eighty Thousand Dollars ($1,080,000). As required by the Bond Insurer, the rate of interest assumed on the 2004A Bonds for purposes of calculating the Bond Bank Common Reserve Requirement will be the Certified Rate. The term of the Surety Bond will expire on the earlier of (i) January 1, 2036, or (ii) the date on which the Bond Bank has made all payments required to be made on the Bonds pursuant to the Indenture. See “BOND INSURANCE AND SURETY BOND—The Surety Bond” for a description of the Surety Bond.

In order to maintain the Bond Bank Common Reserve Account at the Bond Bank Reserve Requirement, the City-County Council may appropriate to the Bond Bank for deposit in the Bond Bank Common Reserve Account a sum, certified by the Chairperson of the Bond Bank to the City-County Council, that is necessary to restore the Bond Bank Common Reserve Account to the Bond Bank Reserve Requirement. If a deficit or depletion in the Bond Bank Common Reserve Account is projected in the Bond Bank’s annual budget, the Chairperson of the Bond Bank, before December 1 of the year prior to the year with the projected deficit, or within ninety (90) days of such projection, whichever is earlier, is required under the Indenture to make and deliver to the City-County Council a certificate stating the sum required to restore the Bond Bank Common Reserve Account to the Bond Bank Reserve Requirement. The Waterworks Department may repay the Bond Bank any amounts deposited to the Bond Bank Common Reserve Account, and such obligation would constitute subordinate debt pursuant to the terms of the Bond Resolution. See “—Waterworks Funds and Accounts; Flow of Funds” herein. The Bond Bank will be required to request replenishment of the Bond Bank Common Reserve Account by appropriation of the City-County Council for a period beginning on the date of issuance of the 2004A Bonds until the later of December 31, 2007, or the date on which the Waterworks Department has satisfied the requirements of the rate covenant in the Bond Resolution, as described herein, for the immediately preceding three (3) consecutive Fiscal Years. Although no formal report has been prepared, as of the date hereof, the Waterworks Department expects that it has satisfied the rate covenant requirements for 2003.

The Act does not create any debt or liability of the City or an obligation of the City-County Council to make any such appropriation. Although the City-County Council is not obligated to make such appropriations to replenish the Bond Bank Common Reserve Account, the City-County Council adopted an ordinance in 1985 indicating its general intention to consider such appropriations, if necessary. Further, the City-County Council has approved the issuance of the Waterworks Revenue Bonds. See also “RISK FACTORS—Bonds are Limited Obligations.”

Amounts currently on deposit in the Bond Bank Reserve Fund are invested pursuant to a forward delivery agreement with Morgan Stanley Capital Services Inc., as provider, and Morgan Stanley & Co. Incorporated, as dealer (the “2002 Investment Agreement”). The 2002 Investment Agreement has a term expiring on January 1, 2035, with a fixed interest rate of five and four hundred ninety-eight one thousandths percent (5.498%), and permits withdrawals from the Investment Agreement as required by and in accordance with the Indenture. Further, Morgan Stanley Dean Witter & Co. is the guarantor of its subsidiary, Morgan Stanley Capital Services Inc., with respect to the Investment Agreement. Reports, proxy statements and other information filed by Morgan Stanley Dean Witter & Co. with the Securities and Exchange Commission (the “SEC”) pursuant to the informational requirements of the Securities Exchange Act of 1934, as amended, can be inspected and copied at the public reference facility maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the various regional offices of the SEC.
Agreement with State

The Act provides that the State will not limit or restrict the rights vested in the Bond Bank to fulfill the terms of any agreement with the owners of the 2004A Bonds or in any way impair the rights or remedies of the owners of the 2004A Bonds for so long as the 2004A Bonds are outstanding.

BOND INSURANCE AND SURETY BOND

The following information has been furnished by MBIA Insurance Corporation (the “Bond Insurer”) for use in this Official Statement. Reference is made to APPENDIX G for a specimen of the Bond Insurer’s Policy and to APPENDIX H for a specimen of the Surety Bond Policy.

The Bond Insurance Policy

The Bond Insurer’s Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Bond Bank to the Trustee 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 2004A Bonds, as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Bond Insurer’s Policy shall be made in such amounts and at such times as such payments of principal would have been had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the 2004A 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”).

The Bond Insurer’s Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2004A Bonds. The Bond Insurer’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 the 2004A Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Bond Insurer’s Policy also does not insure against nonpayment of principal of or interest on the 2004A Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the 2004A 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 the Bond Insurer from the Trustee or any owner of 2004A Bonds the payment of an insured amount for which is then due, that such required payment has not been made, the Bond 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 Bonds or presentment of such other proof of ownership of the 2004A Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2004A Bonds as are paid by the Bond Insurer, and appropriate instruments to effect the appointment of the Bond Insurer as agent for such owners of the 2004A Bonds in any legal proceeding related to payment of insured amounts on the 2004A 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 Trustee payment of the insured amounts due on such 2004A Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Surety Bond

The Surety Bond will provide that upon notice from the Trustee to the Bond Insurer to the effect that insufficient amounts are on deposit in the Bond Bank Common Reserve Account to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Bonds, the Bond Insurer will promptly
deposit with the Trustee an amount sufficient to pay the principal of and interest on the Bonds or the available amount of the Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by the Bond Insurer of a Demand for Payment in the form attached to the Surety Bond, duly executed by the Trustee; or (ii) the payment date of the Bonds as specified in the Demand for Payment presented by the Trustee to the Bond Insurer, the Bond Insurer 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 to the Trustee, of amounts which are then due to the Trustee (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the Surety Bond is the initial face amount of the increase to the Bond Bank Reserve Requirement due to the issuance of the 2004A Bonds less the amount of any previous deposits made by the Bond Insurer with the Trustee which have not been reimbursed by the Bond Bank. The Bond Bank and the Bond Insurer have entered into a Financial Guaranty Agreement dated March 1, 2004 (the “Agreement”). Pursuant to the Agreement, the Bond Bank is required to reimburse the Bond Insurer, within one year of any deposit, an amount equal to such deposits made by the Bond Insurer with the Trustee under the Surety Bond. Such reimbursement shall be made only after all required deposits to pay debt service have been made.

Under the terms of the Agreement, the Trustee is required to reimburse the Bond Insurer, with interest, until the face amount of the Surety Bond is reinstated before any funds can be removed free and clear from the Indenture. No optional redemption of the Bonds may be made until the Bond Insurer’s Surety Bond is reinstated. The Surety Bond will be held by the Trustee in the Bond Bank Common Reserve Account and is provided as an alternative to depositing funds equal to the Bond Bank Reserve Requirement for outstanding Bonds. The Surety Bond will be issued in the face amount equal to the maximum aggregate amount of principal and interest falling due in any succeeding Fiscal Year for the 2004A Bonds and the premium therefor will be fully paid by the Bond Bank and the Waterworks Department at the time of delivery of the 2004A Bonds.

The Bond Insurer

The Bond Insurer 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 the Bond Insurer. The Bond Insurer 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. The Bond Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and the other 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 the Bond Insurer, changes in control and transactions among affiliates. Additionally, the Bond Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

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.

Bond Insurer Information

The following document filed by the Company with the Securities and Exchange Commission is incorporated herein by reference:


Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Official Statement and prior to the termination of the offering of the securities 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
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 the Company’s Annual Report on Form 10-K for the year ended December 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 the Bond Insurer is (914) 273-4545.

As of December 31, 2002, the Bond Insurer 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 December 31, 2003, the Bond Insurer had admitted assets of $9.9 billion (unaudited), total liabilities of $6.2 billion (unaudited), and total capital and surplus of $3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of the Bond Insurer

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

Standard & Poor’s Credit Market Services, a division of The McGraw-Hill Companies, Inc., rates the financial strength of the Bond Insurer “AAA.”

FitchRatings rates the financial strength of the Bond Insurer “AAA.”

Each rating of the Bond Insurer should be evaluated independently. The ratings reflect the respective rating agency’s current assessment of the creditworthiness of the Bond Insurer 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 2004A 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 ratings may have an adverse effect on the market price of the 2004A Bonds. The Bond Insurer does not guaranty the market price of the 2004A Bonds nor does it guaranty that the ratings on the 2004A Bonds will not be reversed or withdrawn.

The Bond Insurer 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, the Surety Bond and the Bond Insurer set forth under the caption “BOND INSURANCE AND SURETY BOND.” Additionally, the Bond Insurer makes no representation regarding the 2004A Bonds or the advisability of investing in the 2004A Bonds.

THE INDIANAPOLIS LOCAL PUBLIC IMPROVEMENT BOND BANK

Powers and Purposes

The Bond Bank is a body corporate and politic separate from the City. The address of the Bond Bank is Suite 2421, City-County Building, 200 East Washington Street, Indianapolis, Indiana 46204. The Bond Bank was created by the Act for the purpose of purchasing and selling securities of certain qualified entities, including the City, acting through the City-County Council or its departments, the county, all special taxing districts of the City, and all entities that lease land or facilities to other qualified entities. The Bond Bank was created pursuant to the Act to help the qualified entities lower their respective borrowing costs by having the Bond Bank purchase their debt obligations at interest rates favorable to the qualified entities. To accomplish its purpose, the Bond Bank may issue
bonds or notes. The Bond Bank also has general powers which include the power to enter into, make and perform contracts of every lawful kind to accomplish its purpose. The Bond Bank has no taxing power.

**Board of Directors of the Bond Bank**

The Bond Bank is governed by a five (5) member board of directors appointed by the Mayor of the City. The directors appoint an executive director who serves as secretary-treasurer of the board. The directors each serve for terms of three (3) years and may be reappointed. No director may be an officer of the City, Marion County or any other qualified entity. The current members of the board of directors, their positions, their terms and their principal occupations are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Term</th>
<th>Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>John J. Dillon, III</td>
<td>Chairperson</td>
<td>December 31, 2004</td>
<td>Consultant</td>
</tr>
<tr>
<td>Mary Titsworth Chandler</td>
<td>Vice Chairperson</td>
<td>April 30, 2006</td>
<td>Partner, Wooden &amp; McLaughlin</td>
</tr>
<tr>
<td>Jacob E. Hall</td>
<td>Member</td>
<td>April 30, 2006</td>
<td>Retired Engineer</td>
</tr>
<tr>
<td>Thomas J. O’Donnell</td>
<td>Member</td>
<td>April 30, 2006</td>
<td>Business Manager of International Brotherhood of Electrical Workers</td>
</tr>
<tr>
<td>Arnold Pinkston</td>
<td>Member</td>
<td>April 30, 2006</td>
<td>Deputy General Counsel, Eli Lilly &amp; Company</td>
</tr>
</tbody>
</table>

*Robert J. Clifford* was appointed the Executive Director of the Bond Bank on March 20, 2000. Mr. Clifford served as Vice President of Finance, Accounting and Marketing of the Indiana Municipal Power Agency (IMPA) from 1992 through March, 2000. He holds a B.S. and M.B.A. from Indiana University and is a Certified Public Accountant.

*Jennifer Weflen* serves as Deputy Executive Director of the Bond Bank. Prior to this appointment, Ms. Weflen served in the office of Corporation Counsel for the City. She holds a B.A. from DePauw University and J.D. from Indiana University.

**Other Programs; Outstanding Indebtedness**

Under the Act, the Bond Bank is authorized to issue other series of notes or bonds to finance different programs to accomplish its purposes. Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and had outstanding as of March 1, 2004, an aggregate long-term principal amount of approximately One Billion Two Hundred Seventy-One Million Six Hundred Seven Thousand Dollars ($1,271,607,000) in separate program obligations (which amount does not include the 2002 Bonds or 2004 Bonds). Certain of the foregoing obligations of the Bond Bank may mature or otherwise be defeased prior to the issuance of the 2004A Bonds. All such obligations are and will be secured separately and independently and do not and will not constitute Bonds under the Indenture or for purposes of this Official Statement.

With regard to approximately Five Hundred Seventy-Seven Million Four Hundred Ninety-Nine Thousand Dollars ($577,499,000) in aggregate principal amount of such separate program obligations (which amount does not include the 2002 Bonds or 2004 Bonds) as of March 1, 2004, the Bond Bank has covenanted to request replenishment of the associated debt service reserve fund by appropriation of the City-County Council in the event that there is a deficiency in such reserve fund, which covenant is similar to the covenant made by the Bond Bank in connection with replenishment of the Bond Bank Common Reserve Account for the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Bond Bank Reserve Fund,” and “RISK FACTORS—Bonds are Limited Obligations.”

Further, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financings for qualified entities for purposes authorized by and in accordance with the procedures set forth in the
Act. The Bond Bank expects to issue approximately Thirty-Five Million Dollars ($35,000,000) of debt to purchase bonds of the City of Indianapolis, Indiana, Economic Development Commission in April, 2004. The obligations issued by the Bond Bank in connection with any and all such financings will be secured separately from the 2004A Bonds and will not constitute Bonds under the Indenture or for purposes of this Official Statement.

THE DEPARTMENT OF WATERWORKS

Powers and Purposes

The Waterworks Department is a department of the City organized and existing pursuant to the Enabling Legislation with the authority to own and operate the Waterworks throughout the District. The Waterworks Department is governed by a Board of Directors which exercises executive and legislative powers of the Waterworks Department. The Board has the power to, among other things, provide water utility services in the District, recommend reasonable and just rates and charges for services of the Waterworks (subject to IURC approval), appropriate, lease, rent, purchase and hold all real and personal property of the Waterworks, award contracts, and adopt rules for the safe, economical and efficient management and protection of the Waterworks.

Board of Directors

The Board of Directors consists of seven (7) members. Six (6) members are appointed by the Mayor with three (3) persons nominated by the President of the City-County Council, three (3) persons nominated by the minority leader of the City-County Council of the major political party which is different from the major political party of the President of the City-County Council. One (1) member, whom serves as Secretary-Treasurer of the Board and does not have voting powers except in the case of a tie, is nominated by the Mayor and appointed by the unanimous vote of the other six (6) members. Except with respect to initial terms, members are appointed for overlapping terms of six (6) years, with the Secretary-Treasurer serving a term of four (4) years. The Bond Resolution provides that the governing body structure of the Waterworks Department must be maintained so long as any Waterworks Revenue Bonds are outstanding unless the General Assembly of the State creates a body for the express purpose of succeeding the Waterworks Department. See “APPENDIX B2—SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS—Summary of Certain Provisions of the Bond Resolution—Covenants of the Waterworks Department.”

The current Board of Directors, their positions and their principal occupations are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Term</th>
<th>Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beulah Coughenour</td>
<td>Chairperson</td>
<td>December 31, 2006</td>
<td>Former City-County Council Member</td>
</tr>
<tr>
<td>Barbara Howard</td>
<td>Vice Chairperson</td>
<td>December 31, 2008</td>
<td>Community Relations Manager, Financial Center</td>
</tr>
<tr>
<td>S. Michael Hudson</td>
<td>Secretary-Treasurer</td>
<td>December 31, 2004</td>
<td>Retired Vice Chairman of Rolls-Royce North American</td>
</tr>
<tr>
<td>Jack J. Bayt</td>
<td>Member</td>
<td>December 31, 2004</td>
<td>President and Chief Executive Officer of Crystal Food Services, LLC</td>
</tr>
<tr>
<td>Carmen Hansen-Rivera</td>
<td>Member</td>
<td>December 31, 2008</td>
<td>Consultant, Geoffrey Bjork Design, Inc. and Carmen, Inc.</td>
</tr>
<tr>
<td>Samuel L. Odle</td>
<td>Member</td>
<td>December 31, 2006</td>
<td>Senior Vice President and Chief Operating Officer, Clarian Health</td>
</tr>
</tbody>
</table>

There is currently one vacancy on the Board of Directors.
Carlton Curry has been the Director of Contracts and Operations of the Department of Waterworks since June 2002. Prior to June 2002, Mr. Curry owned a consulting business. Prior to that, he served in various capacities for SerVaas, Inc. controlled or wholly-owned entities, including Chairman, Chief Executive Officer, Chief Operating Officer and President. Before that, Mr. Curry served as a Manager of Marketing Programs and as the Director of Logistics Support for the Allison Gas Turbine Division of General Motors. He also served as a Staff System Analyst and as a Program Administrator for other divisions of Allison. He started his career at the Naval Avionics Facility. Mr. Curry was an At-Large Member of the City-County Council for four terms. He received a B.S. in Aeronautical Engineering from Purdue University. He is a professional engineer and a certified professional logistician.

Robert Erney has served as the Financial Manager of the Waterworks Department for the Office of the City Controller from April 2002 to present. Prior to April 2002, he served as a Revenue Analyst from November 1998 to April 2002, and as an Accounting Technician from April 1998 to November 1998, for the Office of the City Controller. Mr. Erney received a B.S. in Accounting from Ball State University.

Andrew Klineman serves as general counsel to the Waterworks Department effective March 2004. Mr. Klineman previously was an associate at the law firm of Ice Miller, practicing in the areas of real estate and business from August 2001 to March 2004. Other professional experience includes serving as a press secretary and executive assistant to United States Congressman Vic Fazio in Washington, D.C. from April 1997 to May 1998. He is a graduate of Indiana University and University of Notre Dame Law School, cum laude.

Advisory Board; Intergovernmental Agreements

As a result of the fact that the Waterworks Department will provide service to areas located within the boundaries of governmental entities outside the City of Indianapolis, the Waterworks Department has entered into intergovernmental agreements with substantially all the governmental entities within whose boundaries the Waterworks Department provides water utility service (“intergovernmental agreements”). These intergovernmental agreements generally provide for the establishment of a joint advisory board with one appointee from each of the governmental entities. The advisory board’s powers include (i) the ability to provide recommendations to the Board; (ii) the authority to overrule a decision by the Board to withdraw from IURC jurisdiction; (iii) and the ability to recommend that the Waterworks Department dispose of certain utility assets within a governmental entity’s territory, provided that if the Waterworks Department fails to provide adequate water supply or expansion based on certain projections, the Waterworks Department must negotiate in good faith with the governmental entity for the sale of the assets or be subject to binding arbitration. The intergovernmental agreements also provide that the Waterworks Department will commission a feasibility study considering the establishment of a regional water authority to provide public water utility services throughout central Indiana, which study must be completed and presented to the advisory board by 2005. Upon a two-thirds vote of the advisory board, the Waterworks Department must hold a public hearing and consider whether it should encourage the Indiana General Assembly to create a statutory framework to form such a regional water authority. See “THE WATERWORKS—Certain Contracts and Agreements—Intergovernmental Agreements” herein.

Budget and Audit Process

Budget. Pursuant to current Board Policy, the Secretary-Treasurer will submit for each Fiscal Year, to the Board an annual operating budget setting forth estimates of Gross Revenues and expenditure requirements of the Waterworks for such Fiscal Year. Such annual budget will be submitted to and approved by the Board on or before November 30 of the prior Fiscal Year. A copy of the budget will be filed by the Office of the Controller and the Financial Manager of the Waterworks Department with the City-County Council at least ten (10) days prior to the scheduled approval by the Board. The annual budget, as adopted, may be supplemented and amended from time to time.

Annual Audit. Under current Board Policy, the City Controller includes the Waterworks Department and the accounts of the Water Fund in the annual audited financial statements of the City. If the City Controller does not include the Waterworks Department and the Water Fund in such audit, the Board will engage a firm of independent certified public accountants to prepare such audited financial statements in satisfaction of the requirements of the
Bond Resolution. A copy of the annual audit will be filed with the City-County Council within thirty (30) days of receipt thereof by the Board.

Capital Plan. On or before May 31 of each Fiscal Year, the Board requires the Manager to prepare and provide a proposed rolling five-year capital plan. The Board will review the capital plan and determine how it will be implemented no later than ninety (90) days after receipt thereof.

THE MANAGER AND THE MANAGEMENT AGREEMENT

The Manager

The Waterworks Department contracts with a third party to manage and operate the Waterworks. The Waterworks Department entered into the Management Agreement with Veolia Water North America Operating Services, Inc. (formerly US Filter Operating Services, Inc.) (“VWNA”) on March 21, 2002. As of August 1, 2002, the Management Agreement was assigned to Veolia Water Indianapolis, LLC (formerly USFilter Indianapolis Water, LLC) (the “Manager”).

The Manager is headquartered in Indianapolis, Indiana. VWNA is headquartered in Houston, Texas. The Manager is an indirect wholly-owned subsidiary of Veolia Environnement (formerly Vivendi Environnement), a French public limited company. Veolia Environnement is the largest environmental services company in the world and is listed on the New York Stock Exchange. VWNA designs, builds, operates, owns and finances water treatment equipment and systems. VWNA is the largest provider of water and wastewater outsourcing services in North America, operating over 280 facilities. Municipal clients in the United States include Atlanta/Fulton County Georgia, the City of Richmond, California and the Tampa Bay Water Interlocal Governmental Agency.

Veolia Environnement is subject to the information reporting requirements of the Securities Exchange Act of 1934 (the “Exchange Act”) and, in accordance with the Exchange Act, files certain reports and other information with the SEC, including annual reports, current reports and other information. As a foreign private issuer, Veolia Environnement is exempt from the rules under the Exchange Act prescribing the furnishing of and content of quarterly reports and proxy statements. Information filed by Veolia Environnement can be inspected and copied at the SEC’s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such materials may also be obtained upon payment of a duplicating fee, by writing to the public reference section of the SEC.

The information contained under this heading “—The Manager” concerning the Manager and Veolia Environnement has been obtained from the Manager, but none of the Bond Bank, the Waterworks Department or the Underwriters take any responsibility for the accuracy thereof.

The Management Agreement

The Management Agreement provides for the Manager to perform the day-to-day operation, maintenance, repair and management of the Waterworks, including, among other functions, raw water supply, treatment and distribution, billing, collection and other customer services, as well as the provision of certain capital planning, engineering, inspection and project management services. The initial term of the Management Agreement is twenty (20) years, subject to early termination. The Waterworks Department retains title to all assets of the Waterworks and retains and exercises broad oversight responsibility over the Waterworks through its Board. The Board exercises control over the performance of the Waterworks through specific standards for performance and incentives to the Manager contained in the Management Agreement.

Under the Management Agreement, the Manager receives a fixed fee, paid monthly, for the prior month’s service, and an incentive fee, to be paid quarterly for the prior quarter. The annual fixed fee for 2004 is Thirty-Four Million One Hundred Eighty-Eight Thousand Sixty-Nine Dollars ($34,188,069). During the first five (5) years of the Management Agreement, the annual fixed fee is increased each year effective January 1 by an amount equal to the product of the fixed fee times the lesser of (i) two and one-half percent (2.5%) or (ii) eighty-eight and six-tenths percent (88.6%) of the Annual Increase (as defined in “APPENDIX C—SUMMARY OF MANAGEMENT
AGREEMENT”) in the average national Consumers Price Index for the applicable 12-month period (the “CPI”). After the fifth full year, the fixed fee will be adjusted annually effective January 1 by eighty-eight and six-tenths percent (88.6%) of CPI. The incentive fee is based on performance in the following categories: customer service, water quality, replacement cycle of capital assets, capital investment adjustment, technical operation and maintenance, and other discretionary factors. For any year, the incentive fee will be equal to an amount not to exceed twenty-five percent (25%) of the fixed fee for such year. For 2002, the Manager was paid an incentive fee equal to approximately Five Million One Hundred Forty-Two Thousand Dollars ($5,142,000), or approximately eighty-five percent (85%) of the available incentive fee.

The service fee will be renegotiated pursuant to the Management Agreement if the number of customers or daily consumption of water significantly increases or decreases or upon the occurrence of catastrophic damage or an Uncontrollable Circumstance (as defined in “APPENDIX C—SUMMARY OF MANAGEMENT AGREEMENT”). Further, after the fifth anniversary of the commencement date under the Management Agreement (April 30, 2002), either the Waterworks Department or the Manager may request a renegotiation of the service fee if (i) the twelve (12) month moving annual average of daily finished water demand increases or decreases by five (5) m.g.d.; (ii) the customer base increases or decreases by ten thousand (10,000) customers; or (iii) a new water treatment plant, a major water treatment plant upgrade, a decommissioning of a water treatment plant, or a major system configuration change due to a capital project has a significant impact on the operation and maintenance costs.

The Manager is required to provide all operation and maintenance expenses under the Management Agreement, with the Waterworks Department maintaining responsibility for capital improvements. The Manager and the Waterworks Department agreed to a clarification of the Management Agreement in October 2003 regarding the types of expenditures that constitute operation and maintenance expenses versus capital improvements. The Waterworks Department will also retain control over approval of a rolling five-year capital plan developed by the Manager, rate setting procedures, including seeking IURC approval of any rate changes, the right to appeal any property tax assessments or to initiate eminent domain proceedings, and the right to negotiate all intergovernmental agreements, developer contracts and wholesale or volume water contracts.

At the time of the Acquisition, the Waterworks Department and the Manager entered into an Option and Term Sheet relating to the sale by the Waterworks Department to the Manager of a billing and collection subsidiary of IWCR called Utility Data Corporation. In November 2002, the assets of Utility Data Corporation were acquired by the Manager. The Manager now receives the revenues generated by the Utility Data Corporation’s billing and collection business. As a result, the fixed fee payable under the Management Agreement was reduced to take into account this additional income of the Manager.

The Management Agreement requires the Manager to provide an irrevocable, direct draw letter of credit in an amount of Forty Million Dollars ($40,000,000) during the term of the Management Agreement. The current letter of credit is provided by Citibank, N.A. In the event of a default by the Manager under the Management Agreement, the Waterworks Department is permitted to make one or more draws on the letter of credit in amounts which the Waterworks Department, in its sole discretion, determines are appropriate.

Pursuant to a guarantee agreement in favor of the Waterworks Department, Veolia Environnement (the “Guarantor”) unconditionally guarantees the prompt payment and performance of all obligations of the Manager under the Management Agreement. The maximum liability of the Guarantor under the guarantee will not exceed One Hundred Fifty Million Dollars ($150,000,000) in the aggregate, provided however, this amount excludes (i) any claims or amounts paid through insurance coverages; (ii) claims of personal injury, death or property damage claimed by third parties; or (iii) claims or damages arising due to the willful acts or gross negligence of the Manager.

Board Policy currently states that the Management Agreement will require the Manager to provide its audited financial statements to the Board. Board Policy also authorizes the Board to engage the services of certified public accountants or other financial consultants to periodically review the system of internal controls over the financial and performance measurement processes put in place by the Manager, test such systems and processes, and make reports on their review and results of their tests to the Board.

Board Policy also states that the Board will engage the services of an independent engineering firm to provide contract oversight with respect to the Management Agreement. Such firm must be qualified to review and assess, on
behalf of the Board, the capital improvement plan, the performance of the Manager under the Management Agreement with respect to its performance guarantees, the operation and maintenance of the Waterworks and regulatory and environmental compliance by the Manager.

The Management Agreement may be terminated for an uncured event of default by either party, for labor unrest that prevents the Manager from performing its material obligations under the Management Agreement, for an Uncontrollable Circumstance (as defined in “APPENDIX C—SUMMARY OF MANAGEMENT AGREEMENT”), for insufficient funding by the Waterworks Department, for adverse tax treatment or for a breach of the assignment provision of the Management Agreement.

See “RISK FACTORS—Dependence Upon Manager for Operation of the Waterworks” and “APPENDIX C—SUMMARY OF MANAGEMENT AGREEMENT.”

Key Personnel

Tim Hewitt is President and Operations Manager for Veolia Water Indianapolis, LLC. He joined Veolia Water Indianapolis, LLC, in June 2003. Mr. Hewitt retired as President of Indiana Gas Company, a subsidiary of Vectren Energy Corporation, in 2001. Mr. Hewitt earlier served Indiana Gas as Vice President, Sales and Field Operations from 1989 to 1995 and Vice President, Operations and Engineering from 1995 to 2000. Mr. Hewitt holds a Master’s Degree in Finance from Indiana University and a Bachelor’s Degree in Economics from Wabash College.

David L. Gadis is Vice President of Operations for Veolia Water Indianapolis, LLC. Mr. Gadis is also responsible for the Manager’s Minority and Women Owned Business Enterprise (M/WBE) program. Mr. Gadis previously served as Vice President of Shared Services and also worked as Vice President of Water Materials Unlimited, a subsidiary of the former IWCR. He holds a Bachelor’s Degree in Radio, Television and Broadcasting from Southern Methodist University.

Jackie Groth is Vice President of Finance for Veolia Water Indianapolis, LLC. She joined Veolia Water Indianapolis, LLC, in November 2002. Ms. Groth is a Certified Public Accountant and previously worked as a Senior Auditor and Director of Compensation and Benefits for Indiana Gas, and as Vice President of Finance and Administration for ProLiance Energy, a joint venture between Indiana Gas and Citizen’s Gas. Ms. Groth is a graduate of Bowling Green State University where she received a Bachelor of Science degree in Business Administration, with a Business Law emphasis.

THE WATERWORKS

Service Area

The District consists of the majority of the City of Indianapolis and Marion County, and portions of the surrounding counties of Boone, Brown, Hamilton, Hancock, Hendricks, Montgomery and Morgan. The District includes approximately 296,000 customers or approximately 1.1 million people. Approximately seventy-five percent (75%) of the customers are located in Marion County. In addition, the City and the Waterworks Department own four smaller utilities previously operated by IWCR, including Harbour Water Company, IWC Morgan Water Company, Liberty Water Company and Darlington Water Company, and the areas served by each of those utilities also are part of the District. The Waterworks Department has entered into intergovernmental agreements with substantially all of the governmental entities within whose boundaries the Waterworks Department provides water utility service. See “—Certain Contracts and Agreements—Intergovernmental Agreements” herein. The Waterworks also serves one (1) wholesale customer and six (6) other customers pursuant to volume purchasing contracts, collectively amounting to approximately five percent (5%) of the total capacity of the Waterworks.

The City of Carmel, located in Hamilton County, just north of Marion County, operates its own municipal water utility which currently serves customers within the corporate boundaries of the City of Carmel. The Waterworks Department currently serves areas of Carmel and Clay Township adjacent to and within the City of Carmel. The Mayor of the City of Carmel has expressed a desire to expand the City of Carmel’s existing water utility to serve
portions of Carmel and Clay Townships currently served by the Waterworks Department. The Waterworks Department currently serves approximately 7,400 customers in the area, which generated revenues of approximately Two Million Nine Hundred Sixty Thousand ($2,960,000) in 2003 or two and eighty-five hundredths percent (2.85%) of the Waterworks Department’s 2003 revenues. The Waterworks Department and the City of Carmel have entered into an intergovernmental agreement pursuant to which (i) the parties agree to hire a disinterested and independent engineering firm to issue a joint engineering report to assist in a determination of the cost of the sale of the distribution lines and related assets from the Waterworks Department to the City of Carmel and to give effect to the Waterworks Department’s desire not to harm the Waterworks Department as part of any sale (including analysis of the means for the Waterworks Department to provide finished water to other customers and the cost that would not otherwise be incurred if such assets were not sold to the City of Carmel, and analysis of the means and determination of the cost of separating the distribution lines and other assets to be sold to the City of Carmel from the Waterworks); (ii) the parties agree to negotiate a final purchase price in good faith, and to petition the IURC for a determination of the final purchase price in the event that agreement cannot be reached within forty-five (45) days following completion of the joint engineering report; (iii) if the sale of the distribution lines and related assets to the City of Carmel is completed, the Waterworks Department will supply finished drinking water to the City of Carmel for purposes of supplying customers until such time as the City of Carmel constructs the infrastructure needed to serve those customers or December 31, 2006, whichever occurs first; and (iv) the City of Carmel agrees to provide unfinished water to the Waterworks Department’s White River North Water plant pursuant to the terms of the City of Carmel’s present agreement with the Waterworks Department. The City of Carmel and the Waterworks Department have engaged the engineering firm of Hazen & Sawyer, Detroit, Michigan, to prepare the joint engineering report, which is expected to be completed in the first quarter of 2004. Because the areas surrounding Carmel have traditionally experienced relatively high growth, a sale of distribution lines and related assets to the City of Carmel could affect the future growth of the Waterworks. The sale of such distribution lines and assets would also trigger the renegotiation of the fixed fee pursuant to the Management Agreement due to the loss of more than 2,000 residential customers. See “APPENDIX C—SUMMARY OF MANAGEMENT AGREEMENT.”

The intergovernmental agreement with Hamilton County provides that if a sale of distribution lines and related assets in Clay Township to the City of Carmel does not occur and either (i) the Waterworks Department fails to provide adequate water supply or distribution system expansion within Clay Township comparable to historical growth over the immediately preceding ten (10) years, or (ii) the Waterworks Department desires to sell such assets, then the Waterworks Department will negotiate in good faith with Hamilton County for the purchase of such assets taking into account the fair market value of the assets as part of an integrated water utility system, the cost of separating the assets from the existing system, including but not limited to any replacement costs, and the overall impact the disposal may have on the financial condition of the Waterworks. If an agreement cannot be reached on the price for such assets, then the issue of price will be resolved through binding arbitration. Because the areas surrounding Carmel in Hamilton County have traditionally experienced relatively high growth, a sale of such assets to Hamilton County could affect future growth of the Waterworks.

Further, a memorandum of understanding with the Town of Westfield establishes certain boundaries for the service areas of the Harbour Water Corporation and the Town of Westfield water utility. Also, the IURC approved a service territory map delineating a service area for the Town of Plainfield water utility (in Hendricks County) which allows the Town of Plainfield to serve all customers within such service territory and the Waterworks Department to serve customers outside of that service territory. See the map set forth on the inside back cover of this Official Statement. The Waterworks Department is currently negotiating with the Town of Plainfield for the sale of all of the assets of Liberty Water, now owned by the Waterworks Department. Liberty Water currently serves 126 customers and had total billed revenues of Thirty-Two Thousand Two Hundred Fifty Dollars ($32,250) in 2003.

Under existing Indiana law, private and municipally owned water utilities do not have exclusive service territories. Indiana governmental units (counties, cities and towns), however, have the authority to grant franchise rights for the use of roads, streets, and other property for utility facilities and purposes. Pursuant to the intergovernmental agreements, the Waterworks Department has such rights to the use of governmental entity roads, streets and other public property in the areas currently served by the Waterworks Department. Other private or municipally owned utilities also may have or may obtain franchise rights to use roads, streets and other public property for utility purposes, including water utility use in areas in which the Waterworks Department has franchise rights. Based on prior studies, the Waterworks Department believes that expansion by other utilities to serve areas currently served by the Waterworks Department is not expected, due to the significant capital expense of
undertaking such expansion and the lack of reasonable expectation of sufficient customer growth in those areas to generate revenues necessary to recover the significant capital costs of such expansion. However, with regard to areas that do not currently have water utility service, there may be other utilities that have or may obtain franchise rights in those areas. In certain instances, the existing infrastructure will make it more cost effective for the Waterworks Department to extend service to particular areas. In other instances, the other utilities may have a substantial economic advantage in serving that new area based upon existing infrastructure. In any event, the ability of the Waterworks Department to experience growth in number of customers and revenues may be dependent on, among other things, the Waterworks Department’s ability to continue to make capital improvements including extensions for purposes of serving new areas, and the Waterworks Department’s access to funds to finance such capital improvements. See “RISK FACTORS—Impact of Growth Rates on Net Revenues” and “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT.”

The Waterworks has grown in revenues by approximately one and four tenths percent (1.4%) per year for the past five (5) years exclusive of increases in rates and acquisitions, and the Waterworks Department expects similar continued growth, exclusive of increases in rates and acquisitions. The estimates of annual revenues and annual debt service coverage set forth in “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT” assume annual growth in revenues of one and four-tenths percent (1.4%) per year. There can be no assurance that such growth rates will be achieved. Any failure to realize projected growth rates could negatively impact the availability of Net Revenues to pay debt service on the Waterworks Department Bonds, and could ultimately negatively impact the ability of the Bond Bank to pay debt service on the Bonds. See “RISK FACTORS—Forward-Looking Statements” and “—Impact of Growth Rates on Net Revenues,” and “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT.”

The Waterworks System

The Waterworks generally comprises all reservoirs, wells, diversion, withdrawal, storage, treatment, transmission and distribution facilities and all other facilities currently owned or that may be constructed or acquired by the Waterworks Department. The Waterworks sources include three reservoirs (two owned by the Waterworks Department and one by the City) and sixty-seven (67) groundwater wells. The Waterworks system also includes twelve (12) water treatment plants (“WTPs”), approximately 4,000 miles of water transmission and distribution mains, 35,000 fire hydrants, fifteen (15) water storage tanks and thirty-one (31) water pumping stations, twelve (12) located at WTPs, eighteen (18) fixed pumping stations and one mobile pumping station.

Average daily production of finished water is approximately 140 m.g.d. with a peak of 221 m.g.d. Approximately eighty percent (80%) of average daily production comes from surface water sources and twenty percent (20%) from groundwater sources.

The Manager currently employs approximately 460 people. Of these, approximately 220 are members of the Local 131 National Conference of Firemen and Oilers Service Employees International Union and are part of a collective bargaining agreement dated January 1, 1999. The collective bargaining agreement expires April 15, 2004, unless otherwise extended pursuant to its terms. Pursuant to the Management Agreement, the Manager was required to offer employment to substantially all of the employees of IWCR.

Certain Contracts and Agreements

Intergovernmental Agreements. The Waterworks Department has entered into intergovernmental agreements with substantially all of the governmental entities within whose boundaries the Waterworks Department provides water service. See “—Regulatory and Legal Matters” herein. Prior to the acquisition of the assets of IWCR by the Waterworks Department, IWCR had franchise or other agreements with many of these local governmental units to provide water service.

The intergovernmental agreements generally provide (i) that the local governmental units agreed and consented to the assignment by IWCR to the Waterworks Department of its franchise agreement or water supply contract, if any; (ii) that an advisory board consisting of one member from each local governmental unit and a representative of the Waterworks Department will be created; (iii) that the Waterworks Department agrees to remain subject to the jurisdiction of IURC unless appropriate approval is obtained from such advisory board; (iv) that such advisory board
will have veto power over the right of the Waterworks Department to remove itself from IURC jurisdiction; (v) that the Waterworks Department will make payments in lieu of property taxes to such local governmental units to the extent such amounts are permitted by the IURC to be included in rates and charges or to the extent permitted by law; and (vi) for a period of five (5) years following the acquisition of the IWCR assets by the City, the Waterworks Department may not file a rate petition with the IURC seeking a rate increase for customers served within the boundaries of the local governmental entity, except for certain instances where emergency rate relief is warranted. The rights of the local governmental units to establish a municipal water utility are not infringed by the intergovernmental agreements.

The Waterworks Department has entered into agreements with the City of Carmel and Hamilton County in an effort to resolve certain disputes relating to the sale of certain distribution lines and related assets to the City of Carmel or Hamilton County. See “—Service Area” under this caption. The Waterworks Department has made a separate commitment to Morgan County to equalize rates for Morgan County customers with rates for other Waterworks Department customers. Thus, the Waterworks Department has agreed to petition the IURC for a rate decrease for such customers by the earlier of April, 2006, or the time the next rate petition is filed by the Waterworks Department with the IURC. This would result in a significant decrease in the rates and charges currently in place for Morgan County customers. However, Morgan County customers accounted for only approximately one and two-tenths percent (1.2%) of the revenues of the Waterworks in 2003. See “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT” herein.

The Waterworks Department also has a separate agreement with the Town of Pittsboro which relates to a settlement of a dispute between IWC and the Town of Pittsboro. IWC built a water main extension and entered into a Water Purchase Agreement with the Town of Pittsboro that required the Town of Pittsboro to repay the Four Million Eight Hundred Thousand Dollars ($4,800,000) cost of the water main extension. The Town of Pittsboro defaulted in January 2001. The Waterworks Department settlement agreement with the Town of Pittsboro places a surcharge of seventy-five percent (75%) of the per gallon tariffed rate paid by the Town of Pittsboro until the earlier of (i) twenty (20) calendar years from the date of the settlement agreement (with a minimum of One Million Five Hundred Thousand Dollars ($1,500,000) surcharge paid) or (ii) an aggregate of Four Million Eight Hundred Thousand Dollars ($4,800,000) is paid. The surcharge is reduced to thirty-seven and one half percent (37.5%) of the per gallon tariffed rate paid by the Town of Pittsboro if the volume of water purchased exceeds One Million Five Hundred Thousand (1,500,000) gallons per day. The contract is expected to generate revenues of approximately One Hundred Sixty Thousand Dollars ($160,000) per year or two-tenths of one percent (.2%) of the Waterworks Department’s revenues per year, which is in excess of the amounts generated in prior years. See “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT” herein.

An intergovernmental agreement between the Waterworks Department and Boone County has been executed but will become effective only in the event that the assets of Boone County Utilities (a private water and sewer utility currently in bankruptcy) are jointly acquired by Boone County and the Waterworks Department. See “THE WATERWORKS—Certain Contracts and Agreements—Volume Contracts.” The agreement relates only to the area currently served by Boone County Utilities. However, the Waterworks Department anticipates Boone County will enter into an intergovernmental agreement of similar form and substance as its other intergovernmental agreements in the event the joint acquisition of Boone County Utilities does not occur.

Franchise Agreements. The Waterworks Department has franchise agreements (the “Franchise Agreements”), assigned by IWCR as part of the Acquisition, with thirteen (13) of the local governmental entities within whose boundaries the Waterworks Department’s provides water service. The Franchise Agreements provide for the use of the roads, highways and other public property of such governmental entity by the Waterworks Department, authorize the Waterworks Department to provide water utility service. See “—Intergovernmental Agreements” herein. Collectively, the Franchise Agreements give the Waterworks Department franchise rights (i.e., nonexclusive rights to use public property) in the unincorporated areas of Boone, Hamilton, Hancock, Hendricks and Morgan Counties and in the City of Indianapolis, the City of Noblesville, the Towns of Clermont, Cumberland, Fishers, McCordsville, New Palestine and Zionsville. The Waterworks Department does not have franchise rights with respect to all of the incorporated municipalities in the counties where the Waterworks Department provides service. Generally, the Franchise Agreements have terms of 99 or 199 years and are dated 1968 or after. See “—Regulatory and Legal Matters” herein.
**Volume Contracts.** The Waterworks Department provides volume water service to six (6) customers pursuant to various water service agreements. These volume contracts amount to approximately five percent (5%) of the total capacity of the Waterworks. The Waterworks Department currently has volume water contracts with Boone County Utilities, Brown County Water, the Town of Brownsburg, the Town of Danville, the Town of Pittsboro and Morgan County Rural Water Corporation. Generally, the volume water contracts have terms of ten (10) to twenty-five (25) years and are dated 1994 or after. The Waterworks Department also has a wholesale contract with the Town of Westfield which has a term of twenty (20) years. Boone County Utilities is currently in bankruptcy and may be acquired by another utility pursuant to proceedings underway before the IURC. In 2003, revenues from the contract with Boone County Utilities were Eighty Thousand Six Hundred Seventeen Dollars ($80,617), which was less than one-tenth of one percent (0.1%) of the Waterworks Department’s revenues.

**Developer Agreements.** For purposes of providing funds for construction of extensions of the Waterworks requested by developers, property owners and others, the Waterworks Department has approximately 2,000 main extension agreements with developers (“developer agreements”). Typically, these agreements require that the Waterworks Department invest three times the estimated annual revenue from the main extension and for the developer to provide the remaining costs of the extension, if any. If anticipated revenues cannot be estimated, the developer pays the entire cost of the main extension and the Waterworks Department pays the developer three (3) times estimated annual revenue as new customers are added to the system. The reimbursements are made to the extent that new connections are made within ten (10) years after the improvements are placed in service. The total amount reimbursed under a developer agreement does not exceed the original cost of the extension. After ten years, no further amounts are reimbursed. See “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT” herein.

The Waterworks Department estimates that the present liability under the existing developer agreements will amount to approximately Sixteen Million Six Hundred Seventy-Six Thousand Dollars ($16,676,000). This liability is based on the Waterworks Department’s determination of the maximum reimbursement possible under the developer agreements for residential projects (which represents approximately eighty-four percent (84%) of the value of all developer agreements) and estimated reimbursements (based on historical performance) under the developer agreements for commercial projects. The Waterworks Department’s reimbursement payments to developers were approximately Two Million Seven Hundred Seventeen Thousand Dollars ($2,717,000) for calendar year 2003. Reimbursement payments are offset in part by certain management fees received pursuant to the developer agreements. Reimbursement payments are not paid as operation and maintenance expenses, and are accordingly junior and subordinate to operation and maintenance and debt service obligations of the Waterworks and are payable from the Department Purposes Account of the Water Fund solely to the extent of future connections to the Waterworks. See “RISK FACTORS—Contingent Liabilities—Developer Agreements” and “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT” herein.

**Other Liabilities.** Pursuant to the Asset Purchase Agreement, Waterworks Department assumed three installment promissory notes of IWCR currently outstanding in the aggregate amount of One Million Three Hundred Thirty-Eight Thousand Three Hundred and Thirty-Three Dollars ($1,338,333), and the Assumed Obligations. In addition, the Waterworks Department assumed the indebtedness of IWCR under a certain agreement to purchase water rights, easements and other restrictions and servitudes currently outstanding in the amount of Thirty-Five Thousand Dollars ($35,000). The foregoing obligations (other than the Assumed Obligations) are payable by the Waterworks Department on a basis subordinate to the Waterworks Revenue Bonds and are unsecured obligations of the Waterworks Department. Assumed liabilities also included, without limitation, obligations and liabilities under the assumed employee benefit plans, all liabilities under assumed contracts and permits, the obligation to defease or repay all assumed indebtedness, and liability for environmental, human health, safety or natural resource related on-site conditions (including certain existing conditions), existing obligations to make advances for construction, and future product liability and toxic tort claims.

The Asset Purchase Agreement contained representations and warranties from IWCR and NiSource as to regulatory matters, environmental conditions, compliance with laws, title to property, financial statements, labor matters, employee benefit plans, litigation, and the condition of the assets, among others. Many of the representations and warranties of IWCR and NiSource were qualified to the extent that such representations and warranties do not result in a “material adverse effect.” A material adverse effect is defined as a change or an effect which has or is reasonably likely to have a material adverse change and/or effect upon the water utility business.
sold, the assets, the condition (financial or otherwise) or the results of operation of the water utility business sold. The Asset Purchase Agreement also provided limited indemnification of the City and the Waterworks Department in the case of a breach of any representation or warranty by IWCR. All of the representations and warranties of IWCR survived the closing on the Acquisition. Environmental and product liability or toxic tort representations survive for seven (7) and five (5) years after the Acquisition, respectively. Tax and ERISA representations survive for the applicable statute of limitations for such actions. All other representations survive for three (3) years after the Acquisition. IWCR’s general indemnification obligation has a threshold of Seven Hundred Fifty Thousand Dollars ($750,000) and a ceiling of Thirty Five Million Dollars ($35,000,000), however the threshold and ceiling amounts do not apply in the case of a breach of a covenant in the Asset Purchase Agreement or in any certificate provided pursuant to the Asset Purchase Agreement. See “CERTAIN FACTORS AFFECTING WATER UTILITIES—Environmental Risks.”

Capital Improvement Plan

Pursuant to the Management Agreement, by May 31 of each year, the Manager is required to conduct a review of the Waterworks and provide the Waterworks Department with a reasonably detailed report recommending capital improvements, if any, that the Waterworks Department may wish to undertake. Further, the Manager is required to develop a rolling five-year capital plan for review, comment, modification and approval by the Waterworks Department. The Waterworks Department will monitor its capital needs in connection with the capital plan prepared by the Manager, and the Waterworks Department will determine which capital projects are to be done and how those capital projects will be implemented. The Manager’s report dated May 31, 2003, initially recommended total capital improvements over the next five (5) years of approximately Seventy-Six Million Four Hundred Thousand Dollars ($76,400,000) per year. However, the Waterworks Department, in consultation with the Manager, adopted a capital improvement plan that contemplates a need for non-growth related capital improvement expenditures of Thirty-Four Million Dollars ($34,000,000) in 2004 and Thirty-Five Million Dollars ($35,000,000) per year over the next five (5) years. The adopted capital plan includes necessary capital improvements to the Waterworks but does not include significant capital improvements that may be necessary in the future to improve operational efficiency and to respond to unpromulgated regulatory requirements, as initially recommended by the Manager. See “THE WATERWORKS—Capital Improvement Plan” herein. In addition, pursuant to the Management Agreement, the Manager has agreed to invest approximately Twenty-Three Million Dollars ($23,000,000) over the term of the Management Agreement, a substantial portion of which will constitute capital improvements, to address specific identified needs for the Waterworks. As of March 1, 2004, the Manager had spent approximately Six Million One Hundred Eighty-Four Thousand Five Hundred Dollars ($6,184,500) pursuant to this commitment. See “RISK FACTORS—Capital Improvement Requirements” and “APPENDIX C—SUMMARY OF MANAGEMENT AGREEMENT” herein.

The approved Waterworks 2004 Capital Budget (the “2004 Capital Budget”) includes approximately Thirty-Four Million Dollars ($34,000,000) in capital expenditures. Capital improvements anticipated in the 2004 Capital Budget that are not part of the 2004 Project, include feeder mains, main replacements, main relocations, valve operator replacement, land acquisition for a storage tank, pump repairs, and chemical conversion, among others. See “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT.”

Insurance

The Waterworks Department has covenanted in the Bond Resolution to maintain, or cause to be maintained by the Manager, such public liability insurance and property insurance as is customarily maintained by entities similar to the Waterworks Department with respect to facilities of like character against loss of or damage to the Waterworks, against loss of Net Revenues and against public liability. The Bond Resolution authorizes the Waterworks Department to insure all or a portion of such risk through a program of self-insurance. Pursuant to the Management Agreement, the Manager is required to provide worker’s compensation, motor vehicle liability, comprehensive general liability, excess liability, environmental liability, property damage, employment practices, fiduciary and comprehensive crime insurance coverage, all with companies with a financial rating of no lower than XI and a policyholder service rating no lower than A- as listed by Best’s Key Rating Guide. See “CERTAIN FACTORS AFFECTING WATER UTILITIES—Insurance” and “APPENDIX C—SUMMARY OF MANAGEMENT AGREEMENT” herein.
Regulatory and Legal Matters

On March 28, 2002, the IURC issued its Order approving the sale of certain assets of IWCR to the City pursuant to the Asset Purchase Agreement, approving the initial rates and charges of the Waterworks Department, and the assignment from IWCR to the Waterworks Department of all outstanding licenses, permits or franchises issued by any county board of commissioners, city or town council, or other governmental unit or agency to IWCR to provide water utility service within the area specified therein (the “IURC Order”). See “LITIGATION” herein.

Upon acquisition of the Waterworks by the Waterworks Department, the Waterworks Department agreed that the IURC would continue to have jurisdiction over the Waterworks, including rates and charges, standards of service, accounting procedures and related matters; provided, however, that the issuance of debt obligations (including Waterworks Parity Bonds or Waterworks Subordinate Bonds) is not subject to IURC approval. Pursuant to the Management Agreement, the Manager is required to comply with all utility regulatory statutes, regulations and administrative rulings.

WATERWORKS FINANCIAL INFORMATION

Customer Information

The following table sets forth information regarding number of customers served by the Waterworks in 2003 (by customer type) and also sets forth the amount of Waterworks revenues generated by each customer class during fiscal year ended December 31, 2003.

CUSTOMERS AND REVENUES BY CATEGORY – 2003

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Accounts</th>
<th>Percentage of Total Accounts</th>
<th>2003 Revenues</th>
<th>Percent of Total Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>266,822</td>
<td>90.02%</td>
<td>$60,234,739</td>
<td>60.96%</td>
</tr>
<tr>
<td>Multi-family</td>
<td>5,679</td>
<td>1.92%</td>
<td>8,143,429</td>
<td>8.24%</td>
</tr>
<tr>
<td>Commercial</td>
<td>19,374</td>
<td>6.54%</td>
<td>24,092,669</td>
<td>24.38%</td>
</tr>
<tr>
<td>Industrial</td>
<td>349</td>
<td>0.12%</td>
<td>4,630,095</td>
<td>4.69%</td>
</tr>
<tr>
<td>Private fire protection</td>
<td>4,163</td>
<td>1.40%</td>
<td>1,708,324</td>
<td>1.73%</td>
</tr>
<tr>
<td>Public fire protection</td>
<td>2</td>
<td>0.00%</td>
<td>1,430</td>
<td>0.00%</td>
</tr>
<tr>
<td>Totals</td>
<td>296,389</td>
<td>100.0%</td>
<td>$98,810,686</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

The following table sets forth information regarding historical volume of water sales.

WATER SOLD BY CATEGORY

<table>
<thead>
<tr>
<th>Category</th>
<th>2002</th>
<th>Percentage of Total Accounts</th>
<th>2003</th>
<th>Percentage of Total Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential – metered</td>
<td>27,119,860</td>
<td>52.91%</td>
<td>20,710,820</td>
<td>45.96%</td>
</tr>
<tr>
<td>Commercial – metered</td>
<td>14,212,470</td>
<td>27.73%</td>
<td>14,456,510</td>
<td>32.08%</td>
</tr>
<tr>
<td>Industrial – metered</td>
<td>3,981,420</td>
<td>7.77%</td>
<td>4,342,290</td>
<td>9.64%</td>
</tr>
<tr>
<td>Multi-family</td>
<td>5,074,080</td>
<td>9.90%</td>
<td>4,756,670</td>
<td>10.56%</td>
</tr>
<tr>
<td>Public – metered</td>
<td>850,780</td>
<td>1.66%</td>
<td>780,360</td>
<td>1.73%</td>
</tr>
<tr>
<td>Private fire protection</td>
<td>20,510</td>
<td>0.04%</td>
<td>18,720</td>
<td>0.04%</td>
</tr>
<tr>
<td>Totals</td>
<td>51,259,120</td>
<td>100.0%</td>
<td>45,065,370</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
The following table sets forth information regarding the ten (10) largest customers of the Waterworks (by total amount paid) for calendar year 2003.

### TEN LARGEST WATERWORKS CUSTOMERS – 2003

<table>
<thead>
<tr>
<th>Customer Name</th>
<th>Gallons Billed</th>
<th>Revenue Billed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eli Lilly</td>
<td>1,182,210,800</td>
<td>$ 1,178,788</td>
</tr>
<tr>
<td>INDOPCO/National Starch</td>
<td>984,653,000</td>
<td>874,564</td>
</tr>
<tr>
<td>Covanta Indianapolis Inc.¹</td>
<td>576,058,736</td>
<td>474,457</td>
</tr>
<tr>
<td>Quaker Oats</td>
<td>309,873,212</td>
<td>263,289</td>
</tr>
<tr>
<td>IWC – Morgan</td>
<td>247,840,076</td>
<td>216,962</td>
</tr>
<tr>
<td>Town of Brownsburg</td>
<td>220,158,092</td>
<td>193,620</td>
</tr>
<tr>
<td>Reilly Industries/Tar Chemical</td>
<td>195,005,096</td>
<td>173,472</td>
</tr>
<tr>
<td>Citizens Gas</td>
<td>193,054,312</td>
<td>172,727</td>
</tr>
<tr>
<td>International Truck &amp; Engine Corporation</td>
<td>187,920,788</td>
<td>169,070</td>
</tr>
<tr>
<td>Hebrew National Kosher FD²</td>
<td>165,195,800</td>
<td>149,045</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,261,969,912</strong></td>
<td><strong>$ 3,865,994</strong></td>
</tr>
</tbody>
</table>

¹ Covanta filed for federal Chapter 11 bankruptcy protection on April 11, 2002, but emerged from bankruptcy in March 2004.

² On December 31, 2003, ConAgra Foods Inc. announced that it would close the Hebrew National Kosher plant located in Indianapolis in September 2004. Revenues from Hebrew National are not included in the Accountant’s Financial Forecast Report attached hereto as APPENDIX A.

### System Rates and Charges

**General.** The Board has adopted a rate resolution setting rates and charges for water service to be provided by the Waterworks, and those rates and charges were approved by the IURC Order. The Waterworks Department’s rates and charges were established at levels identical to IWCR’s previous rates and charges for the similar territory served. On January 24, 2002, the IURC granted approval for IWC to increase water rates and charges by approximately one percent (1.0%) to be implemented upon the completion of certain improvements to the Rocky Ripple/Ravenswood area of Indianapolis, which improvements were completed in 2003. However, the Waterworks Department has determined not to implement such rate increase at this time due to lower project costs than expected.

It is the City’s and Waterworks Department’s intention not to seek a rate increase from the IURC, unless necessary to maintain the management services to be provided under the Management Agreement and to maintain the financial soundness of the Waterworks. Based upon the estimates contained in the Accountant’s Financial Forecast Report attached hereto as APPENDIX A, the Waterworks Department anticipates that it will be able to fund Waterworks operations, debt service requirements, and planned capital projects (through unrestricted cash flows of the Waterworks or additional borrowing by the Waterworks Department) with the existing rates and charges described below for the period shown in such forecast (absent significant changes in legal and regulatory requirements or unexpected capital needs). However, the Waterworks Department reserves the right to increase rates and charges at any time pursuant to applicable law. Based upon the assumptions regarding revenues, expenses and debt service requirements in the Accountant’s Financial Forecast Report set forth at APPENDIX A hereto, debt service coverage would continue to decline in years beyond the period described in APPENDIX A. Consequently, at some point, the Waterworks Department likely would need to seek to revise the current schedule of rates, fees and other charges in order to maintain 125% debt service coverage in compliance with the current Board Policy.

**Rate Structure.** The IURC maintains jurisdiction over rates and charges of the Waterworks Department. The IURC generally exercises its jurisdiction by finding that municipal water utilities are required to set rates and
charges that are nondiscriminatory, reasonable and just. Reasonable and just rates and charges for services according to customary IURC practice means rates and charges that produce sufficient revenue to (i) pay all legal and other necessary expenses incident to the operation of the utility including maintenance costs, operating charges, upkeep, repairs, depreciation, and interest charges on bonds or other obligations (including leases); (ii) provide a sinking fund for the liquidation of bonds or other obligations (including leases); (iii) provide a debt service reserve for bonds or other obligations (including leases); (iv) provide adequate money for making extensions and replacements to the extent not provided for through depreciation in (i) above; and (vi) provide money for the payment of any taxes that may be assessed against the utility according to customary IURC practice. Rates that are too low to produce an income sufficient to maintain the utility property in sound physical and financial condition to render adequate and efficient service are unlawful. Generally, municipal utilities also are permitted to set rates and charges at a level sufficient to include a reasonable return on the utility plant of the municipality if the legislative body of the municipality so elects. The rates and charges approved by the IURC Order do not include a return on the Waterworks’ plant investment.

The Waterworks Department’s rates generally include charges for metered services, and in certain instances unmetered service for fire protection. Metered residential and general customers pay a monthly charge based upon meter size plus a commodity charge based on water usage. In addition, the schedule of rates and charges includes various additional service charges and other non-recurring charges. The rates and charges differ based upon the cost of serving a particular territory of the service area to which service is provided as previously approved by the IURC. The general rates adopted by the Waterworks Department for metered residential and general customers are summarized in the Accountant’s Financial Forecast Report attached hereto as APPENDIX A.

**Billing and Collection Procedures**

Pursuant to the Management Agreement, the Manager provides billing and collection services. Customers are billed monthly, based on either actual or estimated consumption. Estimated bills are subject to a true-up based on actual usage. Bills are considered delinquent after seventeen (17) days after receipt, subject to late penalty charges. After approximately ninety (90) days, the Waterworks Department may commence efforts to disconnect. Under Indiana law, the Waterworks Department may disconnect service for non-payment only after notifying customers in writing at least seven (7) days prior to disconnection. Disconnections may be postponed in certain circumstances.

Under Indiana law, the pledge of the customer payments to the Waterworks Department attaches when payment is made. Payments will either be deposited into a lock box, owned by the Waterworks Department, or by physical transfer at the offices of the Waterworks. Funds in the lock box are swept daily into a separate bank account owned by the Waterworks Department. The Manager will have access to the lock box for the purpose of processing only.

**History of Revenues and Expenses; Estimates**

The summarized historical unaudited financial statements for the 12 months ended December 31, 2003, a history of Waterworks revenues and expenditures for the years 1999 through 2003, as well as forecasted Waterworks revenues and expenditures through 2006 are set forth in the Accountant’s Financial Forecast Report attached hereto as APPENDIX A. The revenue and expenditure forecasts are specifically subject to the assumptions and limitations set forth in the Accountant’s Financial Forecast Report. Those assumptions may not be realized due to a number of factors which cannot be determined at this time. Potential investors must review APPENDIX A in its entirety in order to gain an understanding of the assumptions and limitations inherent in the Accountant’s Financial Forecast Report. See “RISK FACTORS—Forward Looking Statements.”

**CERTAIN FACTORS AFFECTING WATER UTILITIES**

**Environmental Risks**

Phase I Environmental Site Assessments (“ESA”) were commissioned by the City in connection with the purchase of the Waterworks to identify any recognized environmental conditions at the purification plants, current and future well fields, reservoirs, water storage tanks and other related facilities and properties of IWCR.
Recognized environmental conditions were identified at twenty-six (26) of the fifty-three (53) properties where Phase I ESAs were conducted. No Phase II ESAs were conducted. The principal environmental issues identified in the Phase I ESAs were the presence of suspected asbestos containing materials in several buildings, concentrations of certain contaminants at or above regulatory action levels for treated drinking water in some raw surface and ground water samples obtained from several source waters and the presence of possible wetlands that could impact expansion plans at some properties.

The Asset Purchase Agreement included a provision requiring NiSource and IWCR to indemnify the City (and the Waterworks Department) from and against any and all liabilities, costs and damages arising out of or resulting from NiSource’s or IWCR’s breach of a representation or warranty or certain pre-closing environmental, human health, safety or natural resource related onsite conditions, except such indemnification does not cover the first Seven Hundred Fifty Thousand Dollars ($750,000) of costs incurred by the City. The total indemnification obligation of NiSource and IWCR for breach of any representation or warranty or any pre-closing onsite conditions or pre-closing product liability or toxic tort damages is limited to Thirty-Five Million Dollars ($35,000,000). Claims for pre-closing environmental on-site conditions must be made within seven (7) years of closing. Claims for product liability or toxic tort damages must be made within five (5) years of closing.

Flooding, Other Catastrophic Loss and Terrorists Attacks

The Waterworks is susceptible to certain risks posed by flooding, drought and other catastrophic loss. Certain of these risks may be mitigated by the purchase of insurance; however, it is not possible to predict at this time whether the insurance coverage provided by the Manager pursuant to the Management Agreement would be sufficient to pay all of the costs associated with a flood, drought or other catastrophic event. See “THE WATERWORKS—Insurance.” To the extent insurance coverage is not sufficient to replace facilities damaged by flooding, drought or other catastrophic event (or to the extent damage caused by such events is excluded from policy coverage), the Waterworks Department may be required to expend significant amounts to replace the damaged facilities and operations may be negatively impacted to an extent that cannot be determined at this time. See also the heading “—Insurance” under this caption.

Terrorist attacks, such as the attacks that occurred on September 11, 2001, and future risk of further terrorist attacks, may have an impact on the operation of the Waterworks. The specific impact on the Waterworks cannot be determined. However, the terrorist attacks on the World Trade Center and the Pentagon could mean that public infrastructure facilities, including water storage, treatment, transmission and distribution systems such as the Waterworks could be direct targets, or indirect casualties of, an act of terror. Any future attacks could lead to damage to one or more significant components of the Waterworks or to tainting of the water supply, resulting in the inability of the Waterworks to provide water service to its customers. Consequently, a terrorist attack could adversely affect the ability of the Waterworks to generate sufficient Net Revenues to pay debt service on the Waterworks Revenue Bonds, and accordingly, adversely affect the ability of the Bond Bank to pay debt service on the 2004A Bonds. The Management Agreement requires the Manager to obtain insurance without exclusion for terrorism to the extent available in the insured’s marketplace. However, as of this date, the Manager has been unable to obtain insurance without a terrorism exclusion. As a result, if the Waterworks is damaged due to terrorism, the Waterworks Department would need to provide adequate funds to make the necessary repairs to the Waterworks. See “—Insurance” under this caption and “RISK FACTORS—Capital Improvement Requirements” herein.

Regulatory Risks

The Waterworks is subject to numerous federal and State regulatory requirements. Those regulations are subject to change at any time. Failure to comply with regulatory requirements or changes therein, or the inability to comply with them in a timely manner, could cause portions of the Waterworks to be unavailable for use by the Waterworks Department. Any disruption of service could negatively impact the collection of Net Revenues by the Waterworks Department. The Waterworks currently is in compliance with the requirements of the Clean Water Act, the Safe Drinking Water Act and other applicable laws, except to the extent such non-compliance would not have a material adverse effect on the Waterworks. The Waterworks Department believes that the Thirty-Five Million Dollar ($35,000,000) capital improvement budget assumed in “APPENDIX A—ACCOUNTANTS’ FINANCIAL FORECAST REPORT” and other available moneys, provide the Waterworks Department with funds in a reasonable
amount to meet expected growth needs and existing and projected federal or state water quality requirements for the forecast period. Certain federal regulations currently under consideration would require future capital improvements to the Waterworks of approximately Eighty Million Dollars ($80,000,000). Such capital improvements are not expected to be required until after the forecast period discussed in the Accountant’s Financial Forecast Report and are anticipated to be financed from a combination of the proceeds of additional borrowings, revenues generated from the Waterworks or cash on hand. Should any additional regulations applicable to the operation and maintenance of the Waterworks become effective in the future, the Waterworks Department will be required to take action to comply with them in a timely manner.

The Board has established initial rates and charges for water service in the District to be provided by the Waterworks, which were approved in the IURC Order. Any future changes in water rates and charges or terms of service will be subject to approval of the Board of Directors of the Waterworks Department and the IURC. The Board of Directors of the Waterworks Department and the IURC render decisions after holding public hearings and reviewing evidence presented at such hearings. An IURC order is subject to appeal by dissatisfied parties directly to the Indiana Court of Appeals.

Insurance

Pursuant to the Management Agreement, the Manager is required to obtain insurance coverage as described in “THE WATERWORKS—Insurance.” The Waterworks facilities are insured against certain other catastrophic loss; however, it is not possible to determine whether the level of such coverage will be sufficient to cover actual losses sustained as a result of catastrophic loss. In the event the Waterworks sustains damage rendering it unable to operate for any significant length of time, the collection of Gross Revenues will be adversely impacted. In addition, the Waterworks Department will be required to pay the capital costs necessary to repair the damage from funds other than insurance proceeds. See “RISK FACTORS—Capital Improvement Requirements.”

RISK FACTORS

The purchase of the 2004A Bonds involves certain risks and the 2004A Bonds may not be appropriate investments for all types of investors. Each prospective investor is encouraged to read this Official Statement in its entirety and to give particular attention to the factors described below, which, among other factors discussed herein, could affect the payment of debt service on the 2004A Bonds and could affect the market price of the 2004A Bonds to an extent that cannot be determined at this time. The following does not purport to be an exhaustive listing of risks and other considerations that may be relevant to investing in the 2004A Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of such risks.

Forward-Looking Statements

This Official Statement and its appendices contains statements relating to future results that are “forward-looking statements.” When used in this Official Statement, the words “estimate,” “forecast,” “intend,” “expect” and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty. Accordingly, such statements are subject to risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Inevitably, some assumptions used to develop forward-looking statements will not be realized or unanticipated events and circumstances may occur. Therefore, investors should be aware that there are likely to be differences between forward looking statements and actual results. Those differences could be material and those differences could negatively impact the availability of Net Revenues to pay debt service on the Waterworks Revenue Bonds, and ultimately could negatively impact the ability of the Bond Bank to pay debt service on the Bonds.

Bonds are Limited Obligations

The Bonds are limited obligations of the Bond Bank payable solely from the revenues and funds of the Bond Bank pledged therefor under the Indenture, including payments on the Waterworks Revenue Bonds. The Waterworks Revenue Bonds are payable from Net Revenues of the Waterworks Department, together
with the Senior Pledged Funds and certain other pledged funds. The Bonds do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof, including the City, the Waterworks Department or any other qualified entity, under the constitution and the laws of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision thereof, including the City, the Waterworks Department or any other qualified entity. The Bond Bank has no taxing power. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

In addition to its authority to issue revenue bonds and set rates and charges for the use of the Waterworks, the Waterworks Department has the legal authority to issue special taxing district bonds. Both the City-County Council, in creating the Waterworks Department, and the Board have made policy decisions not to levy any property taxes within the District or to operate the Waterworks Department as a special taxing district by borrowing money for the District, and no property taxes are expected to be levied on property located in the District and available to pay debt service on the Waterworks Revenue Bonds.

Payment on the Waterworks Revenue Bonds is dependent upon the generation of sufficient Net Revenues of the Waterworks. If the Waterworks becomes inoperable for any reason, if the Waterworks Department should lack raw water or lack treatable water for any reason, or if the Waterworks Department incurs unanticipated expenses or reduced revenues for any reason, the Waterworks Department may be unable to generate adequate revenues from the Waterworks to pay debt service on the Waterworks Revenue Bonds, which ultimately could negatively impact the ability of the Bond Bank to pay debt service on the Bonds. See the captions “WATERWORKS,” “WATERWORKS FINANCIAL INFORMATION,” “CERTAIN FACTORS AFFECTING WATER UTILITIES,” “APPENDIX A—ACCOUNTANT'S FINANCIAL FORECAST REPORT” and the other headings under this caption “RISK FACTORS.”

Except for the Bond Bank Common Reserve Account, there is no fund which is required to contain amounts to make up for deficiencies in the event of one or more defaults by the Waterworks Department in making payments on the Waterworks Revenue Bonds, and there will be no source from which the Bond Bank Common Reserve Account will be required to be replenished except from payments on the Waterworks Revenue Bonds, and certain earnings on the amounts in funds and accounts held under the Bond Resolution. There can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Bond Bank Common Reserve Account, would be taken up for consideration by the City-County Council; (ii) that upon consideration of any such certificate, the City-County Council would determine to appropriate funds to reduce or eliminate such deficiency; (iii) that the Mayor of the City would approve any ordinance making such an appropriation; or (iv) that in the event the City-County Council determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. Furthermore, as of the date that is the later of (i) December 31, 2007, or (ii) the date on which the Waterworks Department expects to satisfy the requirements of the rate covenant in the Bond Resolution for the immediately preceding three (3) consecutive Fiscal Years, the Bond Bank will no longer be required to seek replenishment of the Bond Bank Common Reserve Account from the City-County Council. Although no formal report has been prepared, as of the date hereof, the Waterworks Department expects that it has satisfied the rate covenant requirements for 2003.

No Mortgage or Lien Interests Secure the Waterworks Revenue Bonds

The Waterworks Revenue Bonds are payable from Net Revenues, together with the Senior Pledged Funds, including the Waterworks Common Reserve Subaccount, on a parity with the 2002 Waterworks Revenue Bonds. The 2004 Waterworks Revenue Bonds are also secured by the 2004 Pledged Funds. The Waterworks Revenue Bonds are not secured by a mortgage, lien or security interest on or in any of the funds, properties or other assets of the Waterworks Department or the City other than the funds discussed above. The Bond Bank may not look to any funds, properties or other assets of the Waterworks Department or the City, other than the Net Revenues, the 2004 Pledged Funds and the Senior Pledged Funds, for payment of debt service on the 2004 Waterworks Revenue Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Limited Obligations.”

Limited Operating History

The Waterworks Department acquired the Waterworks in April, 2002. Accordingly, the Waterworks Department has limited financial and operating history. Certain historical financial information related to the
Dependence Upon Manager for Operation of Waterworks

The Waterworks Department and the Manager have entered into a Management Agreement pursuant to which the Manager will manage and operate the Waterworks. The Management Agreement has an initial term of twenty (20) years from April 30, 2002, subject to earlier termination. In 2004, the Waterworks Department will pay Manager a fixed fee of Thirty-Four Million One Hundred Eighty-Eight Thousand Sixty-Nine Dollars ($34,188,069). The Management Agreement provides that the annual fee will increase by an amount equal to the product of the fixed fee times the lesser of (i) two and one-half percent (2.5%) or (ii) eighty-eight and six-tenths percent (88.6%) of the Annual Increase in the CPI each year (each as defined in “APPENDIX C—SUMMARY OF MANAGEMENT AGREEMENT”) during the first five (5) years of the Management Agreement and by eighty-eight and six-tenths percent (88.6%) of CPI, thereafter. In addition, the Waterworks Department will make incentive payments to the Manager in an amount up to twenty-five percent (25%) of the fixed fee for such year, based upon Manager meeting certain specified objectives. See “THE MANAGER AND THE MANAGEMENT AGREEMENT” herein. The Manager has responsibility for virtually all of the management and operational functions of the Waterworks, and, accordingly, the failure of Manager to effectively operate and maintain the Waterworks, including without limitation, the failure to bill, collect or transmit collections to the Waterworks Department in a timely manner, could negatively impact the ability of the Waterworks Department to pay debt service on the Waterworks Revenue Bonds, and ultimately negatively impact the ability of the Bond Bank to pay debt service on the Bonds.

Although the Manager has provided an irrevocable, direct draw letter of credit from Citibank, N.A. (the current letter of credit bank) in the amount of Forty Million Dollars ($40,000,000) and a guarantee from Veolia Environnement, as guarantor, as security for its performance under the Management Agreement, the insolvency or bankruptcy of Manager could also adversely impact the ability of Manager to effectively operate and maintain the Waterworks. Although the Waterworks Department will have the right to terminate the Management Agreement and could enter into a new management agreement with a different entity in the event of a insolvency or bankruptcy of Manager, such termination and transition would likely have a negative impact on the overall operation and management of the Waterworks.

The Manager has provided the information in this Official Statement under the heading “THE MANAGER AND MANAGEMENT AGREEMENT—The Manager.”

Contingent Liabilities

Developer Agreements. For purposes of providing funds for construction of extensions to the Waterworks requested by developers, property owners and others, the Waterworks Department has entered into approximately 2,000 developer agreements. Typically, these agreements require that the Waterworks Department invest three (3) times the estimated annual revenue from the main extension and for the developer to provide the remaining costs of the extension, if any. If anticipated revenues cannot be estimated, the developer pays the entire cost of the main extension and the Waterworks Department pays the developer three (3) times estimated annual revenue as new customers are added to the system. The reimbursements are made to the extent that new connections are made within ten (10) years after the improvements are placed in service. The Waterworks Department estimates that the present liability under the existing developer agreements is approximately Sixteen Million Six Hundred Seventy-Six Thousand Dollars ($16,676,000). In the event that the Waterworks Department’s liability under such agreements is in excess of such estimate, unrestricted cash flow could be negatively impacted which could cause the Waterworks Department to authorize and incur additional debt to provide funds for such capital improvements. Interest on such additional debt would increase debt service costs to the Waterworks Department and could result in lower debt service coverage or insufficient Net Revenues to pay such increased debt service costs. See “THE
Employee Benefit Obligations. Pursuant to the Asset Purchase Agreement, the City assumed the majority of the IWCR employee benefit plan obligations and liabilities. Pursuant to the Management Agreement, the Manager assumed all of the employee benefit obligations and liabilities acquired by the City other than benefit plans that were terminated at closing and certain post-retirement health care and life insurance benefit plan liabilities. In particular, the Waterworks Department is responsible for the total accrued liability associated with post-retirement benefits provided to persons vested on or before December 31, 2004. Pursuant to an order entered by the IURC on April 26, 1995, the current rates and charges for the Waterworks include amounts for certain post-retirement benefit costs. Amounts collected from such rates are remitted to a grantor trust, and post-retirement benefits are to be provided by the Manager, who is entitled to monthly reimbursement for the cost of those benefits from the grantor trust. As of December 31, 2003, approximately Nine Million Four Hundred Ninety-Seven Thousand Dollars ($9,497,000) was on deposit in the grantor trust, and the accrued post-retirement benefit cost for such post-retirement benefits was approximately Forty-Six Million Eighty-Three Thousand Dollars ($46,083,000). Approximately Two Million Two Hundred Seventy Thousand Dollars ($2,270,000) is contributed to the grantor trust each year from collected rates, and since 1999 the amounts paid out of the grantor trust each year for benefits ranged from approximately Two Hundred Fifty Thousand Dollars ($250,000) to approximately One Million One Hundred Eighty Thousand Dollars ($1,180,000). The amount contributed to the grantor trust may be modified through an adjustment to rates and charges by the approval of the IURC based upon actuarial calculations of the accrued liability. Assuming contributions continue at the current level, based on an actuarial valuation report dated as of December 31, 2002, a shortfall of approximately Twenty-Two Million Eight Hundred Thousand Dollars ($22,800,000) exists over the life of the grantor trust. However, the Waterworks Department does not expect to seek a rate increase (including an increase in the amount contributed to the grantor trust) that would have an effective date before December 31, 2006. In the event that amounts deposited to the grantor trust are insufficient to make all post-retirement benefit payments, the Waterworks Department will be required to make such payments from available Net Revenues. In the event that the Waterworks Department is required to make post-retirement benefit payments from Net Revenues, debt service coverage could be reduced, and there may be insufficient Net Revenues to pay debt service on the Waterworks Revenue Bonds, which could ultimately negatively impact the ability of the Bond Bank to make debt service payments on the Bonds. See “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT.”

Capital Improvement Requirements

In order to maintain the Waterworks in good working order and to expand the Waterworks to reach additional service areas, the Waterworks Department will be required to make substantial capital improvements. Pursuant to the Management Agreement, the Manager is required to conduct a review and provide the Waterworks Department with a reasonably detailed report recommending capital improvements, if any, that the Waterworks Department may wish to undertake. The Manager’s original report recommended significantly more capital improvements than ultimately included in the Waterworks Department capital improvement plan. See “THE WATERWORKS—Capital Improvement Plan.”

A significant number of capital improvements to the Waterworks could be required in order for the Waterworks Department to continue to operate and maintain the Waterworks in good working order and to comply with environmental and other regulatory requirements, which could require capital improvement expenditures in excess of Thirty-Five Million Dollars ($35,000,000) per year. Further, in the event that damage is caused to the Waterworks which is not covered by insurance, the Waterworks Department will be required to provide a source of funding repairs to the Waterworks other than insurance proceeds (which amount likely is above and beyond the estimated Thirty-Five Million Thousand Dollars ($35,000,000) per year.) In the event that the costs of capital improvements required to be made by the Waterworks Department exceed the amounts estimated by the Waterworks Department, unrestricted cash flow could be negatively impacted which could cause the Waterworks Department to authorize and incur additional debt to provide funds for such capital improvements. Interest on such additional debt would increase debt service costs to the Waterworks Department and could result in lower debt service coverage or insufficient Net Revenues to pay such increased debt service costs. See “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT” herein. The Waterworks Department must hold a public hearing before undertaking a new capital project. A successful legal objection to a new capital project could prevent its completion.
Other Physical Plant Risks

Other issues relating to the Waterworks include concerns about the availability and protection of water sources, particularly in the northwest area of Indianapolis, the need for more detailed emergency plans, security and terrorism risks, lack of redundancy of the Central Control System, pressure issues, the potential cost of solving taste and odor issues and the integrity of aging pipes, among others.

Impact of Growth Rates on Net Revenues

According to the 2000 U.S. Bureau of Census, population growth within the Indianapolis Metropolitan Statistical Area (“MSA”) has averaged approximately one and two-tenths percent (1.20%) annually since 1990, and sixteen and four-tenths percent (16.4%) overall since 1990. Population growth of six percent (6.0%) in the MSA is projected from 2000 through 2010. In 2000, the U.S. Census Bureau ranked the Indianapolis MSA 29th largest of all metropolitan areas. The Indianapolis MSA has a total land area of 3,532 square miles.

Over the five (5) years spanning calendar years 1999 through 2003, Waterworks revenue growth has averaged approximately one and four tenths percent (1.4%) annually. The Accountant’s Financial Forecast Report set forth in APPENDIX A has assumed that an average Waterworks revenue growth rate of one and four-tenths percent (1.4%) per year will continue through the periods presented. The Waterworks Department believes that it can continue to extend service to additional areas in order to obtain new customers. However, there are no exclusive service territories for water utilities in Indiana, and accordingly, other private or municipal water utilities could provide service to currently unserved areas where the Waterworks Department has an existing right to serve pursuant to a franchise agreement. Also, to the extent that certain assets of the Waterworks located in high growth areas are sold, future growth of the Waterworks may be negatively affected. See “THE WATERWORKS—Service Area” herein. Further, in order to reach new customers, the Waterworks Department may be required to make significant capital expenditures to construct extensions and improvements to the existing Waterworks. The Waterworks Department will be required to have access to funds (either through unrestricted cash flow of the Waterworks or additional borrowing) in order to make such capital improvements. There may be limits on the amount of additional indebtedness that the Waterworks Department may incur in order to continue to satisfy the requirements of the rate covenants set forth in the Bond Resolution and the current Board Policy. See “—Capital Improvement Requirements” under this caption, “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Waterworks Rate Covenant” and “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT” herein. Any failure to realize the projected growth in customers could negatively impact the availability of Net Revenues to pay debt service on the Waterworks Revenue Bonds, and could ultimately negatively impact the ability of the Bond Bank to pay debt service on the Bonds. See “APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT.”

Litigation

Two lawsuits have been filed against the City and the Waterworks Department alleging various claims in connection with the Acquisition. In addition, the Waterworks is a defendant in several other lawsuits. It is impossible to determine with certainty the actual outcome of any such legal actions, however, the Waterworks Department, after consultation with counsel, believes these matters more likely than not will be resolved in a manner that does not result in a material adverse affect on the financial position of the Waterworks or on the ability of the Waterworks to continue to operate. See “LITIGATION” herein.

Additional Parity Securities

Under the Bond Resolution, the Waterworks Department is permitted to incur other debt payable from Net Revenues on a parity with the lien of the Waterworks Revenue Bonds and the Assumed Obligations. In order to issue such parity debt, the Waterworks Department must certify that no Event of Default has occurred and is continuing and that Net Revenues are at least equal to 1.1 times debt service for the most recent fiscal year (or that net revenues are at least equal to 1.1 times the debt service, assuming that Net Revenues are adjusted to take into account changes in rates, fees and charges, any annexations or extensions which have been approved and result in changes in customer base and any transfers from the Rate Stabilization Account). See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Additional Waterworks Revenue Bonds—Waterworks Parity
No Acceleration

There is no provision for acceleration of the principal of the 2004A Bonds or the 2004 Waterworks Revenue Bonds in the event of a default in the payment of principal of or interest thereon unless a court so orders or unless the Trustee certifies that there are sufficient moneys on deposit in the funds and accounts under the Indenture to pay the principal of and all accrued interest on all outstanding Bonds. Further, even in the event that a court were to order acceleration of the principal of the 2004A Bonds or the 2004 Waterworks Revenue Bonds, the bond insurance Policy guarantees only the scheduled payment of principal of and interest on the 2004A Bonds, and therefore, amounts would not be available under the Policy to make payment of any accelerated amounts. See “BOND INSURANCE AND SURETY BOND” herein. Consequently, remedies available to the owners of the 2004A Bonds may have to be enforced from year to year. Notwithstanding the foregoing, the Assumed Obligations would be subject to acceleration in the event of a default thereunder.

Interest Rate Risk

The 2004 Bonds (and the 2004 Waterworks Revenue Bonds) are variable rate obligations, the interest rate on which could increase or decrease from time to time as provided in the Indenture. The Bond Bank and the Waterworks Department are provided limited protection against increasing interest rates because the 2004 Bonds can be converted to a Fixed Interest Rate, although the Bond Bank and the Waterworks Department would be required to continue to pay interest at the variable rate until permitted to convert the 2004 Bonds to a Fixed Interest Rate pursuant to the terms of the Indenture. Debt service coverage for the Bonds has been forecasted on the basis of an interest rate provided by the Underwriters which may be different than the actual rates of interest borne by the Bonds from time to time. If interest rates are materially higher than such forecasted rate, debt service costs to the Waterworks Department would increase and could result in lower debt service coverage or insufficient Net Revenues to pay such increased debt service costs. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Waterworks Historical and Forecasted Debt Service Coverage” and “APPENDIX A – ACCOUNTANT’S FINANCIAL FORECAST REPORT.” The Bondholders do not have any protection from decreasing interest rates.

ENFORCEABILITY OF REMEDIES

The various legal opinions to be delivered concurrently with the delivery of the 2004A Bonds express the professional judgment of the attorneys rendering the opinions on the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to such transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

The remedies available to the Trustee or the bondholders of the 2004A Bonds upon a default under the Indenture; to the Trustee or the Bond Bank under the 2004 Waterworks Revenue Bonds, the 2004 Purchase Agreement and the Bond Resolution; or to any party seeking to enforce the pledges securing the 2004A Bonds or the 2004 Waterworks Revenue Bonds described therein (collectively the “Pledges”), are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided in the Indenture, the 2004 Purchase Agreement, the 2004 Waterworks Revenue Bonds and the Bond Resolution, or to any party seeking to enforce the Pledges, may not be readily available or may be limited. Under federal and State environmental laws, certain liens may be imposed on property of the Bond Bank or the Waterworks Department from time to time, but the Bond Bank has no reason to believe, under existing law, that
any such lien would have priority over the lien on the payments on the 2004 Waterworks Revenue Bonds pledged to owners of the 2004A Bonds under the Indenture or over the lien on the Net Revenues, the Senior Pledged Funds and 2004 Pledged Funds pledged to the owners of the 2004 Waterworks Revenue Bonds under the Bond Resolution.

The various legal opinions to be delivered concurrently with the delivery of the 2004A Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the constitutional powers of the Bond Bank, the Waterworks Department, the City, the State and the United States of America and by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). These exceptions would encompass any exercise of the federal, State or local police powers (including the police powers of the City) in a manner consistent with the public health and welfare. Enforceability of the 2004A Bonds, the Indenture, the 2004 Purchase Agreement, the 2004 Waterworks Revenue Bonds, the Bond Resolution and the Pledges in a situation where such enforcement may adversely affect public health and welfare may be subject to these police powers.

LITIGATION

Bond Bank

Upon delivery of the 2004A Bonds, an authorized officer of the Bond Bank will certify that no litigation or proceeding is pending or, to the best of the Bond Bank’s knowledge, threatened in any court, agency or other administrative body against the Bond Bank seeking to restrain or contest the issuance, sale, execution or delivery of the 2004A Bonds, affecting the security pledged under the Indenture or in any way affecting the validity of any provision of the 2004A Bonds, the resolution authorizing the 2004A Bonds, the Indenture, the 2004 Purchase Agreement, the Purchase Contract or the pledges or applications of any money or securities provided for the payment of the 2004A Bonds or contesting the creation, organization or existence of the Bond Bank, or the title of any of the members or other officers of the Bond Bank to their respective offices.

Waterworks Department

Upon the issuance of the 2004 Waterworks Revenue Bonds, an authorized officer of the Waterworks Department will certify that, except as described below under “—Scott Litigation,” no litigation or proceeding is pending or, to the best of the Waterworks Department’s knowledge, threatened in any court, agency or other administrative body against the Waterworks Department seeking to restrain or contest the issuance, sale, execution or delivery of the 2004 Waterworks Revenue Bonds, affecting the security pledged under the Bond Resolution, or any proceedings of the Waterworks Department taken with respect to the 2004 Waterworks Revenue Bonds or the pledge or application of any moneys or security provided for the payment of the Waterworks Revenue Bonds, or in any way contesting or affecting the validity of the 2004 Waterworks Revenue Bonds, the Bond Resolution, the Management Agreement or the 2004 Purchase Agreement.

Plummer Litigation. The City and the Waterworks Department (collectively, the “Defendants”) are defendants in a lawsuit (the “Plummer Lawsuit”) pending in the United States District Court for the Southern District of Indiana, Indianapolis Division. The Plummer Lawsuit alleges that employees of USFilter Indianapolis Water, LLC (now Veolia Indianapolis Water, LLC, the “Manager”) who were former employees of IWC (the “Plummer Plaintiffs”) have been denied employee benefits and that the Defendants, along with the Manager, are liable therefor. A predecessor to the Plummer Lawsuit was originally filed August 29, 2002, in Marion Superior Court, Marion County, Indiana. The Defendants removed that action to federal district court and then moved to dismiss it for failure to state a claim. Rather than responding to the Defendant’s motion to dismiss, the Plummer Plaintiffs filed a motion to amend their complaint. The amended complaint essentially repeated the four claims alleged in the original complaint and added seven additional claims. All eleven proposed claims sought recovery of employee benefits on behalf of a putative class consisting of non-union employees of the Manager. The claims were based on various provisions of the Employee Retirement Income Security Act and on federal and state common law. The Defendant opposed the Plummer Plaintiffs’ motion to amend their complaint.
On April 15, 2003, before the court had ruled on either the Defendant’s motion to dismiss the complaint or the Plummer Plaintiffs’ motion to amend the complaint, the Plummer Plaintiffs filed a notice seeking voluntarily to dismiss the lawsuit without prejudice. On July 18, 2003, the court approved the dismissal of the first action without prejudice.

On April 18, 2003, a second lawsuit was filed in United States District Court for the Southern District of Indiana, Indianapolis Division, by three of the five Plummer Plaintiffs in the first action plus one additional person. That complaint repeated the eleven claims from the proposed amended complaint in the first action and added a twelfth claim alleging a denial of rights under the First Amendment. The complaint again was brought as a putative class action. On June 9, 2003, the Defendants moved to dismiss all but the First Amendment claim in the second lawsuit for failure to state a claim.

The Defendants intend to continue to vigorously oppose all of the claims asserted by the Plummer Plaintiffs in the Plummer Lawsuit. The Defendant’s motion to dismiss eleven of the twelve claims in the second action has been fully briefed by the parties and is awaiting ruling by the court. The Defendants cannot predict the timing or content of any decisions of, or relief granted by, the court or any appellate court related to the claims raised in the Plummer Lawsuit or the impact on Net Revenues of the Waterworks.

Counsel for the City and the Waterworks Department in the Plummer Lawsuit has provided an opinion regarding the merits of the Plummer Lawsuit stating, subject to certain qualifications, that they are of the opinion that it is more likely than not that the Plummer Lawsuit will result in a finding of no liability or damages against the City and the Waterworks Department. The opinion states, however, that it is a matter of professional judgment and does not constitute a guarantee of results by counsel, and that it is not possible to predict with certainty the ultimate conclusion of the Plummer Lawsuit.

Scott Litigation. On April 24, 2003, three plaintiffs who are Marion County taxpayers (the “Scott Plaintiffs”) filed a lawsuit (the “Scott Lawsuit”) against the City and the Waterworks Department (collectively, the “Defendants”) in the Marion County Superior Court No. 13. In the Scott Lawsuit, the Scott Plaintiffs seek a declaratory judgment that the City violated Indiana statutes when it purchased the Waterworks without obtaining a resolution authorizing the purchase from the Board of Trustees of the Department of Public Utilities of the City (“DPU”) and that the City’s purchase of the Waterworks is in violation of state statutes, is void ab initio and should be set aside as in contravention of applicable law.

The Scott Plaintiffs also requested the court enter a declaratory judgment that: (i) the City violated Indiana statutes when it placed management of the Waterworks in the Waterworks Department and failed to place control and operation of the Waterworks under the DPU; (ii) the City failed to comply with state statutes; (iii) the Management Agreement between the Waterworks Department and the Manager is void ab initio and should be set aside; and (iv) the court order the Defendants to transfer all control and operation of the Waterworks to the DPU.

Finally, the Scott Plaintiffs requested the court enter a declaratory judgment finding that: (i) the City violated Indiana statutes when it created the Waterworks Department; (ii) the Waterworks Department is void ab initio and should be declared vacated and dissolved by the court; or in the alternative, (iii) if the court determines not to dissolve the Waterworks Department, that it holds the Waterworks Department may not exercise any control or operation over any utility which may be purchased by the City; and (iv) for all other relief proper and appropriate in the premises.

In their motion for summary judgment (“Motion”), the Scott Plaintiffs request the entry of summary judgment against the Defendants as to the issue of management of the Waterworks by the Waterworks Department and appear to request that the Waterworks be managed by the DPU. In a footnote in its legal memorandum supporting the Motion, the Scott Plaintiffs stated “Though Ind. Code 8-1-11.2-1 requires that the Board of Trustees for Utilities of the Department of Public Utilities must approve (along with the City-County Council) any purchase of a public utility, the Plaintiffs recognize, as a practical matter, that setting aside the purchase of IWC, at this point in time, is not feasible. The bonds have been issued and the City’s bond rating could be adversely affected by an Order setting aside the purchase.”
The Defendants filed a Motion to Dismiss the Lawsuit on July 16, 2003. After the motion was fully briefed and oral argument was heard, the court ordered the Defendants to convert their motion to dismiss to one for summary judgment. The court further authorized the Scott Plaintiffs to file their own motion for summary judgment. The Scott Plaintiffs filed their motion for summary judgment on February 17, 2004. The Defendants have until March 22, 2004 to file their response and the Scott Plaintiffs have until April 14, 2004 to file their reply. The Defendants have until March 29, 2004 to file their converted motion for summary judgment. The Scott Plaintiffs have until May 14, 2004 to file their response and the Defendants have until June 21, 2004 to file their reply.

The Defendants intend to continue to vigorously oppose all of the claims asserted by the Scott Plaintiffs in the Scott Lawsuit. The Defendants cannot predict the timing or content of any decisions of, or relief granted by, the court or any appellate court related to the issues raised in the Scott Lawsuit or the impact on Net Revenues of the Waterworks.

Counsel for the City and the Waterworks Department in the Scott Lawsuit has provided an opinion regarding the merits of the Scott Lawsuit stating, subject to certain qualifications, that they are of the opinion that it is more likely than not that the Scott Lawsuit will result in a finding of no declaratory relief that materially adversely affects the Waterworks Department’s or the City’s management, control or authority over the Waterworks. The opinion states, however, that it is a matter of professional judgment and does not constitute a guarantee of results by counsel, and that it is not possible to predict with certainty the ultimate conclusion of the Scott Lawsuit.

Other Litigation. The Waterworks Department is a defendant in several other lawsuits. It is impossible to determine with certainty the actual outcome of any such legal actions, however, the Waterworks Department believes those matters likely will be resolved in a manner that does not result in a material adverse effect on the financial position of the Waterworks or the ability of the Waterworks to continue to operate. In addition, the Waterworks Department filed a lawsuit in the Marion County Superior Court on March 10, 2004, against NiSource and IWCR alleging damages resulting from nonfunctioning billing and data processing software that the City purchased from IWCR (and assigned to the Waterworks Department) as part of the Acquisition.

City of Indianapolis

For a description of litigation currently pending against the City relating to the Waterworks, see “—Waterworks Department—Plummer Litigation,” and “—Scott Litigation” above.

Upon the delivery of the 2004 Waterworks Revenue Bonds, an authorized officer of the City will certify that, except as described above under “—Waterworks Department—Scott Litigation,” there is not pending, or to the best of the City’s knowledge threatened, any litigation restraining or enjoining, any proceedings of the City taken with respect to the 2004 Waterworks Revenue Bonds, or in any way contesting or affecting the validity of the 2004 Waterworks Revenue Bonds or the Asset Purchase Agreement.

LEGAL MATTERS

The legal opinions of Ice Miller, Bond Counsel, Indianapolis, Indiana, as to the validity and enforceability of the 2004A Bonds will be made available to the Underwriters at the time of original delivery. See “APPENDIX D—FORM OF OPINION OF BOND COUNSEL.” Ice Miller also has acted as bond counsel to the Waterworks Department. Certain legal matters will be passed upon for the City, the Bond Bank and the Waterworks Department by the Corporation Counsel to the City. Certain legal matters will be passed upon for the City and the Waterworks Department by their special counsel, Sommer Barnard Ackerson, P.C., Indianapolis, Indiana. Certain legal matters will be passed upon for the Underwriters by Baker & Daniels, Indianapolis, Indiana.

TAX MATTERS

In the opinion of Ice Miller, Indianapolis, Indiana, Bond Counsel, under existing laws, regulations, judicial decisions and rulings, interest on the 2004A Bonds is excludable from gross income under Section 103 of the Code.
for federal income tax purposes. This opinion relates only to the exclusion from gross income of interest on the 2004A Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Bond Bank and the Waterworks Department with the Tax Covenants (hereinafter defined). Failure to comply with the Tax Covenants could cause interest on the 2004A Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue. If, subsequent to the date hereof, the 2004A Bonds are converted to bear interest at an Adjustable Interest Rate other than an Auction Rate or at a Fixed Interest Rate, Bond Counsel expresses no opinion on the effect such change will have on the exclusion from gross income for federal income tax purposes of interest on the Series 2004A Bonds. As described in the Indenture, a favorable opinion of nationally recognized bond counsel would be required in the event of any such change. In the opinion of Bond Counsel, under existing laws, regulations, judicial decisions and rulings, interest on the 2004A Bonds is exempt from taxation in the State of Indiana. This opinion relates only to the exemption of interest on the 2004A Bonds for State of Indiana income tax purposes. See APPENDIX D for the form of approving opinion of Bond Counsel.

The Code imposes certain requirements which must be met subsequent to the issuance of the 2004A Bonds as a condition to the exclusion from gross income of interest on the 2004A Bonds for federal income tax purposes. The Bond Bank and the Waterworks Department will covenant not to take any action nor fail to take any action, within their respective power and control, with respect to the 2004A Bonds that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the 2004A Bonds pursuant to Section 103 of the Code (collectively, the “Tax Covenants”). The Indenture, the Bond Resolution, the Purchase Agreement and certain certificates and agreements to be delivered on the date of delivery of the 2004A Bonds establish procedures under which compliance with the requirements of the Code can be met. It is not an event of default under the Indenture if interest on the 2004A Bonds is not excludable from gross income for federal income tax purposes or otherwise pursuant to any provision of the Code which is not in effect on the issue date of 2004A Bonds.

The interest on the 2004A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the 2004A Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general, are all corporations which are transacting the business of a financial institution in the State. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code.

Although Bond Counsel will render an opinion that interest on the 2004A Bonds is excludable from federal gross income and interest on the 2004A Bonds is exempt from State of Indiana income tax, the accrual or receipt of interest on the 2004A Bonds or the 2004A Bonds may otherwise affect a Bondholder’s federal or state tax liability, respectively. The nature and extent of these other tax consequences will depend upon the Bondholder’s particular tax status and a Bondholder’s other items of income or deduction. Taxpayers who may be affected by such other tax consequences include, without limitation, financial institutions, certain insurance companies, “S” corporations, certain foreign corporations, individual recipients of Social Security or railroad retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the 2004A Bonds. Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the 2004A Bonds should consult their own tax advisors with regard to other tax consequences of owning the 2004A Bonds.

The proposed text of bond counsel’s legal opinion is set forth as APPENDIX D. The legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. In particular, the United States Treasury Department has proposed modifications (the “Proposed Modifications”) to its regulations governing the practice of tax advisers, including attorneys, before the Internal Revenue Service (referred to as “Circular 230”). The Proposed Modifications would extend the requirements of Circular 230 applicable to opinions concerning tax shelters to legal opinions of bond counsel regarding the tax-exempt status of interest on state and local government obligations. If the Proposed Modifications are adopted and become effective before the 2004A Bonds are issued, bond counsel may need to modify its legal opinion to conform to such requirements. Although those requirements, as currently proposed, could result in extensive modifications to the text of the
opinion attached as APPENDIX D, bond counsel will nevertheless opine that, as set forth in APPENDIX D and
described under this caption, interest on the 2004A Bonds is excludable from gross income of holders thereof for
federal and certain state income tax purposes. It is not possible to predict: (1) the final form and the effective date
of the Proposed Modifications or any other amendments to Circular 230, (2) whether any modifications to the form
of bond counsel’s legal opinion will be required, and (3) any possible adverse effect on the market value of the
2004A Bonds of the adoption of any such amendments or of any modifications to the opinion.

RATINGS

FitchRatings (“Fitch”), Moody’s Investors Service (“Moody’s”), and Standard & Poor’s Credit Market Services
(“S&P”) have assigned the 2004A Bonds ratings of “AA+,” “Aa3” and “AAA,” respectively on the understanding
that the Bond Insurer will issue its Policy concurrently with the issuance of the 2004A Bonds. An explanation of the
significance of the ratings given by Fitch may be obtained from Fitch at One State Street Plaza, New York, New
York 10004. An explanation of the significance of the ratings given by Moody’s may be obtained from Moody’s at
99 Church Street, New York, New York 10007. An explanation of the significance of the ratings given by S&P may
be obtained from S&P at 55 Water Street, New York, New York 10041.

Such ratings reflect only the views of such rating agencies, and there is no assurance that any rating will
continue for any given period of time or that any rating will not be revised downward or withdrawn entirely by the
applicable rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal
of a rating may have an adverse effect on the market price of the 2004A Bonds. Other than the reporting obligation
of the Waterworks Department pursuant to the Continuing Disclosure Undertaking (as defined herein), the Bond
Bank and the Waterworks Department have not undertaken any responsibility to bring to the attention of the owners
of the 2004A Bonds any proposed change in or withdrawal of such ratings once received or to oppose any such
proposed revision.

CONTINUING DISCLOSURE

The Waterworks Department will execute a Continuing Disclosure Undertaking Agreement with National City
Bank of Indiana, as counterparty (the “Continuing Disclosure Undertaking”), at the time of the closing for the
2004A Bonds. The Continuing Disclosure Undertaking will be executed for the benefit of the beneficial owners of
the 2004A Bonds. The Continuing Disclosure Undertaking will provide that so long as the 2004A Bonds remain
outstanding, the Waterworks Department and the City will annually provide certain financial information and
operating data to each Nationally Recognized Municipal Securities Information Repository (“NRMSIR”) approved
in accordance with Rule 15c2-2 of the SEC (the “Rule”) and will provide notice of certain material events to the
Municipal Securities Rulemaking Board in compliance with the Continuing Disclosure Undertaking. The form of
the Continuing Disclosure Undertaking Agreement is attached hereto as APPENDIX E.

The Waterworks Department has made all filings required pursuant to its Continuing Disclosure Undertaking
Agreement for the 2002 Waterworks Revenue Bonds (the “2002 Undertaking”), however, certain operating data and
financial information for the fiscal year ended December 31, 2002, was not filed at the time required by the 2002
Undertaking. Such information was filed on March 22, 2004. Further, the City’s audited financial statements were
not filed at the time required by the 2002 Undertaking, however, timely notice was provided to the NRMSIRs
regarding such delay. The audited financial statements were filed on July 29, 2003.

AVAILABILITY OF DOCUMENTS AND FINANCIAL INFORMATION

In accordance with the provisions of the Rule, on July 29, 2003, the City filed with Bloomberg Municipal
Repository, DPC Data Inc., FT Interactive Data and Standard & Poor’s J.J. Kenny Repository (such repositories
being all of the NRMSIRs approved by the SEC pursuant to the Rule as of the date of this Official Statement), the
Comprehensive Annual Financial Report of the City for the year ended December 31, 2002 (the “CAFR”). There is
hereby included in this Official Statement by this reference the information contained in the CAFR, which information should be read in its entirety in conjunction with this Official Statement.

**Copies of the CAFR may be obtained from the NRMSIRs listed above pursuant to their usual procedures and at their prescribed rates.**

No financial reports related to the City are prepared on an interim basis and there can be no assurance that there have not been material changes to the financial position of the City since the date of the CAFR.

Any statement contained in a document included or deemed to be included by reference herein 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 is also included or deemed to be included 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 part of this Official Statement.

Upon request, the Bond Bank will make available the most recent CAFR, any authorizing or governing instruments defining the rights of the owners of the Bonds and available financial and statistical information regarding the Bond Bank and the City. Requests for documents should be directed to the Executive Director, The Indianapolis Local Public Improvement Bond Bank, 200 East Washington Street, Room 2421, City-County Building, Indianapolis, Indiana 46204, (317) 327-4220.

**INDEPENDENT CONSULTANT**

H.J. Umbaugh & Associates, Certified Public Accountants, LLP (“Umbaugh”) has been retained by the Bond Bank as its independent financial consultant. Umbaugh is a firm of approximately 50 certified public accountants and staff headquartered in Indianapolis, Indiana. Umbaugh has prepared its Accountant’s Financial Forecast Report dated March 22, 2004, which is attached to this Official Statement as APPENDIX A. Umbaugh’s fees are not contingent upon the issuance of the 2004A Bonds. **The report of Umbaugh must be read in its entirety.**

**UNDERWRITING**

The Underwriters have agreed to purchase the 2004A Bonds from the Bond Bank pursuant to a Bond Purchase Agreement (the “Purchase Contract”), at a price of $49,750,000 equal to the principal amount of the 2004A Bonds, of $50,000,000 less an underwriting discount of $250,000. The Underwriters are committed to purchase and pay for all of the 2004A Bonds if any are purchased.

**MISCELLANEOUS**

The preparation of this Official Statement and its distribution have been authorized by the Bond Bank and the Waterworks Department. This Official Statement is duly approved by the Bond Bank and the Waterworks Department as of the date on the cover page hereof.

THE INDIANAPOLIS LOCAL PUBLIC IMPROVEMENT BOND BANK

By: /s/ John J. Dillon, III

John J. Dillon, III, Chairperson
ACCOUNTANT’S FINANCIAL FORECAST REPORT
March 22, 2004

Board of Directors
Department of Waterworks
City of Indianapolis
200 East Washington Street
Indianapolis, IN  46204

We have compiled the accompanying forecasted statement of net assets, statement of revenues, expenses and changes in fund net assets and cash flows (and supplementary data) of the City of Indianapolis, Department of Waterworks (the “Waterworks Department”) at December 31, 2004, 2005 and 2006 and for the years then ending in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of a forecast information that is the representation of management and does not include evaluation of the support for the assumptions underlying the forecast. We have not examined the forecast and, accordingly, do not express an opinion or any other form of assurance on the accompanying statements or assumptions. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The summarized historical financial statements for the twelve months ended December 31, 2003 were taken from the Waterworks Department’s internal statements. They are presented as supplemental data and are not intended to constitute an adequate presentation of the financial position, the results of operations nor cash flows. They have not been audited or reviewed by us, therefore, we do not express an opinion or any other form of assurance on them.
CITY OF INDIANAPOLIS, INDIANA
Waterworks Department

FORECASTED FINANCIAL STATEMENTS
CITY OF INDIANAPOLIS, INDIANA  
Waterworks Department  
FORECASTED COMPARATIVE STATEMENT OF NET ASSETS  
(In Thousands)  

<table>
<thead>
<tr>
<th>ASSETS:</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity in pooled cash</td>
<td>$5,041</td>
<td>$5,166</td>
<td>$5,294</td>
</tr>
<tr>
<td>Cash and investments with fiscal agent</td>
<td>156</td>
<td>156</td>
<td>156</td>
</tr>
<tr>
<td>Investments</td>
<td>48,783</td>
<td>26,087</td>
<td>2,444</td>
</tr>
<tr>
<td>Accounts receivable (net)</td>
<td>11,930</td>
<td>11,930</td>
<td>11,930</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>220</td>
<td>220</td>
<td>220</td>
</tr>
<tr>
<td>Other</td>
<td>115</td>
<td>115</td>
<td>115</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>66,245</td>
<td>43,674</td>
<td>20,159</td>
</tr>
<tr>
<td><strong>Noncurrent Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted cash and investments</td>
<td>34,635</td>
<td>34,635</td>
<td>34,635</td>
</tr>
<tr>
<td>Deferred charges</td>
<td>2,117</td>
<td>2,117</td>
<td>2,117</td>
</tr>
<tr>
<td>Intangible assets (net)</td>
<td>228,667</td>
<td>222,542</td>
<td>216,417</td>
</tr>
<tr>
<td>Bond issuance cost (net)</td>
<td>20,353</td>
<td>19,612</td>
<td>18,871</td>
</tr>
<tr>
<td>Deferred charge-postretirement benefits</td>
<td>37,525</td>
<td>37,525</td>
<td>37,525</td>
</tr>
<tr>
<td><strong>Capital assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>16,757</td>
<td>16,757</td>
<td>16,757</td>
</tr>
<tr>
<td>Infrastructure (net)</td>
<td>330,791</td>
<td>354,691</td>
<td>377,910</td>
</tr>
<tr>
<td>Other capital assets (net)</td>
<td>12,273</td>
<td>12,787</td>
<td>13,282</td>
</tr>
<tr>
<td><strong>Total Noncurrent Assets</strong></td>
<td>683,118</td>
<td>700,666</td>
<td>717,514</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$749,363</td>
<td>$744,340</td>
<td>$737,673</td>
</tr>
</tbody>
</table>

(Continued on next page.)

(The Accountants' Compilation Report and summary of significant accounting policies and assumptions are an integral part of this statement.)
### FORECASTED COMPARATIVE STATEMENT OF NET ASSETS

(In Thousands)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and other accrued liabilities</td>
<td>$6,890</td>
<td>$6,890</td>
<td>$6,890</td>
</tr>
<tr>
<td>Accrued payroll and payroll taxes</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>2,277</td>
<td>2,277</td>
<td>2,277</td>
</tr>
<tr>
<td>Leases payable, current portion</td>
<td>48</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>Interest payable</td>
<td>981</td>
<td>981</td>
<td>981</td>
</tr>
<tr>
<td>Short-term notes payable</td>
<td>217</td>
<td>217</td>
<td>217</td>
</tr>
<tr>
<td>Payment in lieu of taxes</td>
<td>8,950</td>
<td>8,950</td>
<td>8,950</td>
</tr>
<tr>
<td>Revenue bonds payable - current portion</td>
<td>1,435</td>
<td>1,930</td>
<td>3,405</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>20,809</td>
<td>21,304</td>
<td>22,779</td>
</tr>
<tr>
<td>Noncurrent Liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes payable</td>
<td>1,121</td>
<td>904</td>
<td>687</td>
</tr>
<tr>
<td>Lease payable</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Customer advances</td>
<td>16,676</td>
<td>16,676</td>
<td>16,676</td>
</tr>
<tr>
<td>Accumulated postretirement benefit obligation</td>
<td>46,083</td>
<td>46,083</td>
<td>46,083</td>
</tr>
<tr>
<td>Revenue bonds payable</td>
<td>666,725</td>
<td>664,795</td>
<td>661,390</td>
</tr>
<tr>
<td>Total Noncurrent Liabilities</td>
<td>730,622</td>
<td>728,475</td>
<td>724,853</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>751,431</td>
<td>749,779</td>
<td>747,632</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td>(19,935)</td>
<td>(735)</td>
<td>18,260</td>
</tr>
<tr>
<td>Restricted</td>
<td>34,635</td>
<td>34,635</td>
<td>34,635</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>(16,768)</td>
<td>(39,339)</td>
<td>(62,854)</td>
</tr>
<tr>
<td>TOTAL NET ASSETS</td>
<td>$ (2,068)</td>
<td>$ (5,439)</td>
<td>$ (9,959)</td>
</tr>
</tbody>
</table>

(The Accountants' Compilation Report and summary of significant accounting policies and assumptions are an integral part of this statement.)
## CITY OF INDIANAPOLIS, INDIANA
### Waterworks Department

### FORECASTED COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
*(In Thousands)*

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenue:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water sales</td>
<td>$103,783</td>
<td>$105,236</td>
<td>$106,709</td>
</tr>
<tr>
<td>Other</td>
<td>634</td>
<td>634</td>
<td>634</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td>104,417</td>
<td>105,870</td>
<td>107,343</td>
</tr>
</tbody>
</table>

| **Operating Expenses:** |          |            |            |
| Contract operations   | 42,735    | 43,803     | 44,898     |
| Payments in lieu of taxes | 8,764    | 9,027      | 9,298      |
| Grantor trust payments | 2,270     | 2,270      | 2,270      |
| Other services and charges | 5,992   | 6,148      | 6,309      |
| Bad debt expense      | 507       | 514        | 521        |
| Administration        | 219       | 226        | 233        |
| **Sub-totals**        | 60,487    | 61,988     | 63,529     |
| Depreciation expense  | 14,173    | 15,191     | 15,891     |
| **Total Operating Expenses** | 74,660    | 77,179     | 79,420     |

| **Operating Income** | 29,757 | 28,691 | 27,923 |

| **Non-Operating Income:** |          |            |            |
| Interest Income         | 2,385    | 2,426      | 1,965      |
| Other                   | 1,733    | 1,733      | 1,733      |
| **Totals**              | 4,118    | 4,159      | 3,698      |

| **Non-Operating Expenses:** |          |            |            |
| Interest expense         | 33,612   | 33,960     | 33,880     |
| Amortization expense     | 2,249    | 2,261      | 2,261      |
| **Totals**               | 35,861   | 36,221     | 36,141     |

| **Income (Loss) Before Contributions** |          |            |            |
| (1,986)                          |          | (3,371)    | (4,520)    |
| **Capital Contributions**        | -        | -          | -          |
| **Change In Net Assets**          | (1,986)  | (3,371)    | (4,520)    |
| **Total Net Assets - Beginning**  | (82)     | (2,068)    | (5,439)    |
| **Total Net Assets - Ending**     | $2,068   | $5,439     | $9,959     |

*(The Accountants' Compilation Report and summary of significant accounting policies and assumptions are an integral part of this statement.)*
CITY OF INDIANAPOLIS, INDIANA  
Waterworks Department  

FORECASTED COMPARATIVE STATEMENT OF CASH FLOWS  
(In Thousands)  

<table>
<thead>
<tr>
<th>Calendar Year Ending</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from Operating Activities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash received from customers</td>
<td>$104,417</td>
<td>$105,870</td>
<td>$107,343</td>
</tr>
<tr>
<td>Cash paid to suppliers, employees and others</td>
<td>(60,487)</td>
<td>(61,988)</td>
<td>(63,529)</td>
</tr>
<tr>
<td><strong>Net Cash from Operating Activities</strong></td>
<td>43,930</td>
<td>43,882</td>
<td>43,814</td>
</tr>
</tbody>
</table>

| **Cash Flows from Capital and Related Financing Activities:** |        |        |        |
| Additions to utility plant                      | (35,000)| (35,000)| (35,000)|
| Principal received from bond issue             | 50,000 |        |        |
| Principal paid on bonds                        | (1,050) | (1,435) | (1,930) |
| Interest expense                               | (33,552)| (33,960)| (33,880)|
| Bond issuance costs paid                       | (1,500) |        |        |
| Other income                                   | 1,733   | 1,733   | 1,733   |
| Notes payable                                  | (252)   | (217)   | (217)   |
| **Net Cash from Capital Financing Activities** | (19,621)| (68,879)| (69,294)|

| **Cash Flows from Investing Activities:**      |        |        |        |
| Interest income                               | 2,385   | 2,426   | 1,965   |
| Investment purchases/liquidations (net)       | (28,106)| 22,696  | 23,643  |
| **Net Cash from Investing Activities**        | (25,721)| 25,122  | 25,608  |

| **Cash and Cash Equivalents:**                |        |        |        |
| Increase (decrease)                           | (1,412) | 125    | 128    |
| Beginning balance                             | 6,609   | 5,197   | 5,322   |
| **Ending balance**                            | $5,197  | $5,322  | $5,450  |

(The Accountants' Compilation Report and summary of significant accounting policies and assumptions are an integral part of this statement.)
The City of Indianapolis (the “City”) Department of Waterworks (the “Waterworks Department”) provides water treatment and distribution services to approximately 296,000 retail, residential, commercial and industrial customers, or 1.1 million people. Approximately 75% of the customers are located in Marion County. These financial forecasts (the “Forecast”) present, to the best of the management ("Management") of the Waterworks Department’s knowledge and belief, the Waterworks Department’s expected financial position, results of operations and cash flows for the forecast period. Accordingly, the Forecast reflects the judgment of the expected conditions and its expected course of action of Management as of March 22, 2004, the date of the Forecast. The Forecast is based on Management's assumptions concerning future events and circumstances. The assumptions disclosed herein are those Management believes are significant to the Forecast or are key factors upon which the financial results of the enterprise depend.

Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur subsequent to March 22, 2004, the date of the Forecast. Therefore, the actual results achieved during the forecast period could vary from the Forecast and the variations may be material. Management does not intend to revise this Forecast to reflect changes in present circumstances or the occurrence of unanticipated events.

This forecast report (the “Report”) has been prepared in conjunction with the proposed issuance of The Indianapolis Local Public Improvement Bond Bank (the “Bond Bank”) Bonds, Series 2004 A (the “Series 2004 A Bonds”) in the aggregate principal amount of $50 million. The Series 2004 A Bonds are being issued to purchase $50 million of Waterworks District Net Revenue Bonds, Series 2004 A (the “Series 2004 A Waterworks Revenue Bonds”) of the City, to purchase a debt service reserve surety to satisfy the increased requirement of the Bond Bank Common Reserve Account of the Bond Bank Reserve Fund (the “Bond Bank Common Reserve Account”) and to pay costs of issuance.

Significant Accounting Policies

The Waterworks Department’s financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as prescribed by the Governmental Accounting Standards Board (“GASB”).

Utility plant: Capital assets including land, land improvements, buildings, equipment and infrastructure are reported at historical or estimated cost or donated value of $5,000 or more. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation: Depreciation is calculated using a straight-line method over the estimated useful life of the various classes of depreciable assets. For purposes of the Forecast, depreciation is computed using a composite depreciation rate of 2%, applied to the balance of utility plant in service at the beginning of the year. The weighted average depreciation rate as a percentage of utility plant in service for the eight-month period ended December 31, 2002 and the twelve-month period ended December 31, 2003 has averaged 1.7% and 2.1% respectively.

Operating revenue: Revenues are recognized when earned. Metered sales are based upon metered water consumption and are recorded when billed. Public fire protection revenue is accrued monthly.

(Continued on next page)
Significant Accounting Policies (Cont’d)

Operating expenses: Expenses are recognized when incurred.

Significant Assumptions

(1) Capital Improvements and Related Bond Issue

After paying operation and maintenance expenses and meeting debt service requirements, the Waterworks Department needs to provide funds for ongoing capital improvements to the water system (the “Waterworks”) owned by the City’s Department of Waterworks. The approved Waterworks capital budget (the “2004 Capital Budget”) for year 2004 amounts to approximately $34,000,000. The Waterworks Department’s capital plan (the “Capital Plan”) indicates the capital improvements needed over a five-year period, including improvements to address algae problems at Eagle Creek Reservoir. Many of the proposed capital improvements involve the installation of facilities and appurtenances to expand the Waterworks and to grow the customer base which may, overtime, lead to increased revenues.

Pursuant to the terms of the Management Agreement, one of the duties of the Manager (See “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS - Assumption 6 - Management Contract Fees” in this Report) includes the development of the Capital Plan detailing costs and priorities. That Capital Plan assists the Waterworks Department in defining its capital improvement needs.

Pursuant to the terms of the Management Agreement, the Manager will invest approximately $17,000,000 to improve water taste and odor over the 20-year contract period.

Based upon information from Management, the Capital Plan and the approved 2004 Capital Budget, this Forecast has assumed capital expenditure requirements of $35,000,000 annually through December 31, 2006.

In addition to funding improvements to the Waterworks through net operating revenues, the Waterworks Department also has additional options to provide funds for future capital improvements, including the use of customer advances for construction and the issuance of additional debt:

a) Customer Advances for Construction - Developers, property owners and others oftentimes require construction of extensions to the Waterworks in order to serve new or expanding developments. The former IWCR Resources, Inc. (the “IWCR”) and current Waterworks Department has entered into numerous agreements with developers to provide such improvements. In general, such agreements provide that the developer pays for the costs of the improvements and Waterworks Department would then reimburse the developer a fixed amount, based on an estimate of three years annual revenue for the type of connection made.

(Continued on next page)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS

See Accountants’ Compilation Report

(1) Capital Improvements and Related Bond Issue (cont’d)

Amounts are reimbursed to the extent that connections are made within ten years after the improvements are placed in service. The total amount reimbursed does not exceed the original cost of the improvements. After ten years, no additional amounts are reimbursed.

The Customer Advances for Construction Account balance is reported to total approximately $16.7 million as of December 31, 2003. The customer advances for construction deposits exceeded the reimbursements to developers for customer advances for the 12 months ended December 31, 2003, the first full year of operations for the Waterworks Department. Based on information from Management and the lack of predictability of the future customer advances for construction deposits and reimbursements, this Forecast assumes no net customer advances for construction.

Reimbursements made under these agreements are payable on a junior and subordinate basis to operation and maintenance expenses and debt service obligations of the Waterworks and are payable solely to the extent of future connections to the Waterworks.

b) Bond Issue - The Board of Directors of the Waterworks Department (the “Board”) adopted Resolution No. 12, 2002 (the "Resolution") on March 5, 2002 authorizing the issuance of the Waterworks District Net Revenue Bonds, Series 2002 A and Series 2002 B (collectively the “Series 2002 Waterworks Revenue Bonds”) for the purpose of financing wholly, or in part, the cost of acquiring the assets from IWCR (the “Acquisition”) pursuant to the agreement dated November 26, 2001 where the City entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”); providing for the collection and disposition of the revenues derived from the operation of the Waterworks; and pledging the Net Revenues, the Senior Pledged Funds and 2002 Pledged Funds (each as defined in the Resolution) to the payment of the Series 2002 Waterworks Revenue Bonds. The Resolution authorizes the Board, from time to time, to adopt policies and procedures with respect to certain financial, management and other policy matters relating to the Waterworks to supplement the terms of the Resolution. The Board approved and adopted the fiscal policies and procedures, as amended on February 26, 2004 (the “Board Policy”).

As provided for in the Resolution the Board proposes to issue $50 million of Series 2004 A Waterworks Revenue Bonds on parity with the Series 2002 Waterworks Revenue Bonds (collectively the “Waterworks Revenue Bonds”) and the Assumed Obligations. See “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS - Significant Assumption 11 - Assumed Obligations” as part of this Report.

(Continued on next page)
(1) **Capital Improvements and Related Bond Issue (cont’d)**

Pursuant to the Resolution the issuance of the Series 2004 A Waterworks Revenue Bonds, as would the issuance of any additional debt, requires the approval of the Board and the governing board of the consolidated City and Marion County, Indiana (the “City-County Council”) and additional parity debt would require satisfaction of certain requirements set forth in the Resolution. The Resolution also authorizes the issuance of subordinated debt.

The final supplemental resolution to the Resolution (the “Final Supplemental Resolution”) adopted by the Board on February 26, 2004, authorized the issuance of the Series 2004 A Waterworks Revenue Bonds.

(2) **Water Sales Revenues**

Annual water sales revenues are estimated based upon the reported results of operation for the Waterworks Department for calendar year 2003 as provided by Waterworks Department officials.

Water sales revenues have been estimated by the Waterworks Department to increase 1.4% percent per year for the twelve-month periods ending December 31, 2004, 2005 and 2006. Historical growth in revenues for Waterworks Department for the five years ended December 31, 2003 averaged approximately 1.4% annually.

No increases in water rates and charges for services provided by the Waterworks Department are assumed through calendar year 2006. The City and the Board currently do not intend to implement increases in water rates and charges prior to April 2007. Future modifications to the water rates and charges are subject to the approval of the Board and the Indiana Utility Regulatory Commission (the “IURC”).

In the event that water sales revenues do not continue to grow at the estimated annual rate of 1.4%, Net Revenues available to pay debt service may be less than the estimates set forth in this Forecast. The Board Policy requires the Board to initiate the process to adjust water rates and charges if debt service coverage is less than 125%.

During 1999, IWCR acquired the water utility assets of the former Eastern Morgan Rural Water Corporation (“Eastern Morgan”), which serves a predominantly rural area in eastern Morgan County, south of the City of Indianapolis and Marion County. The system currently serves approximately 1,605 customers and one wholesale customer. Because of its different funding sources, lower customer density, and greater capital costs per user, Eastern Morgan’s rates and charges for potable water service are greater than the rates and charges of Indianapolis Water customers service territory (“IW”).

(Continued on next page)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS
See Accountants’ Compilation Report

(2) Water Sales Revenues (cont’d)

The IURC order dated July 1, 1999 which approved predecessor IWCR’s acquisition of Eastern Morgan allowed for the continuation of the Eastern Morgan rates. The IURC order, however, contemplated the integration of Eastern Morgan’s customers with the former Indianapolis Water Company (“IWC”) customers when IWC next filed a petition with the IURC for a change in its rates and charges.

In recognition of the pre-existing commitment to equalize rates for the former Eastern Morgan customers, the Board has agreed to file a petition with the IURC requesting the integration of the Eastern Morgan rates and charges, with the rates and charges of IW which likely will result in a significant decrease in rates and charges to these customers. The Board has committed to make this filing by not later than four years from the completion of the Acquisition, or, if earlier, as part of the Waterworks Department’s next rate petition filed with the IURC. As the Acquisition occurred on April 30, 2002, such a petition would need to be filed not later than April 30, 2006.

For purposes of this Forecast, it is assumed that IURC approval of subsequent rate adjustments, if any, would not occur until after the period ended December 31, 2006.

Pursuant to IURC Order in Cause No. 42084 an increase of approximately 1% in rates and charges was approved for IW and was to be billed upon completion of certain water main extension projects. This increase in rates and charges has not been implemented and is currently under review by Management. For purposes of the Forecast it is assumed that this increase will not occur during the forecast period ending December 31, 2006.

On March 15, 2002, the Waterworks Department entered into an Agreement with the City of Carmel. Under the terms of the Agreement, the Waterworks Department and the City of Carmel agreed to study the feasibility of selling a portion of the Waterworks in and around the City of Carmel in Hamilton County, Indiana. Any such future disposition of Waterworks assets would be done only to the extent it would not be detrimental to the remaining customers. No adjustment to forecasted revenues or expenses has been made to reflect this possibility.

Management is currently in discussions with the Town of Plainfield, Indiana to sell all of the assets of Liberty Water now currently owned by the Waterworks Department. Liberty Water currently serves 126 customers and had total billed revenues for calendar year 2003 of $32,250. The possible sale of the assets of Liberty Water and any future reduction in Waterworks revenues or expenses is considered to be immaterial and has not been factored into the Forecast.

(Continued on next page)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS

See Accountants’ Compilation Report

(2) Water Sales Revenues (cont’d)

ConAgra Foods, Inc. announced that Hebrew National Kosher FD ("Hebrew National"), the tenth largest user with 2003 revenues recorded at $149,045, would be closing its Indianapolis meat processing plant in 2004. For purposes of the Forecast it is assumed that there will be no future revenues from Hebrew National.

(3) Other Operating Revenues

Other operating revenues are forecasted based upon the results of operations for calendar year 2003 as provided by the Waterworks Department.

(4) Other Non-Operating Utility Revenues

Other utility revenues are forecasted based upon the results of operations for calendar year 2003 as provided by the Waterworks Department.

(5) Interest Earnings

Interest earnings have been forecasted based upon the funds expected to be held for investment in the Bond Bank Common Reserve Account. The forecasted investment earnings are based upon the purchase of a Guaranteed Investment Contract ("GIC") on the $25,136,355 deposited from the bond proceeds of the Series 2002 Waterworks Revenue Bonds at annual interest rate of 5.498%. In addition, interest income on the remaining cash and investment balances is computed based on an assumed annual interest rate of 2% on the average cash balances.

(6) Management Contract Fees

The most significant operating expense of the Waterworks is the management fee. On March 5, 2002, the Board selected Veolia Water Indianapolis LLC, formerly U.S. Filter Operating Services, Inc., (the “Manager”) and entered into an agreement to manage the Waterworks (the “Management Agreement”). The Manager assumed operations of the Waterworks immediately upon completion of the Acquisition on April 30, 2002. The Management Agreement has a term of twenty years.

The service fee paid to the Manager consists of two parts:

(Continued on next page)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS
See Accountants’ Compilation Report

(6) Management Contract Fees (cont’d)

The first part, a fixed fee, is an amount intended to compensate the Manager for operating, maintaining and managing the Waterworks. From this fee, the Manager bears the expense of providing all such services and costs associated with the day-to-day operation of the Waterworks (but does not include payments in lieu of property taxes, capital expenditures, certain administrative expenses of the Waterworks Department and certain other obligations including payments to the Grantor’s Trust. See “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS – Significant Assumption 7 – Grantor Trust” as part of this Report.). The fixed fee is to be paid in the current month due. The second part, an incentive fee, is payable based upon the Manager’s attainment of predetermined goals in 40 criteria, in areas such as customer service, water quality, technical innovation and maintenance of capital assets. The incentive fee is capped at 25% of the fixed fee and is to be paid quarterly based on 60% of the maximum potential amount, and reconciled at year-end.

Operating expenses for 2004 are estimated based upon information provided by Management at an annual fixed fee of $34,188,069, and the maximum potential incentive fee of $8,547,017 (25% of the fixed fee). The fixed and incentive fees for calendar year 2003 (unaudited) were $33,628,084 and $8,407,021, respectively. The year 2003 incentive fee, not yet determined, assumes the maximum amount. The actual incentive fee for calendar year 2003 is expected to be available by the end of March 2004. For the first five years of the Management Contract, the Manager’s fees are subject to an annual adjustment based upon the lesser of the product of the fixed fee times 2.5% or 88.6% of the Consumer Price Index (“CPI”) and by 88.6% of CPI thereafter. The Forecast assumes that the total amount paid to the Manager will increase by 2.5% each year through 2006.

(7) Grantor Trust

The Waterworks’ current rates and charges include recovery for the costs of post-retirement benefits other than pensions (“OPRB”) on an accrual basis, including amortization of a regulatory asset that arose prior to inclusion of these costs in rates. The regulatory asset, which is being amortized through 2014, represents the excess of OPRB costs on an accrual basis over cash basis from the date IWC began recording OPRB costs on an accrual basis for financial reporting purposes to the date such costs were included in rates and charges. The additional liabilities, shown on page A-3 of this Forecast, represent the liability associated with the OPRB.

As a condition of including recovery for OPRB costs in rates and charges on an accrual basis, IWC established a grantor trust (the “Trust”). Each month, revenues received from rates and charges are transferred to the Trust to cover OPRB obligations. The Trust Agreement contains certain provisions which limit investment activities, provide for annual reporting, and in the event funds are no longer needed for OPRB purposes, direct payment of the remaining funds to Waterworks Department ratepayers.

(Continued on next page)
(7) **Grantor Trust (cont’d)**

At December 31, 2003, $9,497,418 was held in the Trust. $2,269,824 is to be transferred to the Trust each year, as approved by the IURC. The Waterworks Department must continue to make deposits each month to the Trust in an amount approved by the IURC. Such deposits will be paid directly from Gross Revenues of the Waterworks and will not be paid by the Manager as part of its services under the Management Agreement. Based on the actuarial report prepared for the Waterworks Department, assuming contributions continue at the current level, as of December 31, 2002 (the most recent information available), a shortfall of approximately $22,800,000 exists over the life of the Trust. If the assets of the Trust are insufficient to pay for the cost of the OPRB benefits for certain existing employees, the Waterworks Department must pay the difference.

(8) **Payments in Lieu of Property Taxes**

As an investor-owned, private utility, IWCR was assessed by and paid property taxes to local area governmental taxing units.

To mitigate the loss in tax revenues to the City and other local area governmental taxing units that might result from the sale of assets by IWCR and resulting governmental ownership of the Waterworks, the Waterworks Department has committed to making payments in lieu of property taxes to such local area governmental taxing units. The payments in lieu of property taxes will be based upon the property taxes that would have been paid upon the Waterworks if it were privately owned, to the extent permitted by law. Payments in lieu of property taxes have been forecasted based upon the results of operations for calendar year 2003 adjusted annually by an assumed 3.0% increase.

(9) **General and Administrative Expense**

The Waterworks Department will incur certain annual expenses related to administration of the Management Agreement, compliance monitoring and financial management and oversight. Expenses are anticipated to include fees related to an annual financial audit of the Waterworks Department, outsourced engineering services, management oversight and compliance expenses, Bond Bank fees and trustee charges, among others. General and administrative expenses have been forecasted based upon the results of operations for calendar year 2003 adjusted annually by an assumed 3.0% increase.

(10) **Debt Service**

Principal and interest payments have been assumed based on the estimated variable interest rate as provided by the Underwriters for the Series 2004 A Waterworks Revenue Bonds as shown on pages A-23 and A-24. It is assumed interest will be paid semiannually on January 1 and July 1 of each year.

(Continued on next page)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS
See Accountants’ Compilation Report

(10) **Debt Service (cont’d)**

The first interest payment will be July 1, 2004. Principal payments on the Series 2004 A Waterworks Revenue Bonds are expected to mature July 1, 2035 and January 1, 2036. The amortization for the Series 2002 Waterworks Revenue Bonds is displayed on pages A-39 and A-40. The debt service on the Assumed Obligations assumes interest only payments on the currently outstanding principal amount of $38,840,000. See “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS - Significant Assumption 11 – Assumed Obligations” as part of this Report.

The Series 2004 A Waterworks Revenue Bonds are payable solely from the Net Revenues of the Waterworks and certain pledged funds on a parity with the outstanding Series 2002 Waterworks Bonds and the Assumed Obligations.

Pursuant to the Asset Purchase Agreement the Waterworks Department also assumed certain currently outstanding indebtedness of IWCR. All of this indebtedness was paid or defeased on the date of delivery of the Series 2002 Waterworks Revenue Bonds from proceeds from the sale of The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2002 A and Series 2002 B (collectively the “Series 2002 Bonds”) except for (a) the Assumed Obligations; (b) three installment promissory notes currently outstanding in the aggregate amount of $1,338,333 with annual payments of approximately $217,333 per year through 2009; and (c) certain indebtedness of IWCR under an agreement to purchase water rights, easements and other restrictions and servitudes currently outstanding in the amount of $35,000 with the final payment of $35,000 due in 2004. The foregoing obligations, except for the Assumed Obligations, are payable by the Waterworks Department on a basis subordinate to the Waterworks Revenue Bonds and are unsecured obligations of the Waterworks Department.

The Forecast assumes principal and interest payments due January 1 are paid in the year before the payments are due. This assumption is consistent with the manner in which the unaudited historical financials as of December 31, 2003 are presented.

(11) **Assumed Obligations**

The Waterworks Department assumed $39,150,000 of then outstanding IWCR tax-exempt obligations that were not currently prepayable at the time of the Acquisition including obligations relating to the Town of Fishers, Indiana Economic Development Water Facilities Refunding Revenue Bonds, Series 1998 (Indianapolis Water Company Project) currently outstanding in the principal amount of $29,145,000 and the City of Indianapolis, Indiana Economic Development Water Facilities Refunding Revenue Bonds, Series 1998 (Indianapolis Water Company Project) currently outstanding in the principal amount of $9,695,000 (collectively the “Assumed Obligations”).

(Continued on next page)
(11) **Assumed Obligations** (cont’d)

The principal of and interest on the Assumed Obligations are payable from Net Revenues of the Waterworks and the Senior Pledged Funds, on a parity with the Waterworks Revenue Bonds. The Assumed Obligations have no claim to and are not secured by the Waterworks Common Reserve Subaccount or the Acquisition Fund under the Bond Resolution. Further, the Assumed Obligations have no claim to and are not secured by the Bond Bank Common Reserve Account under the Indenture, nor will the Bond Bank be obligated to request an appropriation from the City-County Council to replenish the Bond Bank Reserve Fund in the event of a deficiency therein, or in the event of a deficiency in Net Revenues to pay the Assumed Obligations. The Assumed Obligations are subject to acceleration of principal of and interest thereon in the event of a default thereunder. The Assumed Obligations mature July 15, 2028 and bear interest at a rate of 5.05%. Interest on the Assumed Obligations has been computed at $1,961,420 annually.

The existing holders of the Assumed Obligations have an optional right to put the Assumed Obligations in the event of the death of a holder, provided that the total amount of Assumed Obligations that may be put in any calendar year is limited to $800,000. To the extent that any holders of the Assumed Obligations exercise this put right, the Waterworks Department would be required to make payments to the holders thereof from available Net Revenues.

(12) **Cash, Cash Equivalents and Investments**

The City’s cash and cash equivalents consist of cash, cash equivalents and non-negotiable certificates of deposit with maturity of 90 days or less.

Investments are stated at fair value. Fair values for investments are based on closing market prices at the end of the year as reported by the investment custodian. Income from funds in pooled investments is allocated to the funds based on the participating fund’s average daily equity balance.

The City’s cash, cash equivalents and non-negotiable certificates of deposit with maturity of more than 90 days are fully insured by a combination of federal depository insurance and the Indiana Public Deposit Insurance Fund.

(13) **Restricted Assets**

Certain proceeds of the Waterworks Revenue Bonds including the funds in the Bond Bank Common Reserve Account as specified by the Resolution and the funds in the Trust are classified as Restricted Assets on the Statement of Net Assets.

(Continued on next page)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS

See Accountants’ Compilation Report

(14) Intangible Assets

In connection with the Acquisition an intangible asset was recorded which represents the negotiated amount the City paid for the right to operate the Waterworks. The original amount was $245,000,000 and is being amortized over a 40-year period.

(15) Risk Management

The Waterworks Department is exposed to various risks to loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees. The Waterworks Department individually handles these risks of loss through combinations of risk retention and commercial insurance.

The Waterworks’ assets are protected by various required insurance policies carried by the Manager. Insurance policies include motor vehicle liability, general liability, environmental liability, property damage and various other coverage policies. The Waterworks Department is self-insured for claims arising from damage due to water main breaks and pays such claims as they become due. The Waterworks Department does not believe that any claims to be paid under this coverage are material to the financial statements.

(16) Compensated Absences

City employees earn benefit leave (in lieu of all vacation, sick and other accrued leave time) depending on the length of service that can accumulate to a maximum of 37 days per year. A maximum of 176 hours earned benefit leave can be carried forward to subsequent years, and an additional 80 hours can be carried forward if appropriate approval has been received.

(17) Flow of Funds

All revenues of the Waterworks are to be held within the Water Fund created by the Resolution. No revenues may be transferred to other funds of the City except to the extent required to repay any advances made to the Waterworks Department by the City or the Bond Bank as provided in the Resolution or the Qualified Entity Purchase Agreement and to make payments in lieu of property taxes. Revenues are to be deposited each day into the Revenue Fund for use by the Waterworks. At the end of each month, revenues are to be set aside into the Operation and Maintenance Fund under the Resolution in an amount sufficient to pay the expected costs of operation and maintenance for the following month. Under the Resolution, prior to each scheduled principal and interest payment date, sufficient revenues must be transferred to the Bond Fund in an amount sufficient to pay the next scheduled debt service payment.

(Continued on next page)
The Board Policy establishes additional funds and accounts and describes, in more detail, how the Board will administer all such funds and accounts. The Board Policy may be amended from time to time by the Board, in its sole discretion. Each month, after the required deposits to the Operation and Maintenance Fund have been made, the City Controller will make deposits to the Senior Bond Accrual Account in amounts needed to make equal monthly deposits for the next scheduled semiannual principal and interest payments on the Waterworks Revenue Bonds.

Next, from the remaining Net Revenues, the City Controller will make deposits into the Renewal and Replacement Account. The amount of the monthly transfers will be established by the Board and will provide funds to be applied to the costs of capital improvements, replacements and extensions. After deposits to the Renewal and Replacement Account, remaining Net Revenues may be deposited by the City Controller into the Rate Stabilization Account at the direction of the Board. The balance in the Rate Stabilization Account may be used for any purpose of the Waterworks Department. Funds withdrawn from the Rate Stabilization Account, up to 10% of the current annual debt service requirement, and deposited into the Revenue Fund are considered to be additional Gross Revenues for purposes of determining compliance with the rate covenant as set forth in the Resolution. Any remaining Net Revenues may be deposited into a Department Purposes Account and may be used for any purpose of the Waterworks Department.

The Board Policy also prescribes the budgetary procedures for the Waterworks Department. All expenditures by the Waterworks Department must be included in an annual budget to be prepared by the Controller’s office including the Waterworks Department’s Financial Manager of the Controller’s office for approval by the Board. The budget must include funds for operation and maintenance expenses, payments in lieu of property taxes, debt service requirements, and capital improvements. By May 31 of each year the Manager must provide a Capital Plan for review and approval by the Board. The budget must be approved by the Board by November 30 of the prior fiscal year and filed with the City-County Council prior to such approval.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS

See Accountants’ Compilation Report

(17) Flow of Funds (Cont’d)

In the event that Net Revenues are insufficient to satisfy scheduled debt service payments relating to the Waterworks Revenue Bonds, funds will be withdrawn by the Bond Bank from the Bond Bank Common Reserve Account which was initially funded at issuance from the Series 2002 Waterworks Revenue Bonds from proceeds of the Series 2002 Bonds. The additional amount needed to fund the reserve requirement for the Bond Bank Common Reserve Account (the “Common Reserve Requirement”) for the Series 2004 A Waterworks Revenue Bonds will be satisfied at issuance through the purchase of a debt service reserve surety.

The Common Reserve Requirement is equal to 50% of the maximum combined annual principal and interest payment on the Waterworks Revenue Bonds. In the event of a draw on the Bond Bank Common Reserve Account, the provisions of Indiana Code 5-1.4-5 would apply and the Bond Bank has covenanted to request replenishment of the Bond Bank Common Reserve Account by appropriation of the City-County Council until the later of the date on which the Waterworks Department has maintained the rate covenant described in the Resolution for the immediately preceding three consecutive Fiscal Years or December 31, 2007. The Resolution provides that any shortfall in the Bond Bank Common Reserve Account will then be replenished from available Net Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Bond Bank Reserve Fund”.

(18) Litigation

Two lawsuits have been filed in connection with the Acquisition of the Waterworks. One lawsuit filed by the employees of U.S. Filter and retirees of IWCR claims that employee benefits have been reduced by U.S. Filter. The other lawsuit has been filed on behalf of three taxpayers and residents of the City. The suit claims that the City violated state law by establishing the Waterworks Department and placing the assets of IWCR in the Waterworks Department instead of in the Department of Public Utilities (not a part of or related to the City). The City plans to defend both lawsuits and it is the opinion of the City that these matters will not have a materially adverse effect on the financial position of the Waterworks Department.
CITY OF INDIANAPOLIS, INDIANA
Waterworks Department

SUPPLEMENTAL INFORMATION TO FORECASTED FINANCIAL STATEMENTS
SUPPLEMENTAL INFORMATION FOR FORECASTED FINANCIAL STATEMENTS

General Comments

The Waterworks Department is issuing $50,000,000 of Series 2004 A Waterworks Revenue Bonds to finance the costs of certain capital improvements for the Waterworks, to purchase a debt service reserve surety, and to pay costs of issuance. The Series 2004 A Waterworks Revenue Bonds will be purchased by the Bond Bank with proceeds of $50,000,000 of the Series 2004 A Bonds.

Background

Pursuant to the Asset Purchase Agreement entered into on November 26, 2001, and ratified by the City-County Council on December 17, 2001, the City and the Waterworks Department acquired substantially all of the assets of IWCR and assumed certain liabilities of the IWC and its subsidiaries: (i) Harbour Water Corporation, (ii) The Darlington Water Works Company, (iii) Irishman’s Run Acquisition Corp., (vi) Liberty Water Corporation, and (v) IWC Morgan Water Corporation. Irishman’s Run Acquisition Corp. was sold to a third party in year 2002 shortly after the Acquisition was completed. (See “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS – Water Sales Revenues” as part of this Report regarding the possible disposition of the assets of Liberty Water.)

On March 28, 2002, the IURC issued its Order approving the Acquisition by the City as well as the continuation of IWCR’s rates and charges by the Waterworks Department for water service provided by the Waterworks. The Acquisition was completed by April 30, 2002 in accordance with the terms of the Asset Purchase Agreement with NiSource.

The Waterworks Department currently serves most of the City of Indianapolis and Marion County, and portions of the surrounding counties of Morgan, Montgomery, Hendricks, Hancock, Hamilton, and Boone. Approximately 296,000 customers, or 1.1 million people, are served by the Merged Utilities. Approximately seventy-five percent (75%) of the customers are located in Marion County.

Estimated Sources and Uses of Bond Proceeds - Page A-22

The sources and uses of bond proceeds are presented as estimated by the City and its advisors. These costs include $48,500,000 to fund ongoing capital improvements to the Waterworks, and approximately $1,500,000 to purchase a debt service reserve surety and pay for bond insurance and other costs of issuance.

The Series 2004 A Waterworks Revenue Bonds will be purchased from the proceeds of $50,000,000 of Series 2004 A Bonds to be issued by the Bond Bank and the proceeds of the Series 2004 A Waterworks Revenue Bonds are expected to be used as set forth above.

(Continued on next page)
SUPPLEMENTAL INFORMATION FOR FORECASTED FINANCIAL STATEMENTS

General Comments

Preliminary Amortization of $50,000,000 Principal Amount of Series 2004 A Waterworks Revenue Bonds - Pages A-23 to A-24

The amortization of $50,000,000 of Series 2004 A Waterworks Revenue Bonds is shown in this schedule. The Series 2004 A Waterworks Revenue Bonds will be purchased through the Bond Bank’s issuance of its Series 2004 A Bonds which Series 2004 A Bonds have the same maturities and amortization as the Series 2004 A Waterworks Revenue Bonds. The Series 2004 A Waterworks Revenue Bonds and the Series 2004A Bonds will be dated the date of delivery, assumed to be March 31, 2004. The Series 2004 A Waterworks Revenue Bonds are amortized at an assumed variable interest rate for auction rate securities (“ARS”) representing a 10-year historical average of the Bond Market Association Index (the “BMA”) plus an allowance for remarketing, broker/dealer and auction agent fees, as provided by the Underwriters. The Series 2004 A Waterworks Revenue Bonds are expected to mature on July 1, 2035 and January 1, 2036 (or auction rate periods immediately preceding these dates, to be determined by the Underwriters). Interest is assumed payable each January 1 and July 1 beginning July 1, 2004, and is calculated on the basis of twelve thirty-day months for a 360-day year.

Schedule of Combined Bond Amortization - Page A-25

This schedule combines the amortization of the proposed Series 2004 A Waterworks Revenue Bonds and the outstanding Series 2002 Waterworks Revenue Bonds. As shown on this schedule the principal payments on the Series 2004 A Waterworks Revenue Bonds have been amortized around the Series 2002 Waterworks Revenue Bonds and the Assumed Obligations.

Computation of Forecasted Debt Service Coverage - Page A-26

This schedule calculates the forecasted debt service coverage for the twelve-month periods ending December 31, 2004, 2005 and 2006 resulting from the operation of the Waterworks by the Waterworks Department and the accompanying issuance of the Series 2004 A Waterworks Revenue Bonds.

As reflected on this schedule, debt service coverage is estimated to range from approximately 134% in 2004 to 128% in 2006. The Resolution requires minimum debt service coverage of 110%. The current Board Policy requires the Board to initiate the process to increase rates and charges if the debt service coverage ratio falls below 125%. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Rate Covenant”.

The key factors and significant assumptions underlying the forecasted debt service coverage calculations are presented in detail as part of the Summary of Significant Assumptions included as part of this Forecast.

(Continued on next page)
SUPPLEMENTAL INFORMATION FOR FORECASTED FINANCIAL STATEMENTS

General Comments

Schedule of Recurring Monthly Rates and Charges - Pages A-27 to A-33

This schedule reflects the water rates and charges as approved by the Waterworks Department on February 22, 2002 in Resolution No. 9, 2002, as amended. The rates and charges approved by the Waterworks Department were the same as those contained in the tariffs that were on file with the IURC for IWCR. On March 28, 2002, as part of the IURC order approving the Acquisition, the IURC approved the rates and charges shown on the schedules and reissued the rates and charges for the Waterworks Department. Future rate changes will require both the approval of the Board and the approval of the IURC.

On April 8, 1998, the IURC issued its Order approving a two-phase increase in IWC’s basic rates and charges. The first phase was an immediate increase of approximately $5,253,000 in annual revenues. The second phase approved an additional increase of approximately $4,540,000 in annual revenues and was implemented on April 8, 1999. The IURC Order also provided that prior to January 1, 2002, IWC could not request an additional change in its basic rates and charges.

On February 9, 2000, Harbour Water Corporation filed a petition seeking an increase in water rates with the IURC. The IURC approved a final order on January 10, 2001 granting an increase in operating revenues of $979,000 or 78.5%. The new schedule of rates and charges became effective January 23, 2001.

Further, on January 24, 2002, the IURC issued its Order approving an increase of approximately $927,728 in annual revenues, or approximately 1%, to IWC’s metered rates to reflect the pass-through of certain costs related to extending water mains to provide potable water service to an area of Marion County where private water wells had become contaminated. This increase in rates was scheduled to become effective when the associated water main installation projects were completed and in service. This increase has not been implemented and is currently under review by Management.

In addition, the Board has agreed that it will file with the IURC for its approval a request to integrate IW - Morgan rates and charges with the rates and charges of IW by not later than 2006, which likely will result in a significant decrease from current IW - Morgan rates and charges. If approved, this request is expected to become effective in 2007. See “SUMMARY OF SIGNIFICANT ASSUMPTIONS – Water Sales Revenues” in this Report.

The City and the Board, however, intend not to increase the Waterworks Departments’ current rates and charges for service provided by the Waterworks through year 2006. The City and the Board expect that the current rates and charges will be sufficient to operate and maintain the Waterworks and to provide sufficient debt service coverage through year 2006.
CITY OF INDIANAPOLIS, INDIANA
Waterworks Department

ESTIMATED SOURCES AND USES OF BOND PROCEEDS
(As provided by the Underwriters)

Estimated Sources of Funds

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(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)
CITY OF INDIANAPOLIS, INDIANA
Waterworks Department

PRELIMINARY AMORTIZATION OF $50,000,000 PRINCIPAL
AMOUNT OF PROPOSED WATERWORKS REVENUE BONDS, SERIES 2004 A
Principal payable semiannually January 1st and July 1st, beginning July 1, 2035
Interest payable semiannually January 1st and July 1st, beginning July 1, 2004
Assumed interest rate as indicated
Assumes bonds to be dated March 31, 2004

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<tr>
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<tr>
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<tr>
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<tr>
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<tr>
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<tr>
<td>7/1/2019</td>
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<tr>
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<tr>
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<td>50,000</td>
<td>812,500.00</td>
<td>812,500.00</td>
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<tr>
<td>7/1/2021</td>
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<tr>
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<td>50,000</td>
<td>812,500.00</td>
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</tbody>
</table>

Sub-totals: $ - $28,848,263.89 $28,848,263.89 $28,848,263.89

(Continued on next page)

(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)

A-23
**Preliminary Amortization of $50,000,000 Principal Amount of Proposed Waterworks Revenue Bonds, Series 2004 A**

Principal payable semiannually January 1st and July 1st, beginning July 1, 2035
Interest payable semiannually January 1st and July 1st, beginning July 1, 2004

Assumed interest rate as indicated
Assumes bonds to be dated March 31, 2004

<table>
<thead>
<tr>
<th>Payment Date</th>
<th>Principal Balance</th>
<th>Principal Interest Rate(s)</th>
<th>Debt Service Interest</th>
<th>Total</th>
<th>Budget Year Total</th>
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<tr>
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<td>Sub-totals carried forward</td>
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<td>$28,848,263.89</td>
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<p>| | | | | | |</p>
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<th></th>
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<tr>
<td>7/1/2022</td>
<td>$</td>
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<td>812,500.00</td>
<td>1,625,000.00</td>
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<tr>
<td>1/1/2023</td>
<td>50,000</td>
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<td>812,500.00</td>
<td>1,625,000.00</td>
<td></td>
</tr>
<tr>
<td>7/1/2023</td>
<td>50,000</td>
<td>812,500.00</td>
<td>812,500.00</td>
<td>1,625,000.00</td>
<td></td>
</tr>
<tr>
<td>1/1/2024</td>
<td>50,000</td>
<td>812,500.00</td>
<td>812,500.00</td>
<td>1,625,000.00</td>
<td></td>
</tr>
<tr>
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<td>812,500.00</td>
<td>1,625,000.00</td>
<td></td>
</tr>
<tr>
<td>1/1/2025</td>
<td>50,000</td>
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<td>812,500.00</td>
<td>1,625,000.00</td>
<td></td>
</tr>
<tr>
<td>7/1/2025</td>
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<td>812,500.00</td>
<td>1,625,000.00</td>
<td></td>
</tr>
<tr>
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<tr>
<td>7/1/2026</td>
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<td>812,500.00</td>
<td>1,625,000.00</td>
<td></td>
</tr>
<tr>
<td>1/1/2027</td>
<td>50,000</td>
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<td>812,500.00</td>
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<td></td>
</tr>
<tr>
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<td></td>
</tr>
<tr>
<td>1/1/2028</td>
<td>50,000</td>
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<td>812,500.00</td>
<td>1,625,000.00</td>
<td></td>
</tr>
<tr>
<td>7/1/2028</td>
<td>50,000</td>
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<td>812,500.00</td>
<td>1,625,000.00</td>
<td></td>
</tr>
<tr>
<td>1/1/2029</td>
<td>50,000</td>
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<td>812,500.00</td>
<td>1,625,000.00</td>
<td></td>
</tr>
<tr>
<td>7/1/2029</td>
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<td>1,625,000.00</td>
<td></td>
</tr>
<tr>
<td>1/1/2030</td>
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</tr>
<tr>
<td>7/1/2030</td>
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</tr>
<tr>
<td>1/1/2031</td>
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<td>1,625,000.00</td>
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</tr>
<tr>
<td>7/1/2031</td>
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<tr>
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<tr>
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<td>1,625,000.00</td>
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</tr>
<tr>
<td>1/1/2033</td>
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<td>1,625,000.00</td>
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<tr>
<td>7/1/2033</td>
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<tr>
<td>7/1/2034</td>
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</table>

| 7/1/2035 (1) | 50,000 | $25,000 | 3.25 | (2) 812,500.00 | 25,812,500.00 |
| 1/1/2036 (1) | 25,000 | $25,000 | 3.25 | (2) 406,250.00 | 25,406,250.00 | 51,218,750.00 |

| Totals | $50,000 | $51,192,013.89 | $101,192,013.89 | $101,192,013.89 |

(1) July 1, 2035 and January 1, 2036 redemption dates or auction rate periods immediately preceding these dates, to be determined by the Underwriters.

(2) Assumed annual interest rate of 2.99% for ARS (representing the approximate 10-year average of the BMA) plus an allowance for remarketing, broker/dealer and auction agent fees.

(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)
### CITY OF INDIANAPOLIS, INDIANA

Waterworks Department

**SCHEDULE OF COMBINED BOND AMORTIZATION**

<table>
<thead>
<tr>
<th>Bond Year Ending January 1st</th>
<th>Combined Bonds (Unaudited)</th>
<th>Proposed Series 2004 A Bonds</th>
<th>Total Debt Service</th>
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</thead>
<tbody>
<tr>
<td>2005</td>
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<td>$1,223,263.89</td>
<td>$32,700,306.39</td>
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<td>33,433,949.50</td>
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<tr>
<td>2007</td>
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<td>1,625,000.00</td>
<td>33,848,729.00</td>
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<tr>
<td>2008</td>
<td>33,578,962.50</td>
<td>1,625,000.00</td>
<td>35,203,962.50</td>
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<tr>
<td>2009</td>
<td>34,159,212.50</td>
<td>1,625,000.00</td>
<td>35,784,212.50</td>
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<tr>
<td>2010</td>
<td>34,746,087.50</td>
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<td>36,371,087.50</td>
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<tr>
<td>2011</td>
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<td>36,972,762.50</td>
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<td>2012</td>
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<td>37,585,531.25</td>
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<tr>
<td>2013</td>
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<td>38,199,500.00</td>
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<td>2014</td>
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<td>39,470,400.00</td>
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<td>2017</td>
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<td>40,778,450.00</td>
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<td>41,447,150.00</td>
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<td>2019</td>
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<td>44,240,728.13</td>
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<td>44,965,484.38</td>
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<td>46,453,121.88</td>
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<td>47,224,984.38</td>
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<td>51,894,656.25</td>
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<td>51,896,025.00</td>
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<td>2033</td>
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<td>51,896,606.25</td>
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<td>2036</td>
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<td><strong>Totals</strong></td>
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<td><strong>$101,192,013.89</strong></td>
<td><strong>$1,354,839,794.92</strong></td>
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</table>

(1) Approximately $38,840,000 of Assumed Obligations will mature July 15, 2028, consequently, principal of the Series 2002 Bonds is not scheduled to mature on these payment dates. See "Assumed Obligations" on pages A-14 and A-15 of this Report.

(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)

A-25
<table>
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<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
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</thead>
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<td>Operating revenues (1)</td>
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<td>$105,870</td>
<td>$107,343</td>
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<td>Interest earnings (1)</td>
<td>2,385</td>
<td>2,426</td>
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<td><strong>Totals</strong></td>
<td><strong>106,802</strong></td>
<td><strong>108,296</strong></td>
<td><strong>109,308</strong></td>
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<tr>
<td>Less: Forecasted Annual Cash</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Operating Expenses (1)</td>
<td>(60,487)</td>
<td>(61,988)</td>
<td>(63,529)</td>
</tr>
<tr>
<td><strong>Forecasted Net Revenues Available for Debt Service</strong></td>
<td>$46,315</td>
<td>$46,308</td>
<td>$45,779</td>
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<td>Forecasted Annual Debt Service:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waterworks Revenue Bonds, Series 2002 (2)</td>
<td>$31,477</td>
<td>$31,809</td>
<td>$32,224</td>
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<td>Waterworks Revenue Bonds, Series 2004 A (3)</td>
<td>1,223</td>
<td>1,625</td>
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<tr>
<td>Interest on Assumed Obligations (4)</td>
<td>1,961</td>
<td>1,961</td>
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<td><strong>Totals</strong></td>
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<td><strong>35,395</strong></td>
<td><strong>35,810</strong></td>
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<tr>
<td><strong>Forecasted Debt Service Coverage</strong></td>
<td>134%</td>
<td>131%</td>
<td>128%</td>
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(1) See page A-4.
(4) Based on currently outstanding aggregate principal amount of $38,840,000 at 5.05% interest. See "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ASSUMPTIONS - Assumed Obligations" in this Report.

(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)
Metered Monthly Rates:

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<th>Rate Per 100 Cubic Feet</th>
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<td>Next</td>
<td>18,500</td>
<td>$1.27</td>
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<tr>
<td>Next</td>
<td>80,000</td>
<td>$1.20</td>
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<tr>
<td>Next</td>
<td>400,000</td>
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<tr>
<td>Over</td>
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Base Charge:

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<th>Rate Per Month</th>
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<tr>
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<td>1 1/2 inch meter</td>
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<td>3 inch meter</td>
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<td>4 inch meter</td>
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</tr>
<tr>
<td>6 inch meter</td>
<td>$113.00</td>
</tr>
<tr>
<td>10 inch meter</td>
<td>$221.00</td>
</tr>
</tbody>
</table>

Private Fire Protection Water Service:

<table>
<thead>
<tr>
<th>Size of Fire Meter</th>
<th>Monthly Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 inch meter</td>
<td>$30.00</td>
</tr>
<tr>
<td>6 inch meter</td>
<td>$60.00</td>
</tr>
<tr>
<td>8 inch meter</td>
<td>$88.00</td>
</tr>
<tr>
<td>10 inch meter</td>
<td>$106.00</td>
</tr>
</tbody>
</table>

(Continued on next page)

(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)
CITY OF INDIANAPOLIS, INDIANA
Waterworks Department

SCHEDULE OF RECURRING MONTHLY RATES AND CHARGES
(Unaudited)

HARBOUR WATER SERVICE TERRITORY

<table>
<thead>
<tr>
<th>Metered Monthly Rates:</th>
<th>Rate Per 100 Cubic Feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 800 cubic feet</td>
<td>$3.34</td>
</tr>
<tr>
<td>Next 6,700 cubic feet</td>
<td>2.48</td>
</tr>
<tr>
<td>Next 12,500 cubic feet</td>
<td>2.09</td>
</tr>
<tr>
<td>Next 30,000 cubic feet</td>
<td>1.67</td>
</tr>
<tr>
<td>Over 50,000 cubic feet</td>
<td>1.24</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Minimum Monthly Charge:</th>
<th>Cubic Feet For Minimum</th>
<th>Rate Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8 inch meter</td>
<td>430</td>
<td>$14.36</td>
</tr>
<tr>
<td>3/4 inch meter</td>
<td>645</td>
<td>21.54</td>
</tr>
<tr>
<td>1 inch meter</td>
<td>1,171</td>
<td>35.92</td>
</tr>
<tr>
<td>1 1/2 inch meter (or 4-inch fire meter)</td>
<td>2,620</td>
<td>71.86</td>
</tr>
<tr>
<td>2 inch meter (or 4-inch fire meter)</td>
<td>4,359</td>
<td>114.98</td>
</tr>
<tr>
<td>3 inch meter (or 6-inch fire meter)</td>
<td>9,281</td>
<td>230.10</td>
</tr>
<tr>
<td>4 inch meter (or 8-inch fire meter)</td>
<td>15,488</td>
<td>359.83</td>
</tr>
<tr>
<td>6 inch meter (or 10-inch fire meter)</td>
<td>35,877</td>
<td>719.28</td>
</tr>
</tbody>
</table>

(Continued on next page)

(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)
Public Fire Protection Water Service Charge:

<table>
<thead>
<tr>
<th>Size of Meter</th>
<th>Monthly Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8 inch meter</td>
<td>$5.25</td>
</tr>
<tr>
<td>3/4 inch meter</td>
<td>$7.37</td>
</tr>
<tr>
<td>1 inch meter</td>
<td>$12.59</td>
</tr>
<tr>
<td>1 1/2 inch meter</td>
<td>$26.25</td>
</tr>
<tr>
<td>2 inch meter (or 4-inch fire meter)</td>
<td>$41.90</td>
</tr>
<tr>
<td>3 inch meter (or 6-inch fire meter)</td>
<td>$83.98</td>
</tr>
<tr>
<td>4 inch meter (or 8-inch fire meter)</td>
<td>$125.87</td>
</tr>
<tr>
<td>6 inch meter (or 10-inch fire meter)</td>
<td>$262.54</td>
</tr>
<tr>
<td>Private fire hydrant</td>
<td>$45.04</td>
</tr>
</tbody>
</table>

Interconnection Supply Water Service:

<table>
<thead>
<tr>
<th>Gallons Allowed Monthly For Minimum Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly rate</td>
</tr>
<tr>
<td>Minimum monthly rate</td>
</tr>
<tr>
<td>Gallons</td>
</tr>
</tbody>
</table>

(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)
### Metered Monthly Rates:

<table>
<thead>
<tr>
<th>Size of Meter</th>
<th>Gallons Allowed</th>
<th>Rate Per 1,000 Gallons</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8 - 3/4 inch</td>
<td>6,000</td>
<td>$22.97</td>
</tr>
<tr>
<td>1 inch</td>
<td>7,500</td>
<td>$38.29</td>
</tr>
<tr>
<td>1 1/4 inch</td>
<td>9,800</td>
<td>$49.79</td>
</tr>
<tr>
<td>1 1/2 inch</td>
<td>16,300</td>
<td>$76.59</td>
</tr>
<tr>
<td>2 inch</td>
<td>29,200</td>
<td>$122.55</td>
</tr>
<tr>
<td>3 inch</td>
<td>63,800</td>
<td>$229.77</td>
</tr>
<tr>
<td>4 inch</td>
<td>127,300</td>
<td>$382.94</td>
</tr>
<tr>
<td>6 inch</td>
<td>316,400</td>
<td>$765.86</td>
</tr>
</tbody>
</table>

### Minimum Monthly Charge:

<table>
<thead>
<tr>
<th>Size of Meter</th>
<th>Gallons For Minimum</th>
<th>Rate Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8 - 3/4 inch</td>
<td>6,000</td>
<td>$22.97</td>
</tr>
<tr>
<td>1 inch</td>
<td>7,500</td>
<td>$38.29</td>
</tr>
<tr>
<td>1 1/4 inch</td>
<td>9,800</td>
<td>$49.79</td>
</tr>
<tr>
<td>1 1/2 inch</td>
<td>16,300</td>
<td>$76.59</td>
</tr>
<tr>
<td>2 inch</td>
<td>29,200</td>
<td>$122.55</td>
</tr>
<tr>
<td>3 inch</td>
<td>63,800</td>
<td>$229.77</td>
</tr>
<tr>
<td>4 inch</td>
<td>127,300</td>
<td>$382.94</td>
</tr>
<tr>
<td>6 inch</td>
<td>316,400</td>
<td>$765.86</td>
</tr>
</tbody>
</table>

### Fire Hydrants:

<table>
<thead>
<tr>
<th>Type of Hydrant</th>
<th>Rate Per Unit Per Annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal and private</td>
<td>$257.96</td>
</tr>
</tbody>
</table>

(Continued on next page)

(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)
CITY OF INDIANAPOLIS, INDIANA
Waterworks Department

SCHEDULE OF RECURRING MONTHLY RATES AND CHARGES
(Unaudited)

LIBERTY WATER SERVICE TERRITORY

Metered Monthly Rates:

<table>
<thead>
<tr>
<th>First 1,000 Gallons</th>
<th>Rate Per 1,000 Gallons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 20,000 gallons</td>
<td>$7.34</td>
</tr>
<tr>
<td>Over 20,000 gallons</td>
<td>$6.21</td>
</tr>
</tbody>
</table>

Service Charge Per Meter Size:

<table>
<thead>
<tr>
<th>Size of Meter</th>
<th>Rate Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8 inch</td>
<td>$2.88</td>
</tr>
<tr>
<td>3/4 inch</td>
<td>$3.15</td>
</tr>
<tr>
<td>1 inch</td>
<td>$3.84</td>
</tr>
<tr>
<td>1 1/2 inch</td>
<td>$5.81</td>
</tr>
<tr>
<td>2 inch</td>
<td>$8.57</td>
</tr>
<tr>
<td>3 inch</td>
<td>$16.47</td>
</tr>
<tr>
<td>4 inch</td>
<td>$27.51</td>
</tr>
<tr>
<td>6 inch</td>
<td>$59.08</td>
</tr>
</tbody>
</table>

Hydrant Rental Charge - Public or Private:

<table>
<thead>
<tr>
<th>Public and private</th>
<th>Annual Charge Per Hydrant</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$683.60</td>
</tr>
</tbody>
</table>

Private Fire Protection Charges - Sprinkler Connections:

<table>
<thead>
<tr>
<th>Size of Connection</th>
<th>Annual Charge Per Connection</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 inch</td>
<td>$75.20</td>
</tr>
<tr>
<td>3 inch</td>
<td>$170.90</td>
</tr>
<tr>
<td>4 inch</td>
<td>$300.78</td>
</tr>
<tr>
<td>6 inch</td>
<td>$683.60</td>
</tr>
</tbody>
</table>

(Continued on next page)

(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)
CITY OF INDIANAPOLIS, INDIANA  
Waterworks Department

SCHEDULE OF RECURRING MONTHLY RATES AND CHARGES  
(Unaudited)

IW MORGAN SERVICE TERRITORY

<table>
<thead>
<tr>
<th>Metered Monthly Rates:</th>
<th>Rate Per</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,000 Gallons</td>
</tr>
<tr>
<td>First 20,000 gallons</td>
<td>$ 6.80</td>
</tr>
<tr>
<td>All Over 20,000 gallons</td>
<td>$ 5.95</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Service Charge Per Meter Size:</th>
<th>Rate Per</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Month</td>
</tr>
<tr>
<td>5/8 inch meter</td>
<td>$ 5.75</td>
</tr>
<tr>
<td>3/4 inch meter</td>
<td>$ 6.15</td>
</tr>
<tr>
<td>1 inch meter</td>
<td>$ 7.30</td>
</tr>
<tr>
<td>1 1/2 inch meter</td>
<td>$ 8.80</td>
</tr>
<tr>
<td>2 inch meter</td>
<td>$12.95</td>
</tr>
<tr>
<td>3 inch meter</td>
<td>$43.55</td>
</tr>
<tr>
<td>4 inch meter</td>
<td>$54.85</td>
</tr>
<tr>
<td>6 inch meter</td>
<td>$81.30</td>
</tr>
</tbody>
</table>

Note: The Waterworks Department has agreed that it will file with the IURC for its approval, a request to integrate the IW Morgan rates and charges with the rates and charges of IW by not later than 2006.
## SCHEDULE OF RECURRING MONTHLY RATES AND CHARGES

### IW MORGAN SERVICE TERRITORY

<table>
<thead>
<tr>
<th>Meter Size</th>
<th>Gallons Allowed For Minimum</th>
<th>Rate Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8 inch meter</td>
<td>3,000</td>
<td>$20.40</td>
</tr>
<tr>
<td>3/4 inch meter</td>
<td>4,500</td>
<td>$30.60</td>
</tr>
<tr>
<td>1 inch meter</td>
<td>7,000</td>
<td>$47.60</td>
</tr>
<tr>
<td>1 1/2 inch meter</td>
<td>9,000</td>
<td>$61.20</td>
</tr>
<tr>
<td>2 inch meter</td>
<td>14,500</td>
<td>$98.60</td>
</tr>
<tr>
<td>3 inch meter</td>
<td>55,000</td>
<td>$344.25</td>
</tr>
<tr>
<td>4 inch meter</td>
<td>70,000</td>
<td>$433.50</td>
</tr>
<tr>
<td>6 inch meter</td>
<td>105,000</td>
<td>$641.75</td>
</tr>
</tbody>
</table>

Sales for Resale (Brown County Water Utility):

- Monthly service charge: $22,040
- Charge per 1,000 gallons: $0.78

Note: The Waterworks Department has agreed that it will file with the IURC for its approval, a request to integrate the IW Morgan rates and charges with the rates and charges of IW by not later than 2006.

(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)
CITY OF INDIANAPOLIS, INDIANA
Waterworks Department

UNAUDITED SUPPLEMENTARY HISTORICAL DATA
CITY OF INDIANAPOLIS, INDIANA  
Waterworks Department  

STATEMENT OF NET ASSETS  
As of December 31, 2003  
(In Thousands)  
(Unaudited)  

ASSETS:  

Current Assets:  
- Equity in pooled cash $6,453  
- Cash and investments with fiscal agent 156  
- Investments 20,677  
- Accounts receivable (net) 11,930  
- Interest receivable 220  
- Other 115  

Total Current Assets 39,551  

Noncurrent Assets:  
- Restricted cash and investments 34,635  
- Deferred charges 2,117  
- Intangible assets (net) 234,792  
- Bond issuance cost (net) 19,582  
- Deferred charge-postretirement benefits 37,525  

Capital assets:  
- Land 16,757  
- Infrastructure (net) 290,385  
- Other capital assets (net) 11,321  
- Construction in progress 15,926  

Total Noncurrent Assets 663,040  

TOTAL ASSETS $702,591  

(Continued on next page)  

(See Accountants' disclaimer of opinion)
CITY OF INDIANAPOLIS, INDIANA  
Waterworks Department  
(Cont'd)

STATEMENT OF NET ASSETS  
As of December 31, 2003  
(In Thousands)  
(Unaudited)

### LIABILITIES

#### Current Liabilities:
- Accounts payable and other accrued liabilities: $6,890
- Accrued payroll and payroll taxes: $11
- Customer deposits: $2,277
- Leases payable, current portion: $48
- Interest payable: $921
- Short-term notes payable: $252
- Payment in lieu of taxes: $8,950
- Revenue bonds payable - current portion: $1,050

**Total Current Liabilities**: $20,399

#### Noncurrent Liabilities:
- Notes payable: $1,338
- Lease payable: $17
- Customer advances: $16,676
- Accumulated postretirement benefit obligation: $46,083
- Revenue bonds payable: $618,160

**Total Noncurrent Liabilities**: $682,274

**TOTAL LIABILITIES**: $702,673

### NET ASSETS

- Invested in capital assets, net of related debt: $1,480
- Unrestricted: $(1,562)

**Total Net Assets**: $(82)

(See Accountants' disclaimer of opinion)
CITY OF INDIANAPOLIS, INDIANA  
Waterworks Department  

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
Calendar Year Ended December 31, 2003  
(In Thousands)  
(Unaudited)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenue:</td>
<td></td>
</tr>
<tr>
<td>Water sales</td>
<td>$102,499</td>
</tr>
<tr>
<td>Other</td>
<td>$  634</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td><strong>$103,133</strong></td>
</tr>
<tr>
<td>Operating Expenses:</td>
<td></td>
</tr>
<tr>
<td>Contract operations</td>
<td>$ 42,035</td>
</tr>
<tr>
<td>Payments in lieu of taxes</td>
<td>$  8,509</td>
</tr>
<tr>
<td>Grantor trust payments</td>
<td>$  3,003</td>
</tr>
<tr>
<td>Other services and charges</td>
<td>$  4,398</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>$   500</td>
</tr>
<tr>
<td>Administration</td>
<td>$   213</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>$58,658</strong></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td></td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>$72,934</strong></td>
</tr>
<tr>
<td>Operating Income</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 30,199</td>
</tr>
<tr>
<td>Non-Operating Income:</td>
<td></td>
</tr>
<tr>
<td>Interest Income</td>
<td>$  2,417</td>
</tr>
<tr>
<td>Other</td>
<td>$  1,733</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,150</strong></td>
</tr>
<tr>
<td>Non-Operating Expenses:</td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>$ 31,518</td>
</tr>
<tr>
<td>Amortization expense</td>
<td>$   1,520</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$33,038</strong></td>
</tr>
<tr>
<td>Change In Net Assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 1,311</td>
</tr>
<tr>
<td>Total Net Assets - Beginning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$(3,476)</td>
</tr>
<tr>
<td>Audit Adjustment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$  2,083</td>
</tr>
<tr>
<td><strong>Total Net Assets - Ending</strong></td>
<td><strong>$(82)</strong></td>
</tr>
</tbody>
</table>

(See Accountants' disclaimer of opinion)
CITY OF INDIANAPOLIS, INDIANA  
Waterworks Department  

STATEMENT OF CASH FLOWS  
Calendar Year Ended December 31, 2003  
(In Thousands)  
(Unaudited)  

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from Operating Activities:</td>
<td></td>
</tr>
<tr>
<td>Cash received from customers</td>
<td>$ 100,864</td>
</tr>
<tr>
<td>Cash paid to suppliers, employees and others</td>
<td>(61,468)</td>
</tr>
<tr>
<td><strong>Net Cash from Operating Activities</strong></td>
<td>39,396</td>
</tr>
<tr>
<td>Cash Flows from Capital and Related Financing Activities:</td>
<td></td>
</tr>
<tr>
<td>Additions to utility plant</td>
<td>(23,979)</td>
</tr>
<tr>
<td>Principal paid on bonds</td>
<td>(90)</td>
</tr>
<tr>
<td>Leases payable</td>
<td>(4)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(30,801)</td>
</tr>
<tr>
<td>Other income</td>
<td>1,733</td>
</tr>
<tr>
<td>Proceeds from customer advances</td>
<td>1,100</td>
</tr>
<tr>
<td>Post retirement benefits</td>
<td>(1,608)</td>
</tr>
<tr>
<td><strong>Net Cash from Capital Financing Activities</strong></td>
<td>(53,649)</td>
</tr>
<tr>
<td>Cash Flows from Investing Activities:</td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>2,425</td>
</tr>
<tr>
<td>Investment purchases/liquidations (net)</td>
<td>12,886</td>
</tr>
<tr>
<td><strong>Net Cash from Investing Activities</strong></td>
<td>15,311</td>
</tr>
<tr>
<td>Cash and Cash Equivalents:</td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>1,058</td>
</tr>
<tr>
<td>Beginning Balance</td>
<td>5,551</td>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>$ 6,609</td>
</tr>
</tbody>
</table>

(Continued on next page)  

(See Accountants' disclaimer of opinion)
CITY OF INDIANAPOLIS, INDIANA  
Waterworks Department  

STATEMENT OF CASH FLOWS  
Calendar Year Ended December 31, 2003  
(In Thousands)  
(Unaudited)  

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconciliation of Operating Income to Cash Provided from Operations</td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>$ 30,199</td>
</tr>
<tr>
<td>Adjustments to Reconcile Operating Income to Net Cash Provided from Operating Activities:</td>
<td></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>14,276</td>
</tr>
<tr>
<td>Change in Assets and Liabilities:</td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in Accounts receivable</td>
<td>(2,269)</td>
</tr>
<tr>
<td>Increase (decrease) in</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(5,357)</td>
</tr>
<tr>
<td>Accrued payroll and taxes</td>
<td>2</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>532</td>
</tr>
<tr>
<td>Payment in lieu of taxes</td>
<td>(70)</td>
</tr>
<tr>
<td>Audit adjustment</td>
<td>2,083</td>
</tr>
<tr>
<td>Net Cash Provided from Operations</td>
<td>$ 39,396</td>
</tr>
</tbody>
</table>

(See Accountants' disclaimer of opinion)
CITY OF INDIANAPOLIS, INDIANA
Waterworks Department

AMORTIZATION OF OUTSTANDING $580,370,000 PRINCIPAL
AMOUNT OF WATERWORKS REVENUE BONDS, COMBINED SERIES 2002

Principal and interest payable semiannually January 1st and July 1st
Interest rates as indicated
(Unaudited)

<table>
<thead>
<tr>
<th>Payment Date</th>
<th>Principal Balance</th>
<th>Principal</th>
<th>Interest Rate(s)</th>
<th>Interest</th>
<th>Debt Service</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/1/2004</td>
<td>$ 580,370</td>
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<td>955</td>
<td>(1) 4.780</td>
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<tr>
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<td>7/1/2014</td>
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<td>4.780</td>
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<td>1/1/2015</td>
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<td>4,985</td>
<td>4.780</td>
<td>13,938,512.50</td>
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<td>7/1/2015</td>
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<td>4.780</td>
<td>13,801,425.00</td>
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<td>1/1/2016</td>
<td>519,275</td>
<td>5,595</td>
<td>4.780</td>
<td>13,651,687.50</td>
<td>17,006,687.50</td>
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<tr>
<td>7/1/2016</td>
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<td>6,080</td>
<td>4.780</td>
<td>13,497,825.00</td>
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<tr>
<td>1/1/2017</td>
<td>507,600</td>
<td>6,245</td>
<td>4.780</td>
<td>13,330,625.00</td>
<td>17,021,625.00</td>
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<td>7/1/2017</td>
<td>501,355</td>
<td>6,750</td>
<td>4.780</td>
<td>13,158,887.50</td>
<td>17,048,887.50</td>
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<tr>
<td>1/1/2018</td>
<td>494,605</td>
<td>6,940</td>
<td>4.780</td>
<td>12,973,262.50</td>
<td>17,031,262.50</td>
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<td>7/1/2018</td>
<td>487,665</td>
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<td>1/1/2019</td>
<td>480,195</td>
<td>7,675</td>
<td>4.780</td>
<td>12,576,987.50</td>
<td>17,004,987.50</td>
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<tr>
<td>7/1/2019</td>
<td>472,520</td>
<td>8,230</td>
<td>4.780</td>
<td>12,365,925.00</td>
<td>17,040,925.00</td>
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<td>1/1/2020</td>
<td>464,290</td>
<td>8,460</td>
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<td>12,139,600.00</td>
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<tr>
<td>7/1/2020</td>
<td>455,830</td>
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<td>446,800</td>
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<tr>
<td>7/1/2021</td>
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<td>9,555</td>
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<tr>
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<td>5.125</td>
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<td>17,038,596.88</td>
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<tr>
<td>Sub-totals</td>
<td>$ 162,790</td>
<td>$ 501,825,074.13</td>
<td>$ 664,615,074.13</td>
<td>$ 664,615,074.13</td>
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<td></td>
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</table>

(1) Taxable Series 2002 B.

(Continued on next page)

(See Accountants' disclaimer of opinion)
### AMORTIZATION OF OUTSTANDING $580,370,000 PRINCIPAL AMOUNT OF WATERWORKS REVENUE BONDS, COMBINED SERIES 2002

Principal and interest payable semiannually January 1st and July 1st

Interest rates as indicated

(Unaudited)

<table>
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<tr>
<th>Payment Date</th>
<th>Principal Balance</th>
<th>Principal Interest</th>
<th>Debt Service</th>
<th>Budget Year Total</th>
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<tr>
<td></td>
<td>(--------In Thousands--------)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-totals carried forward</td>
<td>$ 162,790</td>
<td>$ 501,825,074.13</td>
<td>$ 664,615,074.13</td>
<td>$ 664,615,074.13</td>
</tr>
<tr>
<td>7/1/2022</td>
<td>$ 417,580</td>
<td>10,725</td>
<td>5.125</td>
<td>10,942,656.25</td>
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<tr>
<td>1/1/2023</td>
<td>406,855</td>
<td>11,005</td>
<td>5.125</td>
<td>10,667,828.13</td>
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<td>7/1/2023</td>
<td>395,850</td>
<td>11,650</td>
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<td>1/1/2024</td>
<td>384,200</td>
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<td>1/1/2025</td>
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<td>13,675 (2)</td>
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<td>1/1/2026</td>
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<td>304,185</td>
<td>18,365 (2)</td>
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<tr>
<td>7/1/2027</td>
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<td>19,695 (2)</td>
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<td>6,676,025.00</td>
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<td>1/1/2028</td>
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<td>20,925 (2)</td>
<td>5.125</td>
<td>6,194,431.25</td>
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<tr>
<td>7/1/2028</td>
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<td>22,155 (2)</td>
<td>5.125</td>
<td>5,712,818.75</td>
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<tr>
<td>1/1/2029</td>
<td>240,110</td>
<td>23,395 (2)</td>
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<tr>
<td>7/1/2029</td>
<td>222,860</td>
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<td>1/1/2031</td>
<td>171,470</td>
<td>28,845 (2)</td>
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<td>3,305,234.13</td>
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<td>7/1/2031</td>
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<td>30,335 (2)</td>
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<td>2,823,868.75</td>
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<td>1/1/2032</td>
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<td>31,875 (2)</td>
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<td>2,342,501.38</td>
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<td>33,475 (2)</td>
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<td>1,861,137.93</td>
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<tr>
<td>1/1/2033</td>
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<td>35,125 (2)</td>
<td>5.125</td>
<td>1,379,777.38</td>
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<td>998,421.93</td>
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<td>235,710.93</td>
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<td>24,470</td>
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<tr>
<td>Totals</td>
<td>$ 580,370</td>
<td>$ 673,277,781.03</td>
<td>$ 1,253,647,781.03</td>
<td>$ 1,253,647,781.03</td>
</tr>
</tbody>
</table>

(2) $111,090,000 of 5.125% Term Bonds due July 1, 2027.

(3) Approximately $38,840,000 of Assumed Obligations will mature July 15, 2028, consequently, principal of the Series 2002 Bonds is not scheduled to mature on these payment dates.


(4) $201,635,000 of 5.25% Term Bonds due July 1, 2033.

(5) $71,475,000 of 5.45% Term Bonds due January 1, 2035.

(See Accountants' disclaimer of opinion)
SUPPLEMENTAL DATA
SUPPLEMENTAL DATA

The succeeding supplemental data has been prepared from information provided by the former IWCR, and the Waterworks Department, available public records or other sources. Accordingly, this information is being presented solely for the purpose of providing the reader with a more comprehensive understanding of the nature of the Waterworks and its operations.

The supplemental information presented on pages A-42 to A-49 includes summaries of financial and other information for the former IWCR’s and the Waterworks Department’s regulated entities, both consolidated and by subsidiary operating unit. During calendar year 2000, two new non-regulated entities were formed - IWCR Management Services and Watertech Operations Services. During calendar year 2000, IWC transactions were divided among the three entities. This had the effect of reducing the expenses allocated to IWC (as shown on the succeeding schedules) and increasing the expenses allocated to the two non-regulated entities. During calendar year 2001, the two non-regulated entities were dissolved. This increased the operating expenses recorded by IWC. In addition, during 2001 four other non-regulated entities (Utility Data Corp., Waterway Holdings, Water Materials Unlimited and IWC Services) were merged into IWC. All of the operating expenses for these entities were recorded on IWC’s books and records in 2001.

On April 30, 2002 the City completed the Acquisition of the Waterworks. Therefore year 2002 is a partial year and includes only eight months of data. As detailed in the Summary of Significant Accounting Policies and Assumptions in this Report, the Manager is responsible for the day-to-day operations of the Waterworks to which the Waterworks Department pays contract fees for those services pursuant the Management Contract Agreement. The fees paid to the Manager are allocated to administrative and general expenses along with most other operating expenses paid by the Waterworks Department.

Pursuant to the terms of the Management Agreement the Waterworks Department sold the assets of the Data Business Unit to the Manager for a purchase price of $4,000,000, effective November 1, 2002. Waterworks Department revenues attributable to the Data Business Unit for partial year ended December 31, 2002 and the full year ended December 31, 2001 totaled approximately $2,400,000 and $3,711,947 respectively. The Manager’s contract fees pursuant to the Management Agreement were reduced commensurately resulting in a non-material change in operating income. The reductions in revenues and expenses are reflected in year 2003 on the succeeding schedule.

The comparison of rates for the IW service area on pages A-48 and A-49, reflect how those rates compare to rates in other selected cities across the United States.
### CITY OF INDIANAPOLIS, INDIANA

Waterworks Department

#### STATISTICAL SUMMARY OF SELECTED FINANCIAL INFORMATION (1)

(IWCR/Waterworks Department Consolidated Summary)
(UNAUDITED)

<table>
<thead>
<tr>
<th>Ownership</th>
<th>IWCR</th>
<th>City of Indianapolis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
<td>2000</td>
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<tr>
<td>Total water sales (3)</td>
<td>$91,673,628</td>
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<tr>
<td>Fire protection and other revenue</td>
<td>3,696,183</td>
<td>3,748,872</td>
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<tr>
<td>Total Operating Revenues</td>
<td>95,369,811</td>
<td>96,456,009</td>
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<tr>
<td>Annual cash operation and maintenance expense (4)</td>
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</tr>
<tr>
<td>Source of supply</td>
<td>$7,722,075</td>
<td>$6,515,605</td>
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<tr>
<td>Water Treatment</td>
<td>7,700,914</td>
<td>5,399,817</td>
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<tr>
<td>Transmission and distribution</td>
<td>4,270,204</td>
<td>4,146,763</td>
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<tr>
<td>Customer accounts</td>
<td>9,859,453</td>
<td>8,560,949</td>
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<tr>
<td>Administrative and general</td>
<td>16,808,961</td>
<td>6,457,039</td>
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<tr>
<td>Unallocated</td>
<td>65,777</td>
<td>107,683</td>
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<tr>
<td>Total cash operation and maintenance expense</td>
<td>$46,427,384</td>
<td>$31,187,856</td>
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<tr>
<td>Utility plant in service</td>
<td>$540,346,855</td>
<td>$593,297,317</td>
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<tr>
<td>Total water pumped (1,000's)</td>
<td>51,728,607</td>
<td>50,252,134</td>
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<tr>
<td>Total water sold (1,000's)</td>
<td>44,040,960</td>
<td>43,204,893</td>
</tr>
<tr>
<td>Number of customers</td>
<td>264,073</td>
<td>270,686</td>
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<tr>
<td>Estimated equivalent residential connections (&quot;ERC&quot;) (5)</td>
<td>344,743</td>
<td>338,199</td>
</tr>
</tbody>
</table>

(1) As reported by Indianapolis Water Company, Harbour Water Corporation, Liberty Water Corporation, The Darlington Water Works Company and IWC Morgan Water Corporation and the Waterworks Department in their annual report to the Indiana Utility Regulatory Commission and from former IWCR officials and current Waterworks Department officials.

(2) Partial year only: Acquired by the City on April 30, 2002.

(3) The revenues presented for calendar year 2001 include $1,484,377 of water sales related to the City of Lawrence water operations. During 2001, the City of Lawrence reacquired these water operations from IWCR.

(4) The unallocated amounts shown in 1999, 2000, 2001 represent the cash operation and maintenance expenses of Liberty Water Corporation and The Darlington Water Company. Neither utility recorded expenses by functional category. The operations including all of the source of supply, water treatment and transmission and distribution and the majority of the customer accounts are contracted out to the Manager (see page A-11 - A-12 - "Management Contract Fees"). The Waterworks Department expense pursuant to the Management Contract Agreement is allocated to administrative and general expenses.

(5) Calculated as total water sold divided by 365 days (year 2002 by 245 days) divided by 350 gallons per day.

(See Accountants' disclaimer of opinion)

A-42
CITY OF INDIANAPOLIS, INDIANA
Waterworks Department

STATISTICAL SUMMARY OF SELECTED FINANCIAL INFORMATION (1)
(Indianapolis Water)
(Unaudited)

<table>
<thead>
<tr>
<th>Ownership</th>
<th>IWCR</th>
<th>City of Indianapolis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
<td>2000</td>
</tr>
<tr>
<td>Total water sales</td>
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<td>$90,387,405</td>
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<td>Fire protection and other revenue</td>
<td>$3,658,796</td>
<td>$3,686,575</td>
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<tr>
<td><strong>Total Operating Revenues</strong></td>
<td>$93,722,199</td>
<td>$94,073,980</td>
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<tr>
<td>Annual cash operation and maintenance expense:</td>
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<td></td>
</tr>
<tr>
<td>Source of supply</td>
<td>$7,529,890</td>
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<td>Water treatment</td>
<td>7,531,732</td>
<td>5,167,440</td>
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<tr>
<td>Transmission and distribution</td>
<td>4,255,198</td>
<td>4,112,209</td>
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<tr>
<td>Customer accounts</td>
<td>9,810,471</td>
<td>8,533,853</td>
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<tr>
<td>Administrative and general</td>
<td>16,573,824</td>
<td>6,116,927</td>
</tr>
<tr>
<td>Unallocated (3)</td>
<td>Not Available</td>
<td>Not Available</td>
</tr>
<tr>
<td><strong>Total cash operation and maintenance expense</strong></td>
<td>$45,701,115</td>
<td>$30,086,460</td>
</tr>
<tr>
<td>Utility plant in service</td>
<td>$521,010,964</td>
<td>$573,603,067</td>
</tr>
<tr>
<td>Total water pumped (1,000's)</td>
<td>51,088,120</td>
<td>49,316,320</td>
</tr>
<tr>
<td>Total water sold (1,000's)</td>
<td>43,489,250</td>
<td>42,551,840</td>
</tr>
<tr>
<td>Number of customers</td>
<td>258,828</td>
<td>265,104</td>
</tr>
<tr>
<td>Estimated equivalent residential connections (&quot;ERC&quot;) (4)</td>
<td>340,425</td>
<td>333,087</td>
</tr>
</tbody>
</table>

(1) As reported in the annual reports filed with the Indiana Utility Regulatory Commission and from former IWCR officials and current Waterworks Department officials.

(2) Partial year only: Acquired by the City on April 30, 2002.

(3) The Waterworks Department consolidates operating expenses for purposes of financial reporting. See the "IWCR/Waterworks Department - Consolidated Summary" page A-42.

(4) Calculated as total water sold divided by 365 days (year 2002 by 245 days) divided by 350 gallons per day.

(See Accountants' disclaimer of opinion)

A-43
CITY OF INDIANAPOLIS, INDIANA
Waterworks Department

STATISTICAL SUMMARY OF SELECTED FINANCIAL INFORMATION (1)
(Harbour Water)
(3)

<table>
<thead>
<tr>
<th>Ownership</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002 (2)</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>IWCR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City of Indianapolis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total water sales:
- IWCR: $1,128,794, $1,117,549, $2,086,534, $1,479,230, $1,700,747
- City of Indianapolis: $1,163,597, $1,152,828, $2,129,665, $1,506,106, $1,727,512

Fire protection and other revenue:
- IWCR: $34,803, $35,279, $43,131, $26,876, $26,765
- City of Indianapolis: $34,803, $35,279, $43,131, $26,876, $26,765

Total Operating Revenues:
- IWCR: $1,163,597, $1,152,828, $2,129,665
- City of Indianapolis: $1,506,106, $1,727,512

Annual cash operation and maintenance expense:
- Source of supply: $97,083, $147,437, $243,826
- Water treatment: $169,057, $231,484, $358,385
- Transmission and distribution: $14,960, $6,043, $19,145
- Customer accounts: $45,941, $14,874, $61,706
- Administrative and general: $190,864, $192,680, $290,357
- Unallocated (3) Not Available Not Available

Total cash operation and maintenance expense:
- IWCR: $515,905, $592,518, $973,419
- City of Indianapolis: Not Available, Not Available

Utility plant in service:
- IWCR: $7,501,927, $7,860,286, $14,886,767, $14,953,806, $15,298,897
- City of Indianapolis: Not Available, Not Available

Total water pumped (1,000's):
- IWCR: 586,487, 614,407, 647,368
- City of Indianapolis: Not Available

Total water sold (1,000's):
- IWCR: 551,710, 554,803, 419,716, 470,578
- City of Indianapolis: 447,990

Number of customers:
- IWCR: 3,595, 3,806, 4,077
- City of Indianapolis: 4,254, 4,566

Estimated equivalent residential connections ("ERC") (4):
- IWCR: 4,319, 4,343, 3,285
- City of Indianapolis: 5,488, 3,507

1. As reported in the annual reports filed with the Indiana Utility Regulatory Commission and from former IWCR officials and current Waterworks Department officials.
2. Partial year only: Acquired by the City on April 30, 2002.
3. The Waterworks Department consolidates operating expenses for purposes of financial reporting. See the "IWCR/Waterworks Department - Consolidated Summary" page A-42.
4. Calculated as total water sold divided by 365 days (year 2002 by 245 days) divided by 350 gallons per day.

(See Accountants' disclaimer of opinion)

A-44
## CITY OF INDIANAPOLIS, INDIANA

Waterworks Department

### STATISTICAL SUMMARY OF SELECTED FINANCIAL INFORMATION (1)

(Responsibility Water)

(Unaudited)

<table>
<thead>
<tr>
<th>Ownership</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002 (2)</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>## Total water sales ($1,000's)</td>
<td>$48,993</td>
<td>$47,133</td>
<td>$57,357</td>
<td>$47,188</td>
<td>$32,250</td>
</tr>
<tr>
<td>## Fire protection and other revenue</td>
<td>199</td>
<td>277</td>
<td>194</td>
<td>932</td>
<td>-</td>
</tr>
<tr>
<td>## Total Operating Revenues ($1,000's)</td>
<td>$49,192</td>
<td>$47,410</td>
<td>$57,551</td>
<td>$48,120</td>
<td>$32,250</td>
</tr>
</tbody>
</table>

#### Annual cash operation and maintenance expense

<table>
<thead>
<tr>
<th>Source of supply</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002 (2)</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>## Water treatment</td>
<td>$49,730</td>
<td>$39,152</td>
<td>$77,905</td>
<td>Not Available</td>
<td>Not Available</td>
</tr>
</tbody>
</table>

#### Utility plant in service ($1,000's)

<table>
<thead>
<tr>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,316,738</td>
<td>$1,316,738</td>
<td>$1,782,617</td>
<td>$1,762,982</td>
<td>$1,762,982</td>
</tr>
</tbody>
</table>

#### Total water pumped (1,000's)

<table>
<thead>
<tr>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,000</td>
<td>36,150</td>
<td>77,589</td>
<td>39,708</td>
<td>Not Available</td>
</tr>
</tbody>
</table>

#### Total water sold (1,000's)

<table>
<thead>
<tr>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>4,350</td>
<td>34,212</td>
<td>8,943</td>
<td>5,630</td>
</tr>
</tbody>
</table>

#### Number of customers

<table>
<thead>
<tr>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>77</td>
<td>90</td>
<td>98</td>
<td>111</td>
<td>126</td>
</tr>
</tbody>
</table>

#### Estimated equivalent residential connections ("ERC") (4)

<table>
<thead>
<tr>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>34</td>
<td>268</td>
<td>104</td>
<td>44</td>
</tr>
</tbody>
</table>

---

(1) As reported in the annual reports filed with the Indiana Utility Regulatory Commission and from former IWCR officials and current Waterworks Department officials.

(2) Partial year only: Acquired by the City on April 30, 2002.

(3) Prior to the acquisition of the Waterworks by the City the utility did not record cash operation and maintenance expense by functional category. The Waterworks Department consolidates operating expenses for purposes of financial reporting. See the "IWCR/Waterworks Department - Consolidated Summary" page A-42.

(4) Calculated as total water sold divided by 365 days (year 2002 by 245 days) divided by 350 gallons per day.

(See Accountants' disclaimer of opinion)
## CITY OF INDIANAPOLIS, INDIANA

**Waterworks Department**

### STATISTICAL SUMMARY OF SELECTED FINANCIAL INFORMATION (1)

(Darlington Water)

(Unaudited)

<table>
<thead>
<tr>
<th>Ownership</th>
<th>1999 (2)</th>
<th>2000</th>
<th>2001</th>
<th>2002 (3)</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>IWCR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total water sales</td>
<td>$25,000</td>
<td>$120,710</td>
<td>$101,443</td>
<td>$72,404</td>
<td>$113,471</td>
</tr>
<tr>
<td>Fire protection and other revenue</td>
<td>$8,439</td>
<td>$6,686</td>
<td>$4,749</td>
<td>$5,934</td>
<td></td>
</tr>
<tr>
<td>Total Operating Revenues</td>
<td>$25,000</td>
<td>$129,149</td>
<td>$108,129</td>
<td>$77,153</td>
<td>$119,405</td>
</tr>
<tr>
<td>City of Indianapolis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual cash operation and maintenance expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source of supply</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water treatment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transmission and distribution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative and general</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unallocated (4)</td>
<td>$16,047</td>
<td>$68,531</td>
<td>$63,009</td>
<td>Not Available</td>
<td>Not Available</td>
</tr>
<tr>
<td>Total cash operation and maintenance expense</td>
<td>$16,047</td>
<td>$68,531</td>
<td>$63,009</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Utility plant in service</td>
<td>$177,693</td>
<td>$177,693</td>
<td>$178,932</td>
<td>$191,464</td>
<td>$209,464</td>
</tr>
<tr>
<td>Total water pumped (1,000's)</td>
<td>5,000</td>
<td>18,917</td>
<td>19,974</td>
<td>15,815</td>
<td>Not Available</td>
</tr>
<tr>
<td>Total water sold (1,000's)</td>
<td>N/A</td>
<td>N/A</td>
<td>18,798</td>
<td>14,755</td>
<td>24,030</td>
</tr>
<tr>
<td>Number of customers</td>
<td>321</td>
<td>317</td>
<td>316</td>
<td>306</td>
<td>313</td>
</tr>
<tr>
<td>Estimated equivalent residential connections (&quot;ERC&quot;) (5)</td>
<td>N/A</td>
<td>N/A</td>
<td>147</td>
<td>172</td>
<td>188</td>
</tr>
</tbody>
</table>

(1) As reported in the annual reports filed with the Indiana Utility Regulatory Commission and from former IWCR officials and current Waterworks Department officials.

(2) Partial year only: Acquired by IWCR in October 1999.

(3) Partial year only: Acquired by the City on April 30, 2002.

(4) Prior to the acquisition of the Waterworks by the City the utility did not record cash operation and maintenance expense by functional category. The Waterworks Department consolidates operating expenses for purposes of financial reporting. See the "IWCR/Waterworks Department - Consolidated Summary" page A-42.

(5) Calculated as total water sold divided by 365 days (year 2002 by 245 days) divided by 350 gallons per day.

(See Accountants' disclaimer of opinion)

A-46
## CITY OF INDIANAPOLIS, INDIANA
### Waterworks Department

### STATISTICAL SUMMARY OF SELECTED FINANCIAL INFORMATION (1)
#### (IW Morgan Water)  
#### (Unaudited)

<table>
<thead>
<tr>
<th>Ownership</th>
<th>IWCR</th>
<th>City of Indianapolis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999 (2)</td>
<td>2000</td>
</tr>
<tr>
<td>Total water sales</td>
<td>$407,438</td>
<td>$1,034,340</td>
</tr>
<tr>
<td>Fire protection and other revenue</td>
<td>$2,385</td>
<td>$18,302</td>
</tr>
<tr>
<td>Total Operating Revenues</td>
<td>$409,823</td>
<td>$1,052,642</td>
</tr>
<tr>
<td>Annual cash operation and maintenance expense:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source of supply</td>
<td>$95,102</td>
<td>$212,137</td>
</tr>
<tr>
<td>Water treatment</td>
<td>125</td>
<td>893</td>
</tr>
<tr>
<td>Transmission and distribution</td>
<td>46</td>
<td>28,511</td>
</tr>
<tr>
<td>Customer accounts</td>
<td>5,041</td>
<td>12,222</td>
</tr>
<tr>
<td>Administrative and general</td>
<td>44,273</td>
<td>147,432</td>
</tr>
<tr>
<td>Unallocated (4)</td>
<td>Not Available</td>
<td>Not Available</td>
</tr>
<tr>
<td>Total cash operation and maintenance expense</td>
<td>$144,587</td>
<td>$401,195</td>
</tr>
<tr>
<td>Utility plant in service</td>
<td>$10,339,533</td>
<td>$10,339,533</td>
</tr>
<tr>
<td>Total water pumped (1,000's)</td>
<td>46,000</td>
<td>266,340</td>
</tr>
<tr>
<td>Total water sold (1,000's)</td>
<td>N/A</td>
<td>93,900</td>
</tr>
<tr>
<td>Number of customers</td>
<td>1,252</td>
<td>1,369</td>
</tr>
<tr>
<td>Estimated equivalent residential connections (“ERC”) (5)</td>
<td>N/A</td>
<td>735</td>
</tr>
</tbody>
</table>

1. As reported in the annual reports filed with the Indiana Utility Regulatory Commission and from former IWCR officials and current Waterworks Department officials.
3. Partial year only: Acquired by the City on April 30, 2002.
4. The Waterworks Department consolidates operating expenses for purposes of financial reporting. See the "IWCR/Waterworks Department - Consolidated Summary" page A-42.
5. Calculated as total water sold divided by 365 days (year 2002 by 245 days) divided by 350 gallons per day.

Note: The Board has agreed that it will file with the IURC for its approval, a request to integrate IW Morgan with IW by not later than 2006.

(See Accountants' disclaimer of opinion)

A-47
**CITY OF INDIANAPOLIS, INDIANA**  
Waterworks Department  

**SUMMARY OF AVERAGE MONTHLY BILLS**  
**BY SERVICE AREA**

<table>
<thead>
<tr>
<th>Service Area</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indianapolis Water</td>
<td>$19.68</td>
</tr>
<tr>
<td>Harbour Water</td>
<td>$35.28</td>
</tr>
<tr>
<td>Darlington Water</td>
<td>$35.49</td>
</tr>
<tr>
<td>Liberty Water</td>
<td>$54.26 (1)</td>
</tr>
<tr>
<td>IW Morgan Water</td>
<td>$53.35 (2)</td>
</tr>
</tbody>
</table>

Based on 7,000 gallons of consumption per month.

(1) Management is currently in discussions with the Town of Plainfield to sell the assets of Liberty Water to the Town of Plainfield.

(2) The Waterworks Department has agreed that it will file with the IURC for its approval, a request to integrate the IW Morgan rates and charges with the rates and charges of IW by not later than 2006.

(See Accountants' disclaimer of opinion)
# Comparative Water Bills of Other U.S. Cities

<table>
<thead>
<tr>
<th>City</th>
<th>Bill ($USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indianapolis</td>
<td>$19.68</td>
</tr>
<tr>
<td>Chicago</td>
<td>$8.75</td>
</tr>
<tr>
<td>Cincinnati</td>
<td>$15.60</td>
</tr>
<tr>
<td>Columbus</td>
<td>$26.37</td>
</tr>
<tr>
<td>Dallas</td>
<td>$14.18</td>
</tr>
<tr>
<td>Detroit</td>
<td>$13.37</td>
</tr>
<tr>
<td>Kansas City</td>
<td>$24.51</td>
</tr>
<tr>
<td>Louisville</td>
<td>$16.81</td>
</tr>
<tr>
<td>New York</td>
<td>$14.19</td>
</tr>
<tr>
<td>Seattle</td>
<td>$30.51</td>
</tr>
<tr>
<td>St. Louis</td>
<td>$23.95</td>
</tr>
</tbody>
</table>

*Note: Based on 7,000 gallons of consumption per month.*

*(See Accountants' disclaimer of opinion)*
APPENDIX B

SUMMARY OF PRINCIPAL FINANCING DOCUMENTS AND DEFINITIONS

B1 SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE
B2 SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION
B3 DEFINITIONS
APPENDIX B1

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Trust Indenture between The Indianapolis Local Public Improvement Bond Bank ("Bond Bank") and National City Bank of Indiana, as trustee ("Trustee"), dated as of April 1, 2002 (the "Original Indenture"), as amended and supplemented by a 2004 Supplemental Trust Indenture (the "2004 Supplemental Indenture"), dated as of March 1, 2004 (the Original Indenture and the 2004 Supplemental Indenture, together, "Indenture"). This summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Indenture. Certain capitalized terms used in this summary are defined in “APPENDIX B3—Definitions.”

The Bond Bank will issue its Bonds, Series 2004A (Waterworks Project) ("2004A Bonds"), pursuant to the Indenture.

Security for Bonds

To secure the payment of the principal of, premium, if any, and interest on the outstanding 2002 Bonds, the 2004A Bonds and any Additional Bonds (the 2002 Bonds, the 2004A Bonds and any Additional Bonds are hereinafter collectively referred to as the "Bonds"), and the performance of the covenants contained in the Bonds and the Indenture, the Bond Bank, grants to the Trustee a security interest in the following property ("Trust Estate"): (i) All cash and securities held for the credit of the Funds and Accounts created or established under the Indenture, the Investment Earnings thereon and all proceeds thereof (except the Rebate Fund under the Indenture); and (ii) All Qualified Obligations acquired and held pursuant to the Indenture and the earnings thereon and all proceeds thereof (including all Qualified Obligation Payments); and (iii) All Revenues and any moneys pledged as security by the Bond Bank.

The Trust Estate is to be held by the Trustee for the equal and proportionate benefit, security and protection of the owners from time to time of all the outstanding Bonds without privilege, priority or distinction as to the lien or otherwise of any such Bond over any other such Bond, except as otherwise expressly provided in the Indenture.

Funds and Accounts

Creation of Funds and Accounts. Under the Original Indenture, the Bond Bank created and established the following Funds: (1) the General Fund, (2) the Debt Service Reserve Fund and (3) the Rebate Fund. The following Accounts were created and established in the General Fund: a “General Account,” a “Bond Issuance Expense Account,” a “Hedge Payments Account”, a “Capitalized Interest Account” and a “Redemption Account” each of which will have separate subaccounts for the 2004A Bonds (with the exception of the Capitalized Interest Account which will not have a separate subaccount for the 2004A Bonds). In addition, the 2004 Supplemental Indenture provides for the creation of a Series 2004 Remarking Reimbursement Fund. The following Accounts may be established in the Debt Service Reserve Fund: a “Common Reserve Account” and one or more “Series Reserve Accounts.”

All such Funds and Accounts will be held and maintained by the Trustee. All moneys or securities held by the Trustee pursuant to the Indenture will be held in trust and applied only in accordance with the provisions of the Indenture. Upon written request of the Bond Bank, the Trustee may establish such additional Funds, Accounts or subaccounts as the Bond Bank may specify so long as the Trustee determines same to be appropriate to comply with the provisions of the Indenture.

General Account. There will be deposited in the General Account: (i) the proceeds of the sale of the 2004A Bonds, other than the amounts deposited in the Bond Issuance Expense Account as described below; and (ii)
any other amounts required to be deposited in the General Account pursuant to the Indenture. The Trustee will apply the moneys in the General Account (i) to purchase the Qualified Obligations; (ii) to pay principal and interest coming due on the Bonds; (iii) to make Hedge Payments; (iv) to fund or replenish the Debt Service Reserve Fund; (v) to pay, as necessary, Program Expenses; (vi) to pay any amount needed to comply with any rebate obligations, to the extent such amounts are not collected as Fees and Charges; (vii) to reimburse the Bond Bank for funds advanced to, or credited to any account for, the Qualified Entity by the Bond Bank, any amount necessary to reimburse the City for any funds advanced to, or credited to any account for, the Bond Bank by the City; and (viii) to transfer to any other fund or account maintained by the Bond Bank of any moneys in excess of the amounts needed to pay principal and interest on the Bonds within the immediately succeeding twelve month period pursuant to the Indenture.

**Redemption Account.** There will be deposited in the Redemption Account (i) all moneys received upon the sale or redemption prior to maturity of Qualified Obligations and (ii) such other amounts as may be designated by the Indenture. Funds in the Redemption Account will be disbursed as follows by the Trustee: (1) on such dates as are specified in the Indenture, an amount equal to the principal which would have been payable during the following month for Qualified Obligations sold or redeemed prior to maturity; (2) on such dates as are specified in the Indenture, to the extent moneys in the General Account are not sufficient, for the purpose of paying the principal of and interest on the Bonds as the same become due; (3) after providing for the payments required under (1) and (2) above, moneys may be used (A) on any redemption date, to redeem Bonds; (B) to purchase Qualified Obligations as permitted under the Indenture; (C) to transfer any excess monies to the General Account; (D) to purchase Bonds at the most advantageous price obtainable with reasonable diligence; or (E) to invest such moneys until the maturity or maturities of Bonds in accordance with the Indenture; and (4) if the Trustee is unable to purchase Bonds under (3) above, then, subject to the Indenture, the Trustee shall redeem Bonds to exhaust as nearly as possible the amounts remaining in the Redemption Account under the Indenture after payment of the amounts described in clauses (A), (B), (C) and (D) above. Upon written direction and presentation of a Cash Flow Certificate from the Bond Bank, the Trustee may transfer moneys to the General Account (pursuant to the Indenture.)

**Bond Issuance Expense Account.** There will be deposited in the Bond Issuance Expense Account: (i) a portion of the proceeds of the 2004A Bonds in an amount equal to the estimated costs of issuing the 2004A Bonds and the Qualified Obligations, and (ii) any other amounts required to be deposited therein pursuant to the Indenture. Upon receipt by the Trustee of invoices and requisitions certified by the Bond Bank, funds in the Bond Issuance Expense Account will be disbursed to pay the costs of issuing the 2004A Bonds and the Qualified Obligations. Any funds remaining in the Bond Issuance Expense Account ninety days after the issuance of Bonds will be transferred to the Acquisition Account and the Bond Issuance Expense Account may, at the direction of the Bond Bank, be closed.

**Hedge Payments Account.** There will be deposited in the Hedge Payments Account on such dates as are specified in the Indenture an amount which, together with any other moneys already on deposit therein and available to make such payment is not less than such Hedge Payments coming due on such payment date. Moneys in the Hedge Payments Account shall be used solely to pay Hedge Payments under Hedge Agreements when due and payable. In the alternative, the Bond Bank may provide in any supplemental indenture that such Hedge Payments are subordinate to the payments on the Bonds.

**Series 2004 Remarketing Reimbursement Fund.** In the event the 2004A Bonds are converted to bear interest at a variable rate other than an Auction Rate, the Trustee will create a Series 2004 Remarketing Reimbursement Fund. The Series 2004 Remarketing Reimbursement Fund will not be part of the Trust Estate and will not considered part of the security for the 2004A Bonds, but will be used solely in connection with the remarketing of the 2004A Bonds as set forth in the 2004 Supplemental Indenture.

**Capitalized Interest Account.** There will be deposited in the Capitalized Interest Account all moneys required to be deposited therein in accordance with Article VI of the Indenture.

**Debt Service Reserve Fund.** The Debt Service Reserve Fund shall be used solely for the payment of interest on and principal of the Bonds and only if moneys in the General Account are insufficient to pay interest on and principal of the Bonds after making all required transfers from the Redemption Account to the General Account. Notwithstanding the foregoing, the Trustee may disburse moneys in the Debt Service Reserve Fund to the trustee for
the Qualified Obligations to be used in accordance with the provisions of the Resolution relating to the uses of the Debt Service Reserve Account established thereunder.

The Bond Bank may satisfy all or any part of its obligation to maintain an amount in the Reserve Fund at least equal to the Bond Bank Reserve Requirement by depositing a reserve fund credit instrument in the Debt Service Reserve Fund.

**Rebate Fund.** There shall be made all deposits and disbursements as required by law from the Rebate Fund solely in accordance with the Bond Bank’s written direction. Money at any time deposited in the Rebate Fund will be held by the Trustee in trust and applied in accordance with the provisions of the Indenture. The Trustee will remit part or all of the balances in the Rebate Fund to the United States, as directed by the Bond Bank. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any rebate amount, or provision made therefor satisfactory to the Trustee, will be distributed to the Bond Bank.

**Investment of Money**

Subject to the right of the Bond Bank to direct the investment or deposit of funds under the Indenture, moneys in any Fund or Account (except the Redemption Account) shall be continuously invested and reinvested or deposited or redeposited by the Trustee in Investment Securities.

Any moneys in the Redemption Account shall be invested only in Governmental Obligations as directed by the Bond Bank. Any moneys in the Rebate Fund shall be invested as directed by the Bond Bank from time to time. All such investments shall at all times be a part of the Fund or Account in which the moneys used to acquire such investments had been deposited and all Investment Earnings on such investments shall be deposited as received in the General Account, except for income and profits on investment of funds in the Rebate Fund which shall remain in the Rebate Fund and except for Investment Earnings on the Bond Issuance Expense Account, the Capitalized Interest Account and Debt Service Reserve Fund. Any investment losses shall be charged to the Fund or Account (including the Rebate Fund) in which moneys used to purchase such investment had been deposited.

In computing the amount in any Fund or Account held under the provisions of this Indenture, except the Debt Service Reserve Fund, Investment Securities shall be valued at the amortized cost thereof (including in such cost accrued interest paid). Securities covered by repurchase agreement shall be valued at the market value of the collateral securing the repurchase agreement. In computing the amount in the Debt Service Reserve Fund and compliance with the Debt Service Reserve Requirement, Investment Securities shall be valued at their amortized costs, including interest accrued to the date of valuation. The Debt Service Reserve Fund shall be valued annually on the last day of each Fiscal Year.

Except for taxable Bonds issued under the Indenture, the Bond Bank shall (a) certify to the owners of the Bonds from time to time outstanding that moneys on deposit in any Fund or Account in connection with the Bonds or in the Rebate Fund, whether or not such moneys were derived from the proceeds of the sale of the Bonds or from any other sources, are not intended to be used in a manner which will cause the interest on the Bonds to become includable in gross income for federal tax purposes and (b) covenant with the owners of the Bonds from time to time outstanding that, so long as any of the Bonds remain outstanding, moneys on deposit in any Fund or Account established in connection with the Bonds or in the Rebate Fund, whether or not such moneys were derived from the proceeds of the sale of the Bonds or from any other source, will not be used in any manner which will cause the interest on the Bonds to become includable in gross income for federal tax purposes under the Code.

**Additional Bonds**

Additional Bonds may be issued from time to time only for the purchase of Additional Qualified Obligations, including, but not limited to, Refunding Qualified Obligations, issued by a Qualified Entity and payable from Net Revenues on a parity with the Bonds or to refund all or a portion of the outstanding Bonds. Any Additional Bonds shall be authorized by a supplemental indenture, will be secured by the supplemental indenture and will be equally and ratably payable from the Trust Estate.
The Bond Bank covenants, among other things, that:

(a) it will faithfully perform all provisions contained in each Bond and the Indenture and will promptly pay or cause to be paid (solely from the Trust Estate) the principal of, and interest on every Bond, on the dates and at the places and in the manner stated in the Bonds;

(b) it is duly authorized under the constitution and laws of the State of Indiana, including particularly the Act, to issue the Bonds and to pledge the Revenues and all other property as pledged in the Indenture;

(c) it will do all acts and things necessary to receive and collect Revenues (including enforcement of the prompt collection of all arrears on Qualified Obligation Payments) and to protect its rights with respect to or to maintain any insurance on the Qualified Obligations;

(d) it will promptly do, execute, acknowledge and deliver all indentures supplemental to the Indenture and to take all action deemed advisable and necessary by the Trustee for the better securing of the Bonds;

(e) all books and documents in its possession relating to the Qualified Obligations shall at all times be open to inspection by such accountants or other agencies or persons as the Bond Bank or the Trustee may from time to time designate;

(f) it will maintain proper books of records and accounts and: (i) within 120 days of each Fiscal Year, file with the Trustee a copy of an annual report and audited financial statements; and (ii) copies of all reports filed with the Bond Bank pursuant to the Purchase Agreement;

(g) it will not (i) permit any material change in any Qualified Obligation; or (ii) sell or dispose of any Qualified Obligations unless it provides a Cash Flow Certificate to the Trustee. The Bond Bank will (i) enforce remedies available to owners of Qualified Obligations and (ii) pursue applicable remedies set forth in Indiana Code 5-1.4-8-4, to the extent such action would not adversely affect the validity of the Qualified Obligations;

(h) at least sixty (60) days prior to the beginning of the Fiscal Year prepare and file with the Trustee a preliminary budget for the succeeding Fiscal Year; and

(i) it will regularly review investments held by the Trustee in the Funds and Accounts.

Tax Covenants

In order to preserve the exclusion of interest on the Bonds from gross income for federal income tax purposes and as an inducement to purchasers of the Bonds, the Bond Bank represents, covenants, and agrees that the Bond Bank will take no action nor fail to take any action with respect to the Bonds that would result in the loss of the exclusion from gross income for federal tax purposes of interest on the Bonds under Section 103 of the Code, nor will it act in any other manner which would adversely affect such exclusion and it will not make any investment or do any other act or thing during the period that the Bonds are outstanding which would cause any of the Bonds to be arbitrage bonds within the meaning of Section 148 of the Code, all as in effect on the date of delivery of the Series of Bonds. These tax covenants are based solely on current law in effect and in existence on the date of issuance of the Bonds. It shall not be an event of default under the Indenture if interest on any Series Bond is not excludable from gross income pursuant to any provision of the Code which is not in existence and in effect on the issue date of the Bonds. The Bond Bank will also rebate any necessary amounts to the United States of America to the extent required by the Code.

Notwithstanding any provision of the Indenture to the contrary, the Bond Bank may elect to issue a Series of Bonds, the interest on which is not excludable from gross income for federal tax purposes, so long as such election does not adversely affect the exclusion from gross income of interest for federal tax purposes on any other Series of Bonds.
Bonds, by making such election on the date of delivery of such Series of Bonds. In such case, the tax covenants in this Indenture shall not apply to such Series of Bonds.

Default and Remedies

Events of default under the Indenture include: (i) failure to punctually pay the principal or interest on any of the Bonds; (ii) occurrence of certain events of bankruptcy or insolvency of the Bond Bank; (iii) default in the performance or observance of any other of the covenants, agreements of conditions by the Bond Bank under the Indenture and the continuance of such default for sixty (60) days after receipt of written notice; (iv) failure to remit to the Trustee any moneys required to be remitted under the Indenture; (v) any warranty, representation or other statement is found to be false or misleading, when made, in any material respect and failure to remedy the same for sixty (60) days after receipt of written notice; and (vi) the Bond Bank for any reason shall be rendered incapable of fulfilling its obligations under the Indenture.

Upon the occurrence of one or more events of default, the Trustee may, and shall upon written request of the holders of at least twenty-five percent (25%) in principal amount of the Bonds then outstanding, pursue any available remedy by suit at law or in equity, whether for specific performance of any covenant or agreement contained in the Indenture or in aid of any power granted therein, to the extent permitted by law, the appointment of a receiver.

No holder of any of the Bonds shall have the right to institute any proceeding in law or in equity, or for the appointment of a receiver, or for any other remedy under the Indenture without complying with the provisions of the Indenture.

Remedies. In case of an event of default under the Indenture, the Trustee will proceed to protect and enforce its rights and the rights of the owners of the Bonds under the Indenture by a suit, action or proceeding in equity or at law or otherwise. The Trustee will be entitled to the appointment of a receiver of the Trust Estate and the Revenues.

Acceleration. If the Trustee certifies that there are sufficient moneys on deposit in the Funds and Accounts established under the Indenture to pay the principal and accrued interest on all outstanding Bonds, the Trustee may by notice in writing to the Bond Bank and Corporation Counsel of the City, declare the principal of all the outstanding Bonds, and the interest accrued thereon, to be due and payable immediately.

Application of Collection Proceeds. The proceeds of any collection efforts will be deposited in the General Account, and all such moneys in the General Account will be applied by the Trustee as follows:

(i) To the payment of costs and expenses of suit, if any, and of the expenses, liabilities and advances incurred or made under the Indenture by the Trustee and any other moneys owed to the Trustee; then

(ii) Unless the principal of all Bonds shall have become due and payable, in the following order to the payment of: (i) interest then due on the Bonds, including interest on overdue principal of the Bonds; (ii) principal then due of the Bonds; and (iii) principal of and interest on Bonds thereafter due either at maturity or upon call for redemption; then

(iii) If the principal of all of the Bonds shall have become due and payable, all of such moneys shall be applied to the payment of unpaid principal and interest on the Bonds; then

(iv) To payment of the Bond Insurer of any amounts due.

Whenever moneys are to be so applied, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless the Trustee 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 dates shall cease to accrue. The Trustee shall establish a special record date for such
payments and shall mail, at least fifteen (15) days prior to such special record date, such notice as it may deem
appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to
make payment of principal to the owner of any Bond until such Bond shall be presented to the Trustee for
appropriate endorsement or for cancellation if fully paid.

Whenever all principal of and interest on all Bonds have been paid and all expenses and charges of the Trustee
have been paid any balance remaining in the General Fund shall be paid as provided in the Article VI of the
Indenture.

Supplemental Indentures

Supplemental Indentures Not Requiring Bondholder Consent. The Bond Bank and the Trustee may, with
notice to the Bond Insurer and without obtaining the approval of the holders of the Bonds, enter into supplemental
indentures (i) to cure any ambiguity or formal defect or omission in the Indenture; (ii) to grant to the Trustee for the
benefit of such holders any additional benefits, rights, remedies, powers or authorities that may be lawfully granted;
(iii) to subject to the pledge of the Indenture additional security, revenues, properties, or collateral; (iv) to amend the
Indenture or any supplemental indenture to permit qualification under the Trust Indenture Act of 1939, as amended;
(v) to evidence the appointment of a separate or co-trustee or the succession of a new trustee, registrar, or paying
agent; (vi) to provide for the issuance of each additional series of Bonds permitted by the Indenture; (vii) to refund
all or a portion of the Bonds; (viii) to permit compliance with any future federal tax law; and (ix) for any other
purpose which the Trustee, in its sole discretion, determines will not have a material adverse effect on the interests
of the owners of the Bonds; provided, however, that the Bond Bank and the Trustee will make no amendment
permitting the purchase of obligations other than Additional Qualified Obligations.

Supplemental Indentures Requiring Bondholder Consent. With the consent of the Bond Insurer so long as the
Policy is in effect or the owners of not less than a majority of the aggregate principal amount of Bonds outstanding
which are affected (exclusive of bonds held by the Bond Bank), the Bond Bank and the Trustee may from time to
time enter into a supplemental indenture for the purpose of adding any provisions to or changing in any manner or
eliminating any of the provisions of the Indenture or of any supplemental indenture; provided, however, that no such
supplemental indenture shall without the consent of the owners of all of the outstanding Bonds: (i) extend the
maturity of any Bond or change the rate of interest thereon or extend the time of payment of interest, or reduce the
amount of the principal thereof, or reduce any premium payable on the redemption thereof; (ii) reduce the aforesaid
percentage of owners required to approve any such supplemental indenture; (iii) permit a privilege or priority of any
Bond or Bonds over any other Bond or Bonds; (iv) permit a reduction in the aggregate principal amount of the
Bonds required for consent to such supplemental indenture; (v) permit the creation of any lien securing any Bonds
other than a lien ratably securing all of the Bonds outstanding under the Indenture; (vi) permit any modification of
the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee without the written
consent of the Trustee; or (vii) a reduction in the Bond Bank Common Reserve Requirement.

Defeasance

The covenants, liens and pledges entered into, created and pursuant to the Indenture may be fully discharged
and satisfied with respect to the Bonds in any one or more of the following ways:

(i) By paying all of the principal, premium, if any, and interest on the Bonds, when the same become
due and payable;

(ii) By depositing with the Trustee in the manner provided by the Indenture and for such purpose, at
or before the date or dates of maturity or redemption, moneys in the necessary amount to pay or redeem all of
the Bonds and the premium, if any, and interest thereon accrued to the date of payment;

(iii) By depositing with the Trustee and for such purpose, at or before the dates of maturity or
redemption, noncallable or nonprepayable Governmental Obligations in an amount sufficient, including any
income or increment to accrue thereon, but without the necessity of any reinvestment, to pay or redeem all the
Bonds and the interest thereon accrued to the date of payment in accordance with their terms; or
(iv) By depositing with the Trustee for such purpose a combination of such moneys and Governmental Obligations and all fees and expenses of the Trustee.

Upon such complete discharge and satisfaction with the consent of the Bond Insurer, the Indenture will cease, terminate and be void.

Upon the deposit with the Trustee money or Governmental Obligations in the amount as described above, provided that if the Bonds are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Indenture, or such provisions satisfactory to the Trustee have been made for the giving of such notice, the Indenture may be discharged in accordance with the provisions of the Indenture, but the limited liability of the Bond Bank with respect to the Bonds to be redeemed shall continue, provided that the owners thereof shall thereafter be entitled only to payment out of the money or Governmental Obligations deposited with the Trustee for their payment.

**Bond Insurance**

As long as the Policy is in effect and the Bond Insurer is not in default of its payment obligation under the Policy, the Bond Insurer shall be deemed the exclusive owner of the 2004A Bonds for the purpose of (i) execution and delivery of any amendment, modification, supplement or change of the Indenture or the Bond Resolution requiring bondholder consent, or (ii) the direction or right to consent to any action or remedy to be undertaken by the Trustee at the request of the owners of the 2004A Bonds. The Bond Bank is the owner of all the 2004 Waterworks Revenue Bonds and agrees that the Bond Insurer shall, as long as the Policy is in effect, be deemed the exclusive owner of the 2004 Waterworks Revenue Bonds for the purpose of (i) execution and delivery of any amendment, modification, supplement or change of the Indenture or the Bond Resolution requiring bondholder consent, or (ii) the direction or right to consent to any action or remedy to be undertaken by the Trustee at the request of the owners of the 2004 Waterworks Revenue Bonds.

As long as the Policy is in effect and the Bond Insurer is not in default of its payment obligation under the Policy, the Bond Insurer, as the deemed owner of the 2004A Bonds, shall have the right to direct all remedies if an Event of Default shall have occurred with respect to the 2004A Bonds. The Bond Insurer shall have the right to institute any suit, action, or proceeding at law or in equity as holders of the 2004A Bonds in accordance with the Indenture. Any acceleration of principal payments on the 2004A Bonds is subject to the prior consent of the Bond Insurer.

On the date of closing, the Bond Bank will enter into the Insurance Agreement which contains additional covenants and obligations of the Bond Bank and the Waterworks Department with respect to the 2004A Bonds.

The Bond Insurer has also insured the scheduled payment of principal of and interest on the 2002 Bonds under a financial guaranty insurance policy (the “2002 Policy”). The Bond Insurer has same rights with respect to the 2002 Bonds as described above with respect to the 2004A Bonds so long as the 2002 Policy is in effect and the Bond Insurer is not in default of its payment obligations thereunder.
SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

Certain capitalized terms used in this summary are defined in “APPENDIX B3—Definitions.”

Source of Payment

The Waterworks Revenue Bonds are special revenue obligations of the Waterworks Department payable solely out of Net Revenues and any applicable Pledged Funds.

Application of Bond Proceeds

The proceeds of the 2004 Waterworks Revenue Bonds will be deposited to the Bond Bank funds and accounts pursuant to the Indenture as described in “APPENDIX B1—Summary of Certain Provisions of the Indenture—Funds and Accounts.”

Establishment of Funds and Accounts

Water Fund. The “Water Fund,” which consists of a self-balancing group of accounts, including, without limitation, the respective separate accounts and subaccounts, constitutes an independent fiscal and accounting entity. Separate accounts and subaccounts other than those hereinafter described pertaining to the Water Fund may from time to time be created, terminated, and otherwise modified by the Waterworks Department in its discretion pursuant to a supplemental resolution or a Board Policy.

Bond Fund. The “Bond Fund” is created and established within the “Water Fund” and shall be held by the Trustee. The following Funds and Accounts are designated therein: (i) “Interest Account;” (ii) “Principal Account;” (iii) ”Hedge Payments Account;” (iv) “Reserve Account,” with a “Common Reserve Subaccount;” and (v) “Rebate Fund.”

Interest Account. At least one business day prior to each Interest Payment Date or Redemption Date on the Waterworks Senior Bonds, the Waterworks Department will transfer from the Revenue Fund into the Interest Account an amount, together with any other available moneys on deposit in such Interest Account, sufficient to pay the interest on the Waterworks Senior Bonds due on such date. Moneys in the Interest Account will be used solely to pay interest on the Waterworks Senior Bonds when due and payable at maturity or upon redemption. The Waterworks Department will also deposit all Hedge Receipts under Senior Hedge Agreements in the Interest Account from time to time as and when received.

Principal Account. At least one business day prior to each Principal Payment Date or Redemption Date on the Waterworks Senior Bonds, the Waterworks Department will transfer from the Revenue Fund into the Principal Account, an amount, together with any other moneys from time to time on deposit in such Principal Account, sufficient to pay principal of and premium, if any, on the Waterworks Senior Bonds due on such date. Moneys in the Principal Account will be used solely for the payment of principal of and premium, if any, the Waterworks Senior Bonds as the same shall become due and payable at maturity or upon redemption.

Hedge Payments Account. On or before the business day preceding each payment date for Hedge Payments under Senior Hedge Agreements, the Waterworks Department will transfer from the Revenue Fund into the Hedge Payments Account an amount which, together with any other moneys already on deposit therein and available to make such payment is not less than such Hedge Payments coming due on such payment date. Moneys in the Hedge Payments Account will be used solely to pay Hedge Payments under Senior Hedge Agreements when due and payable. In the alternative, the Waterworks Department may provide in a supplemental resolution that such Hedge Payments are subordinate to the payments on the Waterworks Senior Bonds.
Reserve Account. The Waterworks Department, will transfer to the Trustee from any moneys remaining in the Revenue Fund on the first business day of each month on a pro rata basis (based on the outstanding principal amount of the related Waterworks Senior Bonds), (i) the amount of any monthly deposit required to restore any deficiency and (ii) the amount of any monthly deposit required to fund the applicable Waterworks Reserve Requirement.

The moneys and the Reserve Account Credit Facility, if any, in the applicable subaccount of the Waterworks Reserve Account will be accumulated and maintained as a continuing reserve to be used to prevent deficiencies in the payments of principal of and interest on the Waterworks Senior Bonds which have a claim on the applicable subaccount of the Waterworks Reserve Account for payment. Any cash held in a subaccount of the Waterworks Reserve Account in excess of the applicable Waterworks Reserve Requirement will be transferred from time to time by the Trustee to the Revenue Fund at the direction of the Waterworks Department.

Rebate Fund. The Waterworks Department will transfer such amounts to the Rebate Fund to be used for the purpose of making the payments to the United States of America required by such covenant and Section 148(f) of the Code. Any amounts in the Rebate Fund in excess of those required to be on deposit therein may be withdrawn therefrom and used for any lawful purpose.

Revenue Fund. The Revenue Fund is created within the “Water Fund” and will be under the control of the Waterworks Department and not held by the Trustee. There shall be deposited daily into the Revenue Fund, upon their receipt from time to time by the Waterworks Department, all Gross Revenues. The moneys therein will be applied, as more fully described in the Resolution, in the following order of priority: (i) on or before the last business day of each calendar month to the Operation and Maintenance Fund; (ii) to the Interest Account, Principal Account and Hedge Payments Account on a pro rata basis to pay the principal of, premium, if any, and interest on the Waterworks Senior Bonds and to make Hedge Payments under the Senior Hedge Agreements; (iii) on the first business day of each month on a pro rata basis (a) the amount of any monthly deposit required to restore any deficiency in any subaccount of the Reserve Account and (b) the amount of any monthly deposit required to fund the applicable reserve requirement; (iv) to the Rebate Fund; and (v) to any account or subaccount of the Water Fund, as described in any supplemental resolution or in the Board Policy. Any cash held in a subaccount of the Waterworks Reserve Account in excess of the applicable Waterworks Reserve Requirement will be transferred from time to time by the Trustee to the Revenue Fund at the direction of the Waterworks Department.

Operation and Maintenance Fund. The Resolution creates the Operation and Maintenance Fund of the Water Fund which will be under the control of the Waterworks Department and not held by the Trustee. Moneys in the Operation and Maintenance Fund shall be used to pay the Operation and Maintenance Expenses for the next calendar month. Any surplus remaining at the end of the Fiscal Year that is not needed for Operation and Maintenance Expenses may be transferred for credit to the Revenue Fund.

Construction Fund. The Resolution creates the Construction Fund which will be under the control of the Waterworks Department and not held by the Trustee. After the required deposit into the Common Reserve Subaccount, the remaining balance of the bond proceeds will be credited to the Construction Fund. Monies, except as expressly provided in the Resolution, will be withdrawn from the Construction Fund for the Cost of the 2004 Project only upon claims approved by the Board in the same manner that other claims against the Waterworks are presented and paid. Certain payments described in the 2004 Purchase Agreement may be paid as set forth therein by wire transfer or other method at closing on the 2004 Waterworks Revenue Bonds.

Investment of Funds and Accounts

The Trustee will invest, upon instructions of the Controller, moneys not needed for immediate use in any account or subaccount created in the Resolution in any Permitted Investments. Such Permitted Investments will mature not later than the date or dates on which the Controller estimates the proceeds thereof will be needed, and, in any event, in accordance with State law. Any Permitted Investment purchased as an investment of moneys in any account or subaccount, will be deemed at all times to be a part of such account or subaccount and held in trust therefor. Except as otherwise provided, any interest accruing thereon and any other gain realized therefrom will be
retained and credited to such account or subaccount. Any loss in any account or subaccount resulting from any such investments in Permitted Investments will be retained and credited to such account or subaccount.

No loss or profit in any account or subaccount on any investments or reinvestments in Permitted Investments shall be deemed to take place as a result of fluctuations in the market quotations of the Permitted Investments, prior to the sale or maturity thereof. In the computation of the amount in any account or subaccount for any purpose hereunder, except as herein otherwise expressly provided, Permitted Investments will be valued at the amortized cost thereof (including any amount paid as accrued interest at the time of purchase of the obligation) and other bank deposits shall be valued at the amounts deposited, exclusive of any accrued interest or any other gain to the Waterworks Department until such gain is realized. The Waterworks Common Reserve Subaccount shall be valued annually on such basis on the last day of each Fiscal Year. Series Reserve Subaccounts will be valued as provided in a supplemental resolution.

Additional Waterworks Bonds

**Senior and Waterworks Subordinate Bonds.** The Waterworks Department may issue Waterworks Parity Bonds and enter into Senior Hedge Agreements, and the Waterworks Department will issue no other obligations of any kind or nature payable from or enjoying a lien on the Net Revenues and the Senior Pledged Funds having a priority over or (except as permitted in the Resolution), on a parity with the 2004 Waterworks Revenue Bonds. Notwithstanding the foregoing, the Waterworks Department may issue or enter into Waterworks Subordinate Bonds or other obligations payable from Net Revenues pursuant to a supplemental resolution if the Waterworks Subordinate Bonds or such other obligations are junior and subordinate in lien on and right of payment from Net Revenues and Senior Pledged Funds to all Waterworks Senior Bonds.

**Waterworks Parity Bonds.** Additional Waterworks Bonds payable from Net Revenues may be issued pursuant to a supplemental resolution and such Waterworks Bonds will constitute Waterworks Parity Bonds if the Waterworks Department certifies that (i) no Event of Default has occurred and is continuing or any such Event of Default would be cured following the issuance of the proposed Waterworks Parity Bonds; (ii) either (1) the Net Revenues were at least equal to 1.1 times the Debt Service Requirements for the most recent Fiscal Year for which audited financial statements are available or (2) the Net Revenues were at least equal to 1.1 times the Debt Service Requirements for such Fiscal Year if the Net Revenues had been adjusted as more fully described in the Resolution.

In addition, the Waterworks Department was authorized to issue additional bonds which constitute Waterworks Parity Bonds in an aggregate principal amount not to exceed $50,000,000 on or before July 1, 2004 without complying with the parity test set forth above. The 2004 Waterworks Revenue Bonds are being issued pursuant to this provision.

In addition, if the Waterworks Department finds it desirable to refund any outstanding bonds, such bonds may be refunded in whole or in part, and such refunding bonds may be issued as Waterworks Parity Bonds upon compliance with the parity test set for the above. Further, if the bonds to be refunded are Waterworks Senior Bonds, the refunding bonds may be issued as Waterworks Parity Bonds if the Waterworks Department certifies that the present value of the annual Debt Service Requirements of the refunding bonds is less than or equal to the present value of the annual Debt Service Requirements of the Waterworks Senior Bonds being refunded, without complying with the parity test set for the above.

**Rate Covenant**

The Waterworks Department will, to the extent permitted by law, adopt, from time to time revise, and continue in effect, a schedule of rates, fees, and other charges for water and other goods and services provided by, and for the use of, the Waterworks as may be necessary or proper in order that the amount of the Gross Revenues in each Fiscal Year will at least equal the sum of: (i) Gross Revenues required to pay all Operation and Maintenance Expenses for such Fiscal Year; and (ii) the greater of (a) 1.1 times the Debt Service Requirements for such Fiscal Year, or (b) all amounts payable from the Gross Revenues, including, without limitation, the debt service payments on any Waterworks Bonds, payments due in accordance with the terms of any Hedge Agreement, Credit Facility Agreement or Reserve Account Credit Facility, the funding of reserves for Operation and Maintenance Expenses, and providing for any deficiencies in any fund, account or subaccount of the Water Fund.
For purposes of satisfying the rate covenant, the Waterworks Department may transfer funds from the Rate Stabilization Account, if any, created by the Waterworks Department from time to time, to the Revenue Fund in any Fiscal Year. The amount so transferred will be treated as Gross Revenues for such Fiscal Year for purposes of calculating the foregoing rate covenant and the conditions for the issuance of Waterworks Parity Bonds; provided, the amount of any such transfer treated as Gross Revenues for any Fiscal Year will not exceed 10% of the Debt Service Requirements for such Fiscal Year.

**Covenants of Waterworks Department**

The Waterworks Department covenants, among other things that:

(a) it will faithfully and punctually perform or cause to be performed all duties with respect to the Net Revenues and the Waterworks required by the Constitution and laws of the State and the various resolutions and other instruments of the Waterworks Department, including, without limitation, the proper segregation of the proceeds of the Waterworks Bonds and any securities hereafter authorized and pertaining to the Waterworks and Net Revenues and their application from time to time to the respective accounts provided therefor;

(b) it will, so far as it may be authorized by law, pass, make, do, execute, acknowledge, deliver, and file or record all and every such further instruments, acts, deeds, conveyances, assignments, transfers, other documents, and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning, and confirming all and singular the rights, the Net Revenues, and hereby Pledged Funds, or intended so to be, or which the Waterworks Department may hereafter become bound to pledge or to assign, or as may be reasonable and required to carry out the purposes of the Resolution and any instrument supplemental thereto, and to comply with the Enabling Legislation. It will at all times, to the extent permitted by law, defend, preserve, and protect the pledge of the Net Revenues and Pledged Funds and all the rights of every holder of any Waterworks Bonds against all claims and demands of all Persons whomsoever;

(c) it will establish and enforce reasonable rules and regulations governing the operation, care, repair, maintenance, management, control, occupancy, use, and services of the Waterworks. It will observe and perform all of the terms and conditions contained in the Resolution and will comply with all valid acts, rules, regulations, orders, and directives of any legislative, executive, administrative, or judicial body applicable to the Waterworks or the Waterworks Department;

(d) it will at all times endeavor to employ in connection with the operation of the Waterworks in executive and managerial capacities only individuals competent therefor by reason of training and experience. The Waterworks Department will administer the Waterworks in accordance with sound business principles and prudent utility practice and will administer the Waterworks in accordance with sound business principles and prudent utility practice;

(e) it will, insofar as it may legally do so, without any violation of other provisions of the Resolution, maintain, preserve, keep, and operate the Waterworks or cause the Waterworks to be maintained, preserved, kept, and operated in good repair, working order, and condition;

(f) it will at all times operate the Waterworks properly and in a sound and economical manner and will maintain, preserve, and keep the Waterworks properly, or cause the same, so to be maintained, preserved, and kept, with the appurtenances and every part and parcel thereof, in good repair, working order, and condition and will from time to time make or cause to be made all necessary and proper repairs and replacements;

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(g) it will not construct other facilities or structures to be operated by the Waterworks Department separate from the Waterworks to furnish customers of the District with water if such action will have a material adverse effect on the Waterworks revenues otherwise available for the payment of the Waterworks Bonds;

(h) it will maintain its governing body structure, as set forth in General Ordinance No. 112, 2001, and legal existence so long as any of the Waterworks Bonds remain outstanding, unless a body created by the General Assembly of the State for the express purpose of succeeding the Waterworks Department, succeeds by action of the Board of Directors of the Waterworks Department or by operation of law, to the duties, privileges, powers, liabilities, disabilities, immunities, and rights of the Waterworks Department and is obligated by law to operate and maintain the Waterworks and to fix and collect Net Revenues as herein provided without adversely and materially affecting at any time the privileges and rights of any holder of any outstanding bonds;

(i) it will not sell, lease, alienate or otherwise dispose of either all or a substantial part of the Waterworks until all the Waterworks Bonds have been paid in full or provision has been made therefor, except as permitted by the Bond Resolution;

(j) it will pay into any account of the Water Fund the amount of any reward received if any part of the Waterworks will be taken by the exercise of a power of eminent domain;

(k) it will pay or cause to be paid all taxes, payments in lieu of taxes, assessments, and other municipal or governmental charges, if any, lawfully levied, payable or assessed upon or in respect of the Waterworks or the Gross Revenues, when the same will become due. It will duly observe and comply with all valid requirements of any municipal or governmental authority relative to the Waterworks, except for any period during which the validity of the same is being contested in good faith by proper legal proceedings. It will pay or cause to be discharged or will make adequate provision to satisfy and to discharge all lawful claims and demands for labor, materials, supplies, or other objects which, if unpaid, might by law become a lien upon the Waterworks or the Gross Revenues. Nothing herein contained requires the Waterworks Department to pay or cause to be discharged or to make provision for any such tax, assessment, lien, charge, or demand before the time when payment thereon will be due, or so long as the validity thereof will be contested in good faith;

(l) it will not create or permit to be created any Lien on the Gross Revenues or the Waterworks, except for permitted encumbrances;

(m) it will keep proper records and accounts, separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to the Waterworks and to all moneys pertaining thereto, including, without limitation, the Gross Revenues;

(n) it shall confer to the Trustee the right at reasonable times to inspect and make copies of all financial statements, other records, accounts, and data concerning the Waterworks or the Gross Revenues; and

(o) it will cause an audit to be made for each Fiscal Year within 210 days following the close of the Fiscal Year of such records, accounts, and subaccounts by an Independent Accountant, and will order an audit report showing the receipts and disbursements for each account and subaccount pertaining to the Waterworks, including, without limitation, the Gross Revenues.

Insurance. The Waterworks Department, will at all times maintain, or cause to be maintained, such public liability insurance and property insurance as is customarily maintained by entities similar to the Waterworks.
The Waterworks Department may insure all or a portion of the above risks through a program of self-insurance.

The proceeds of any property insurance relating to the Waterworks will be payable to the Waterworks Department and applied to the repair or replacement of the damaged or destroyed property so as to restore the same to use. After any loss or damage to any useful portion of the Waterworks which is covered by property insurance, the Waterworks Department will apply the proceeds of such property insurance to the extent necessary to the repair, reconstruction, and other replacement of the damaged or destroyed property. If such proceeds are more than sufficient for such purpose, the balance remaining will be applied as determined by the Waterworks Department. If such proceeds will be insufficient to repair, reconstruct, or otherwise replace the damaged or destroyed property pertaining to the Waterworks, the deficiency may be supplied by the Waterworks Department from other available moneys.

**Defeasance**

When principal of and premium, if any, and interest on a bond have been duly paid, the pledge and lien and all obligations under the Resolution will thereby be discharged as to that Bond and it will no longer be deemed to be outstanding. There will be deemed to be such due payment if the Waterworks Department has placed in escrow or in trust with a Trust Bank, an amount of moneys and Federal Securities, the maturing principal and interest on which will be sufficient to meet all such payment requirements of the bond, as such requirements become due to the fixed maturity date of the bond or to any Redemption Date or Redemption Dates as of which the Waterworks Department will have exercised or will have obligated itself to exercise its prior redemption option by a call of the bond thereafter maturing for payment on such date.

**Tax Covenants**

**State Tax Exemption.** The 2004 Waterworks Revenue Bonds, the interest thereon, the proceeds received by a holder thereof from the sale thereof to the extent of the holder’s cost of acquisition, or proceeds received upon redemption thereof prior to maturity, or proceeds thereof received at maturity, and the receipt of such interest and proceeds, is exempt from taxation under the laws of the State for all purposes except the State inheritance tax under Indiana Code 6-4-1. This exemption does not apply to measuring the franchise tax imposed on the privilege of transacting the business of a financial institution in the State under Indiana Code 6-5.5.

**Federal Tax Covenant.** The 2004 Project will be available for use by members of the general public. Use by a member of the general public means use by natural persons not engaged in a trade or business. No person or entity other than the City, the Waterworks Department, or another state or local governmental unit will use more than 10% of the proceeds of the 2004 Waterworks Revenue Bonds or property financed by the 2004 Waterworks Revenue Bond proceeds other than as a member of the general public. No person or entity other than the Waterworks Department, the City, or another state or local government unit will own property financed by the 2004 Waterworks Revenue Bond proceeds or will have any actual or beneficial use of such property pursuant to a lease, a management or incentive payment contract, arrangements such as take-or-pay or output contracts or any other type of arrangement that conveys other special legal entitlements and differentiates that person’s or entity’s use of such property from use by the general public, unless such uses in the aggregate relate to no more than 10% of the proceeds of the 2004 Waterworks Revenue Bonds. The Waterworks Department has entered into the Management Agreement for the management of the Waterworks and the terms of the Management Agreement comply with IRS Revenue Procedure 97-13, so that the Management Agreement will not give rise to private business use under the Code.

No more than 10% of the principal of or interest on the 2004 Waterworks Revenue Bonds is (under the terms of the 2004 Waterworks Revenue Bonds, the Resolution or any underlying arrangement), directly or indirectly, secured by an interest in property used or to be used for any private business use or payments in respect of any private business use or payments in respect of such property or to be derived from payments (whether or not to the Waterworks Department or the City) in respect of such property or borrowed money used or to be used for a private business use.
No more than 5% of the 2004 Waterworks Revenue Bond proceeds will be loaned to any person or entity other than another state or local governmental unit. No more than 5% of the 2004 Waterworks Revenue Bond proceeds will be transferred, directly or indirectly, or deemed transferred to a nongovernmental person in any manner that would in substance constitute a loan of the 2004 Waterworks Revenue Bond proceeds.

The Board of Directors of the Waterworks Department reasonably expects, as of the date hereof, that the 2004 Waterworks Revenue Bonds will not meet either the private business use test described in paragraphs (i) and (ii) above or the private loan test described in paragraph (iii) above during the entire term of the 2004 Waterworks Revenue Bonds.

No more than 5% of the proceeds of the 2004 Waterworks Revenue Bonds will be attributable to private business use as described in (i) and private security or payments described in (ii) attributable to unrelated or disproportionate private business use. For this purpose, the private business use test is applied by taking into account only use that is not related to any government use of proceeds of the issue (Unrelated Use) and use that is related but disproportionate to any governmental use of those proceeds (Disproportionate Use).

These foregoing covenants of the Waterworks Department are based solely on current law in effect and in existence on the date of delivery of such 2004 Waterworks Revenue Bonds.

The Waterworks Department further covenants that it will not take any action or fail to take any action with respect to any 2004 Waterworks Revenue Bonds that would result in the loss of the exclusion from gross income for federal tax purposes of interest on any 2004 Waterworks Revenue Bonds pursuant to section 148 of the Code, nor will the Waterworks Department act in any other manner which would adversely affect such exclusion. The Waterworks Department further covenants that it will not make any investment or do any other act or thing during the period that any of the 2004 Waterworks Revenue Bonds are outstanding which would cause any of the 2004 Waterworks Revenue Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code or any successor section of such Code or subsequent federal income tax statute or code which replaces or restates section 148, all as in effect on the date of delivery of the 2004 Waterworks Revenue Bonds. The covenants of the Waterworks Department contained in this section as to any particular 2004 Waterworks Revenue Bonds are based solely on current law in effect and in existence on the date of delivery of such 2004 Waterworks Revenue Bonds.

Events of Default and Remedies

Events of default and remedies therefor under the Resolution include but are not limited to the following:

(a) failure to pay principal and interest of any of the Waterworks Senior Bonds, or any redemption premium due in connection therewith, as it becomes due and payable;

(b) default in the performance or observance of any other of the covenants, contained in the Waterworks Senior Bonds or in the Resolution, and such default continues for 90 days after written notice;

(c) failure by any provider of a Credit Facility to pay the purchase price of Waterworks Senior Bonds under any Credit Facility then in effect in effect or delivery;

(d) delivery to the Waterworks Department by a Qualified Provider of written notice stating an “event of default” has occurred under any Senior Hedge Agreement;

(e) upon the happening and continuance of any of event of default, the holder or holders of not less than a majority in principal amount of the Waterworks Senior Bonds then outstanding or the Trustee therefor may proceed against the Waterworks Department and its agents, officers and employees either for the appointment of a receiver or for the specific performance of any covenant or agreement contained in the Resolution or by an award of execution of any power therein granted for the enforcement of any proper, legal, or equitable remedy as such holder or holders may deem most effectual to protect and to enforce the rights aforesaid, or thereto enjoin any act or thing which may be unlawful or in violation of any right of any holder of any Senior Bond, or to require the Waterworks Department to act as if it
were the trustee an expressed trust, or any combination of such remedies. All such proceedings at law or in equity will be instituted, had, and maintained for the equal benefit of all holders of the Waterworks Senior Bonds then outstanding.

(f) upon the happening of any event of default, the Waterworks Department will do and perform all proper acts on behalf of and for the holders of the Waterworks Senior Bonds to protect and to preserve the security created for the payment of the Waterworks Senior Bonds and to insure the payment of the Waterworks Senior Bonds promptly as the same become due. During any period of default, so long as any of the Waterworks Senior Bonds are outstanding, all Net Revenues will be paid into the Bond Fund, and, to the extent such revenues, if any, exceed the payment requirements of the outstanding Waterworks Senior Bonds and Hedge Payments under Senior Hedge Agreements, both accrued and to accrue to their respective fixed maturity dates or to any Redemption Date or Redemption Dates pertaining thereto, whichever is earlier, if any, into any like account or like accounts for any outstanding Waterworks Subordinate Bonds. If the Waterworks Department fails or refuses to proceed as in this section provided, the holder or holders of not less than a majority in principal amount of the Waterworks Senior Bonds then outstanding, after demand in writing, may proceed to protect and to enforce the rights of the holders of the Waterworks Senior Bonds as hereinabove provided; and to that end any such holders of outstanding Waterworks Senior Bonds will be subrogated to all rights of the Waterworks Department under any agreement, lease, or other contract involving Net Revenues, or the Waterworks entered into prior to the effective date of this Resolution or thereafter while any such Waterworks Senior Bonds are outstanding.

(g) nothing in the Resolution or any other instrument of the Waterworks Department will permit the acceleration of the time or times for the payment of the Waterworks Bonds, prior to their respective maturities or other due dates, even if the Waterworks Department defaults in the payment of any such Waterworks Bonds hereunder, except to the extent ordered by a court of competent jurisdiction.

Amendments

Supplemental Resolutions Requiring Consent of Owners.

With the consent of the owners of not less than a majority in aggregate principal amount of outstanding bonds, the Waterworks Department may from time to time and at any time adopt a supplemental resolution for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Resolution or of any supplemental resolution; provided, however, that no such supplemental resolution will: (1) extend the maturity date or due date of any mandatory sinking fund redemption with respect to any outstanding bond; (2) reduce or extend the time for payment of principal of, redemption premium, or interest on any outstanding bond; (3) reduce any premium payable upon the redemption of any bond or advance the date upon which any bond may first be called for redemption prior to its stated maturity date; (4) give to any Senior Bond or Waterworks Senior Bonds (or related Senior Hedge Agreements) a preference over any other Senior Bond or Waterworks Senior Bonds (or related Senior Hedge Agreements); (5) permit the creation of any lien on the Net Revenues having a lien equal to or prior to the lien created under the Resolution for the Waterworks Senior Bonds; (6) reduce the percentage of owners of either class of bonds required to approve any such supplemental resolution; or (7) deprive the owners of the bonds of the right to payment of the bonds from the Net Revenues, without, in each case, the consent of the owners of all the affected outstanding bonds. No amendment may be made which affects the rights or duties of any provider of a Credit Facility, Reserve Account Credit Facility or any Hedge Agreement without its prior written consent.

If the Waterworks Department intends to enter into or adopt any supplemental resolution, the Waterworks Department will mail, or cause the Registrar to mail, by registered or certified mail, to the holders of the bonds at their addresses as shown on the bond register, a notice of such intention along with a description of such supplemental resolution not less than thirty (30) days prior to the proposed effective date of such supplemental resolution. The consents of the holders of the bonds need not approve the particular form of wording of the proposed supplemental resolution, but it will be sufficient if such consents approve the substance thereof. Failure of the holders of any bond to receive the notice required in the Resolution will not affect the validity of any supplemental resolution if the required number of holders of the bonds will provide their written or deemed consent to such supplemental resolution.
Notwithstanding any provision of the Resolution to the contrary, upon the issuance of a Credit Facility to secure any bonds and for the period in which such Credit Facility is outstanding, the provider of a Credit Facility may have the consent rights of the holders of the bonds which are secured by such Credit Facility pertaining to some or all of the amendments or modifications of the Resolution, to the extent provided in the applicable supplemental resolution. Notwithstanding the foregoing, if a provider of a Credit Facility is granted the consent rights of the holders of any bonds in a supplemental resolution and refuses to exercise such consent rights, either affirmatively or negatively, then the holders of the bonds secured by the related Credit Facility may exercise such consent rights.

**Supplemental Resolutions Not Requiring Consent of Owners.**

The Waterworks Department, from time to time and at any time, may adopt one or more supplemental resolutions which thereafter will form a part of the Resolution, for any one or more or all of the following purposes:

(i) To add to the covenants and agreements of the Waterworks Department other covenants and agreements thereafter to be observed or to surrender, restrict, or limit any right or power reserved in the Resolution to or conferred upon the Waterworks Department;

(ii) To cure any ambiguity, or of curing, correcting, or supplementing any defective provision;

(iii) To subject to the lien and pledge of the Resolution additional revenues, receipts, properties, or other collateral;

(iv) To evidence the appointment of successors to any Trustee, Paying Agent(s), or Bond Registrar(s);

(v) To permit the qualification of the Resolution under the Trust Indenture Act of 1939 or any federal statute hereinafter in effect, and similarly to add such other terms, conditions, and provisions as may be permitted or required by such Trust Indenture Act of 1939 or any similar federal statute;

(vi) To make any modification or amendment required in order to make any Waterworks Bonds eligible for acceptance by DTC or any similar holding institution or to permit the issuance of any Waterworks Bonds or interests therein in book-entry form;

(vii) To modify any of the provisions of the Resolution in any respect if such modification will not become effective until after the Waterworks Bonds outstanding immediately prior to the effective date of such supplemental resolution will cease to be outstanding and if any Waterworks Bonds issued contemporaneously with or after the effective date of such supplemental resolution will contain a specific reference to the modifications contained in such subsequent proceedings;

(viii) To permit the qualification of any Waterworks Bonds for offer or sale under the securities laws of any state in the United States of America;

(ix) To provide for the issuance of Waterworks Parity Bonds or Waterworks Subordinate Bonds or the entry into a Hedge Agreement or Credit Facility;

(x) To provide for the issuance of Waterworks Parity Bonds or Waterworks Subordinate Bonds, and such modification may deal with any subjects and make any provisions which the Waterworks Department deems necessary or desirable for that purpose; and

(xi) To modify any of the provisions of the Resolution in any other respect that the Board of Directors of the Waterworks Department in good faith determines will not have a material adverse affect on the security for the Waterworks Bonds.
Any supplemental resolution authorized by the provisions of this section may be adopted by the Waterworks Department without the consent of or notice to the owners of any of the Waterworks Bonds at the time outstanding.

**Board Policy**

From time to time, the Board may in its sole discretion adopt policies and procedures which govern the administration and application of the Water Fund and all separate accounts and subaccounts thereof. Such policies and procedures are referred to as “Board Policy” and may be amended or supplemented from time to time in the sole discretion of the Board; however, no moneys may be transferred to any fund of the City except as provided in the Resolution or in the Purchase Agreement as to repayments of City appropriations made pursuant to Indiana Code 5-1.4. Further, such Board Policy shall not change the order of priority of application of Gross Revenues described in “Establishment of Funds and Accounts” herein in a manner which would have a material adverse effect on the rights of the Bond Bank, the Bond Insurer or the holders of the Waterworks Senior Bonds.

**Insurance Agreement**

On the date of closing, the Waterworks Department will enter into the Insurance Agreement which contains additional covenants and obligations of the Waterworks Department with respect to the 2004 Waterworks Revenue Bonds. See “APPENDIX B1—Summary of Certain Provisions of the Indenture—Bond Insurance.”
DEFINITIONS

Certain capitalized terms used in the Official Statement and the appendices are defined as follows:

“Acquire” or “Acquisition” includes the acquisition, purchase and assumption, or any combination thereof, of the assets and liabilities by the Waterworks Department under the Asset Purchase Agreement.

“Act” means the provisions of Indiana Code 5-1.4.

“Additional Bonds” means bonds issued pursuant to the Indenture and any supplemental indenture.

“Additional Qualified Obligations” means any Qualified Obligations which are payable from Net Revenues on a parity with the Waterworks Senior Bonds, issued by the Waterworks Department and purchased by the Bond Bank with a portion of the proceeds of a Series of Bonds.

“Adjustable Interest Rate” means any of the following types of interest rates: an Auction Rate, a Daily Interest Rate, a Weekly Interest Rate, a Bond Interest Term Rate and a Long-Term Interest Rate.

“Alternate Letter of Credit” means an irrevocable letter of credit authorizing drawings thereunder by the Trustee issued by a bank, a trust company or other financial institution, meeting the requirements of the 2004 Supplemental Indenture and approved by the Bond Insurer.

“Alternate Liquidity Facility” means any letter of credit, standby bond purchase agreement, line of credit, loan, guaranty or similar agreement by a Liquidity Facility Provider to provide liquidity support to pay the purchase price of 2004A Bonds (other than 2004A Bonds bearing interest at an Auction Rate or a Fixed Interest Rate) tendered for purchase in accordance with the provisions of the 2004 Supplemental Indenture, and approved by the Bond Insurer, issued to replace a Liquidity Facility.

“Asset Purchase Agreement” means the agreement among the City, IWC Resources Corporation and NiSource Inc. dated November 26, 2001.

“Board Policy” means those fiscal policies adopted by the Board of Directors of the Waterworks Department from time to time.

“Bond Bank” means The Indianapolis Local Public Improvement Bond Bank.

“Bond Bank Common Reserve Requirement” means at any time fifty percent (50%) of the Combined Maximum Annual Principal and Interest Requirements.

“Bond Bank Debt Service Reserve Requirement” shall mean the Bond Bank Common Reserve Requirement and any Bond Bank Series Reserve Requirement.

“Bond Bank Series Reserve Requirement” means the amount, if any, established by a Supplemental Indenture as the reserve requirement for a Series of Additional Bonds.

“Bond Insurer” means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York.

“Bond Interest Term” means, with respect to any 2004A Bond, each period established in accordance with the 2004 Supplemental Indenture during which such 2004A Bond bears interest at a Bond Interest Term Rate.

“Bond Interest Term Rate” means, with respect to each 2004A Bond, a term non-variable interest rate on such 2004A Bond established periodically in accordance with the 2004 Supplemental Indenture.
“Bonds” means, collectively, the 2002 Bonds, the 2004A Bonds and any Additional Bonds.

“Business Day” means, with respect to the 2004A Bonds, a day (a) other than a Saturday, a Sunday, a State holiday or the Friday after Thanksgiving Day; (b) on which banks located in New York City are not required or authorized to be closed; (c) on which the New York Stock Exchange is not closed; or (d) on which banks located in the cities in which the principal office or payment office of any Remarketing Agent, Letter of Credit Bank, Liquidity Provider or Broker-Dealer for such 2004A Bonds is not required or authorized to be closed.

“Cash Flow Certificate” means a certificate prepared by an accountant or firm of accountants in accordance with the Indenture concerning anticipated Revenues.

“Certified Rate” means, with respect to the 2004A Bonds or the 2004 Waterworks Revenue Bonds, the interest rate set forth in a certificate of the Chairperson of the Board of Directors or the Executive Director of the Bond Bank executed on or prior to the date of the initial issuance of such bonds, which interest rate shall be an assumed rate per annum equivalent to the Municipal Market Data AAA bond scale for bonds with a maturity of thirty (30) years.

“City” means the City of Indianapolis, Indiana.

“Code” means the Internal Revenue Code of 1986, as in effect on the date of issuance of the 2004A Bonds, and the applicable judicial decisions or published rulings, or any applicable regulations promulgated or proposed thereunder or under the Internal Revenue Code of 1954 as in effect immediately prior to the enactment of the Tax Reform Act of 1986.

“Combined Maximum Annual Principal and Interest Requirements” means the maximum aggregate amount of principal of and the interest on all Bonds which have a claim for payment on the Bond Bank Common Reserve Account falling due in any succeeding Fiscal Year. If the Bond Bank enters into a Hedge Agreement with respect to any such Series of Bonds bearing interest at a variable rate, the Bond Bank may provide in a Supplemental Indenture, that the rate of interest used in the foregoing sentence with respect to such Bonds shall be a rate equal to either (i) the rate taking into account payments under the Hedge Agreement; or (ii) the “25 Bond Revenue Index” as most recently published in *The Bond Buyer* prior to the date a firm offer to purchase the then proposed Bonds is accepted by the Bond Bank or if such index is no longer published, such other securities index as the Bond Bank reasonably selects. The interest requirements for the 2004A Bonds in any Interest Rate Period except the Fixed Interest Rate Period shall be calculated using the Certified Rate for this purpose.

“Conversion” means a conversion of a 2004A Bonds from one Interest Rate Period to another Interest Rate Period as provided in the 2004 Supplemental Indenture.

“Conversion Date” means the effective date of a Conversion of the 2004A Bonds.

“Cost of the 2004 Project” or any phrase of similar import, means all or any part designated by the Board of Directors of the Waterworks Department of the construction of the 2004 Project, which cost, at the option of the Board of Directors of the Waterworks Department (except as limited by law), may include all or any part of the incidental costs pertaining to construction of the 2004 Project, including, without limitation:

(a) Preliminary expenses advanced by the Waterworks Department, the Bond Bank or the City from funds available for use therefor or any other source;

(b) The costs of any due diligence, audits, studies, preliminary plans, other plans, specifications, estimates of costs, and other preliminary expenses;

(c) The costs of appraising, printing, estimates, advice, services of engineers, architects, financial consultants, attorneys at law, financial and rate consultants, clerical help, or other agents or employees;

(d) The costs of making, publishing, posting, mailing, and otherwise giving any notice in connection with the 2004 Project, the filing or recordation of instruments, the issuance of the 2004 Waterworks Revenue Bonds, the
purchase or other acquisition of Permitted Investments in connection therewith, bank or Bond Bank fees and other expenses, bond insurance premiums, letter of credit fees or surety bond costs;

(e) The costs of contingencies;

(f) The costs of the capitalization of any discount on the 2004 Waterworks Revenue Bonds; of any reserves for the payment of the 2004 Waterworks Revenue Bonds and of any other cost of issuance of the 2004 Waterworks Revenue Bonds;

(g) The costs of any properties, rights, easements or other interests in properties, or any licenses, privileges, agreements and franchises;

(h) All other expenses necessary or desirable and pertaining to the construction of the 2004 Project as estimated or otherwise ascertained by the Board of Directors of the Waterworks Department.

“Credit Facility” shall mean a letter of credit, line of credit, insurance policy, standby purchase agreement or other similar credit facility issued by a municipal bond insurer, financial institution, trust company, insurance company or association which provides for the payment of principal or purchase price of, or interest on any Series of Waterworks Bonds or a portion thereof.

“Credit Facility Agreement” shall mean any agreement between the Waterworks Department and the provider of any Credit Facility.

“Daily Interest Rate” means the adjustable interest rate for the 2004A Bonds established in accordance with the 2004 Supplemental Indenture.

“Daily Interest Rate Period” means each period during which a Daily Interest Rate is in effect for the 2004A Bonds.

“Debt Service Requirements” means with respect to a period of time for which calculated, the aggregate of the payments required to be made by the Waterworks Department in respect of principal whether at maturity or as a result of a mandatory prepayment, and the interest on outstanding Waterworks Senior Bonds and any Hedge Payments or Hedge Receipts with respect to Senior Hedge Agreements; however excluding such principal or interest payments on Waterworks Senior Bonds to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied and are sufficient to pay such principal of, premium, if any, or interest on the scheduled payment dates at maturity or redemption; provided, further that in calculating the Debt Service Requirements for such period, the principal amount of any Waterworks Senior Bonds included in such calculation which is paid during such period shall be excluded to the extent such amount is paid from a source other than the Net Revenues, including but not limited to the proceeds of Waterworks Bonds. For purposes of the rate covenant under the Bond Resolution, the interest portion of the Debt Service Requirements for the 2004 Waterworks Revenue Bonds, in any Interest Rate Period other than the Fixed Interest Rate Period, will be calculated using a per annum interest rate which is assumed to be the lesser of (i) the average interest rate on the 2004 Waterworks Revenue Bonds for the most recent twelve (12) month period preceding the date of the calculation or (ii) twelve percent (12%); provided, the assumed rate shall be the lesser of (i) the average of The Bond Market Association Index ™ for the proceeding twelve (12) month period and (ii) twelve percent (12%) if, at the time of the calculation, the 2004 Waterworks Revenue Bonds shall not have been outstanding for a full twelve (12) month period. For purposes of the parity test under the Bond Resolution, the interest portion of the Debt Service Requirements for the 2004 Waterworks Revenue Bonds in any Interest Rate Period other than the Fixed Interest Rate Period will be calculated using a per annum interest rate which is assumed to be the lesser of (i) the Certified Rate or (ii) the actual variable interest rate on the 2004 Waterworks Revenue Bonds on a date selected by the Waterworks Department no more than two (2) weeks prior to the sale date of any such Waterworks Parity Bonds.

“District” means the waterworks district of the Waterworks Department and includes all the territory served by the Waterworks as set forth in the Enabling Legislation.
“Enabling Legislation” means, collectively, Indiana Code 8-1.5, Indiana Code 36-3-4-23, City-County General Ordinance No. 112, 2001, and other authorizing statutes applicable to the Waterworks Department or the City, including Indiana Code 36-1-3 and Indiana Code 36-9-2-14.

“Event of Default” means an event of default described in the Indenture or the Resolution.

“Favorable Opinion of Bond Counsel” means, with respect to any action relating to the 2004A Bonds, the occurrence of which requires such an opinion, an unqualified written legal opinion of bond counsel to the effect that such action is permitted under the 2004 Supplemental Indenture and will not impair the exclusion of interest on the 2004A Bonds from gross income for purposes of federal income taxation (subject to the inclusion of any exception contained in the opinion delivered upon the original issuance of the 2004A Bonds).

“Fees and Charges” means fees and charges established by the Bond Bank from time to time pursuant to the Act which are payable by the Qualified Entity.

“Federal Securities” or “Governmental Obligations” shall mean and include, to the extent permitted by law, any of the following securities, if and to the extent the same are at the time legal for investment of funds of the Bond Bank or the Waterworks Department:

(a) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any federal agency or corporation which has or may hereafter be created pursuant to an act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America 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 clause (a) held by a Banking Institution or trust company as custodian, under which the owner of the investment is a real party in interest and has the right to proceed directly and individually against the obligor on the obligations described in this clause (a), and which underlying obligations are not available to satisfy any claim of the custodian or any person claiming through the custodian or to whom the custodian may be obligated; or

(b) any bonds or other obligations of any state or governmental unit thereof, the interest on which is exempt from federal income taxation and which are rated as such time in the then highest rating category of two or more Rating Agencies; or

(c) any bonds or other obligations of any federal agency or corporation which has or may hereafter be created pursuant to Congress as an agency or instrumentality of the United States; or

(d) 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 (i) which are not callable at the option of the obligor prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (ii) which are fully 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 clause (a) above which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (iii) as to which the principal of and interest on the bonds and obligations of the character described in clause (a) above which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay principal of and interest and redemption premium, if any, on the bonds or obligations described in this clause (d) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (i) of this clause (d), as appropriate; or

(e) any agreements or contracts with insurance companies or other financial institutions, or subsidiaries or affiliates thereof (hereinafter in this clause (e) referred to as “Providers”), (i) whose outstanding unsecured senior indebtedness or claims-paying ability, as the case may be, shall be rated, or who shall have a “financial programs rating” or other equivalent rating, in the highest whole rating category by at least two Rating Agencies or (ii) whose obligations under such agreements or contracts shall be unconditionally guaranteed by another insurance company or other financial institution, or subsidiary or affiliate thereof, whose outstanding unsecured senior indebtedness or
claims-paying ability, as the case may be, shall be rated, or who shall have a “financial programs rating” or other equivalent rating, in the highest whole rating category by at least two Rating Agencies, pursuant to which agreements or contracts the Provider shall be absolutely, unconditionally and irrevocably obligated to repay the moneys invested by the Bond Bank and interest thereon at a guaranteed rate, without any right of recoupment, counterclaim or set off. The Provider may have the right to assign its obligations under any investment agreement to any other insurance company or other financial institution, or subsidiary or affiliate thereof; provided, however, that such assignee also shall be an insurance company or other financial institution, or subsidiary or affiliate thereof, satisfying the requirements set forth in either clause (i) or clause (ii) of the preceding sentence; or

(f) any other bonds or obligations approved by the applicable provider of a Credit Facility.

With respect to the Bonds and Waterworks Revenue Bonds, “Government Obligations” means:

(a) United States Treasury Certificates, Notes and Bonds (including State and Local Government Series -- “SLGs”).

(b) Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities.

(c) Resolution Funding Corp. (REFCORP). Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.

(d) Pre-refunded municipal bonds rates “Aaa” by Moody’s and “AAA” by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct United States or United States guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

(e) Obligations issued by the following agencies which are backed by the full faith and credit of the United States:

(i) United States Export-Import Bank (Eximbank)
   Direct obligations or fully guaranteed certificates of beneficial ownership

(ii) Farmers Home Administration (FmHA)
    Certificates of beneficial ownership

(iii) Federal Financing Bank

(iv) General Services Administration
    Participation certificates

(v) United States Maritime Administration
    Guaranteed Title XI financing

(vi) United States Department of Housing and Urban Development (HUD)
    Project Notes
    Local Authority Bonds
    New Communities Debentures - United States government guaranteed debentures
    United States Public Housing Notes and Bonds - United States government guaranteed public housing notes and bonds

“Fiscal Year” means, with respect to the Waterworks Department, the calendar year or any other twelve month period selected by the Waterworks Department from time to time as its fiscal year and, with respect to the Bond Bank, the twelve month period from January 1 through the following December 31.

“Fixed Interest Rate” means an annual rate of interest payable with respect on the 2004A Bonds from and after the Fixed Interest Rate Date upon Conversion to a Fixed Interest Rate, established by the Remarketing Agent pursuant to the provisions of the 2004 Supplemental Indenture.

“Fixed Interest Rate Period” means each period during which the 2004A Bonds bear interest at a Fixed Interest Rate.

“Fixed Interest Rate Date” means the date on which the annual rate of interest becomes fixed and determined for the remainder of the term of the 2004A Bonds, pursuant to the 2004 Supplemental Indenture.

“Gross Revenues” means all income and revenues received or accrued under generally accepted accounting principles derived directly or indirectly by the Waterworks Department from the water and any other goods and services provided by, or from the operation and use of and otherwise pertaining to, the Waterworks, including, without limitation, all rates, fees, and other charges for the use of the Waterworks, or for any service rendered by the Waterworks Department in the operation thereof, or any part thereof, directly or indirectly, the availability of any such service or the sale or other disposal of any commodity derived therefrom, but excluding any moneys borrowed and used for the acquisition, construction, installation, improvement or equipping of capital improvements and any moneys received as grants, appropriations or gifts from the United States, the State or other sources, the use of which is limited by the grantor or donor to the acquisition, construction, installation, improvement or equipping of capital improvements for the Waterworks, except to the extent any such moneys shall be received as payments for the use of the Waterworks, services rendered thereby, the availability of any such service or the disposal of any such commodities. “Gross Revenues” shall also include: (a) all income or other gain from the investment of such income and revenues and of the proceeds of the Waterworks Bonds; (b) all amounts withdrawn from the Rate Stabilization Account, if any, and deposited in the Revenue Fund in accordance with the Resolution.

“Hedge Agreement” means, to the extent from time to time permitted by law, any financial arrangement entered into by the Bond Bank with respect to the 2004A Bonds or the Waterworks Department with respect to the Waterworks Bonds for the purpose of moderating interest rate fluctuations or any other purpose, (i) which is entered into with an entity that is a Qualified Provider at the time the arrangement is entered into; (ii) which is any of the following, or any combination thereof, or any option with respect thereto: a cap, floor or collar; forward rate; future rate; swap, or such other exchange or rate protection transaction agreement; or other similar transaction (however designated); and (iii) which has been designated in writing to the Trustee by the Bond Bank or the Waterworks Department, as the case may be, as a Hedge Agreement with respect to all or a portion of the notional principal amount of such Bonds or Waterworks Bonds, as the case may be.

“Hedge Payments” means amounts payable by the Waterworks Department or the Bond Bank, as the case may be, pursuant to any Hedge Agreement, excluding any termination payments, fees, expenses, and indemnity payments.

“Hedge Receipts” means amounts payable by any provider of a Hedge Agreement pursuant to such Hedge Agreement, excluding termination payments, fees, expenses, and indemnity payments.

“Hedged Bonds” means any Bonds or Waterworks Bonds with respect to which the Bond Bank or the Waterworks Department, as the case may be, shall have entered into a Hedge Agreement.

“Indenture” means the Original Indenture, as supplemented and amended by the 2004 Supplemental Indenture, and all additional supplements and amendments thereto.

“Independent Accountant” means any certified public accountant, or any firm of certified public accountants, duly licensed to practice and practicing as such under the laws of the State, as from time to time appointed and compensated by the Board of Directors of the Waterworks Department on the behalf and in the name of the
Waterworks Department who is not a director or employee of the Waterworks Department, but who may be regularly retained to make annual or similar audits of any books or records of the Waterworks Department.

“Insurance Agreement” means the Municipal Bond Insurance Agreement among the Waterworks Department, the Bond Bank and the Bond Insurer dated as of March 1, 2004.

“Interest Payment Date” means each date on which interest is to become due on any Bonds, Waterworks Bonds, or Assumed Obligations, as the case may be.

“Interest Rate Period” means each the Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period, Long-Term Interest Rate Period, Auction Rate Period or Fixed Interest Rate Period.

“Investment Earnings” means earnings and profits (after consideration of any accrued interest paid and amortization of premium or discount on the investment) on the moneys in the funds and accounts established under the Indenture, except the Rebate Fund.

“Investment Securities” means, with respect to the 2004A Bonds, any of the following:

(a) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(b) Debentures, bonds, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

(i) U.S. Export-Import Bank (Eximbank)
   Direct obligations or fully guaranteed certificates of beneficial ownership

(ii) Farmers Home Administration (FmHA)
    Certificates of beneficial ownership

(iii) Federal Financing Bank

(iv) Federal Housing Administration Debentures (FHA)

(v) General Services Administration
    Participation certificates

(vi) Government National Mortgage Association (GNMA or “Ginnie Mae”)
    GNMA – guaranteed mortgage-backed bonds
    GNMA – guaranteed pass-through obligations
    (not acceptable for certain cash-flow sensitive issues.)

(vii) U.S. Maritime Administration
    Guaranteed Title XI financing

(viii) U.S. Department of Housing and Urban Development (HUD)
      Project Notes
      Local Authority Bonds
      New Communities Debentures – U.S. government guaranteed debentures
      U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds
(c) Debentures, bonds, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Federal Home Loan Bank System  
Senior debt obligations

(ii) Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)  
Participation Certificates  
Senior debt obligations

(iii) Federal National Mortgage Association (FNMA or “Fannie Mae”)  
Senior debt obligations

(iv) Student Loan Marketing Association (SMLA or “Sallie Mae”)  
Senior debt obligations

(v) Resolution Funding Corp. (REFCORP) obligations

(vi) Farm Credit System  
Consolidated systemwide bonds and notes

(d) Money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating of S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody’s rated Aaa, Aa1 or Aa2.

(e) Certificates of deposit secured at all times by collateral described in (a) and/or (b) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

(g) Investment Agreements, including Guaranteed Investment Contracts, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to the Bond Insurer.

(h) Commercial paper rated, at the time of purchase, “Prime – 1” my Moody’s and “A-1” or better by S&P.

(i) Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies.

(j) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured an unguaranteed obligation rating of “Prime -1” or A3” or better by Moody’s and “A-1” or “A” or better by S&P.

(k) Repurchase Agreements for 30 days or less must follow the following criteria. Repurchase Agreements which exceed 30 days must be acceptable to the Bond Insurer. Repurchase agreements (repos) provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Bond Bank (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Bond Bank in exchange for the securities at a specified date.

(i) Repos must be between the Bond Bank and a dealer bank or securities firm
 Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by S&P and Moody’s, or

Banks rated “A” or above by S&P and Moody’s Investor Services.

(ii) The written repo contract must include the following:

A. Securities which are acceptable for transfer are:

1. Direct obligations of the United States of America, or

2. Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

B. The term of the repo may be up to 30 days

C. The collateral must be delivered to the Trustee (if Trustee is not supplying the collateral) or third party acting as agency for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

D. Valuation of Collateral

1. The securities must be valued weekly, marked-to-market at current market price plus accrued interest.

(a) The value of collateral must be equal to 104% of the amount of cash transferred by the Bond Bank to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the Bond Bank, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

With respect to any subsequent Series of Bonds, “Investment Securities” shall be defined in the Supplemental Indenture authorizing that Series of Bonds.

“Letter of Credit” means, subject to approval of the Bond Insurer, (a) an irrevocable letter of credit to be issued by a Letter of Credit Bank and delivered to the Trustee, being an irrevocable obligation to make payments to the Trustee of up to the amount therein specified with respect to (i) the principal amount of the 2004A Bonds outstanding as applicable to enable the Trustee to pay (A) the principal amount of the 2004A Bonds when due at maturity or upon redemption, and (B) an amount equal to the principal portion of the purchase price of any 2004A Bonds tendered for purchase by the registered owners thereof, plus (ii) the amount of interest due on the 2004A Bonds to enable the Trustee to pay (A) interest on the 2004A Bonds when due and (B) an amount equal to the interest portion, if any, of the purchase price of any 2004A Bonds tendered for purchase by the registered owner thereof; as the same may be transferred, reissued, extended, amended to change the interest coverage period as contemplated in the 2004 Supplemental Indenture, or replaced in accordance with the 2004 Supplemental Indenture and the Letter of Credit and (b) upon the issuance and effectiveness thereof, any Alternate Letter of Credit.


“Lien” means any mortgage, pledge or lease of, security interest in or lien, charge restriction or encumbrance on the Waterworks or the Gross Revenues in favor of, or which secures any obligation to, any other entity or Person including any lien created by a capital lease.
“Liquidity Facility” means any letter of credit, standby bond purchase agreement, line of credit, loan, guaranty or similar agreement by a Liquidity Facility Provider to provide liquidity support to pay the purchase price of 2004A Bonds (other than 2004A Bonds bearing interest at an Auction Rate or a Fixed Interest Rate) tendered for purchase in accordance with the provisions of the 2004 Supplemental Indenture and any Alternate Liquidity Facility delivered pursuant to the provisions of the 2004 Supplemental Indenture and with terms that are not inconsistent with the terms of the 2004 Supplemental Indenture, and approved by the Bond Insurer.

“Liquidity Facility Provider” means any provider of a Liquidity Facility, and its successors and permitted assigns, and, upon the effective date of an Alternate Liquidity Facility, the bank or banks or other financial institution or financial institutions or other Person or Persons issuing such Alternate Liquidity Facility, their successors and assigns, approved by the Bond Insurer. When used at a time when more than one Liquidity Facility is in effect under the 2004 Supplemental Indenture, the term “Liquidity Facility Provider” means, as the context dictates, either the Liquidity Facility Provider with respect to all such Liquidity Facilities, collectively, or only the Liquidity Facility Provider for the Liquidity Facility securing the 2004A Bonds.

“Long-Term Interest Rate” means a term, non-variable interest rate established in accordance with the 2004 Supplemental Indenture.

“Long-Term Interest Rate Period” means each period during which a Long-Term Interest Rate is in effect.

“Management Agreement” means the initial agreement between the Waterworks Department and the Manager, as amended and supplemented from time to time, and any other agreement for management of the Waterworks entered into by the Waterworks Department from time to time.

“Manager” means Veolia Water Indianapolis, LLC (formerly US Filter Operating Services, Inc.) and any successors and assigns thereof, and any other manager appointed by the Waterworks Department from time to time.

“Maturity Date” means, with respect to the 2004A Bonds, January 1, 2036.

“Maximum Interest Rate” means the lesser of (a) the rate of twelve percent (12%) per annum calculated in the same manner as interest is calculated for the particular interest rate on the 2004A Bonds and (b) the Maximum Lawful Rate.

“Maximum Lawful Rate” means the maximum rate of interest on the relevant obligation permitted by applicable law.

“Net Revenues” means the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses. No determination of the Gross Revenues, Operation and Maintenance Expenses, or Net Revenues for purposes of the Resolution shall be adjusted to reflect the following items, unless the Board of Directors of the Waterworks Department determines, in its discretion, to make such adjustment: (i) any gain or loss resulting from the extinguishment of indebtedness or the sale, exchange or other disposition of assets not in the ordinary course of business, (ii) any unrealized gain or loss on investments, (iii) any unrealized changes in value of a Hedge Agreement or other derivative instrument, (iv) any extraordinary items under generally accepted accounting principles from time to time, or (v) any changes in generally accepted accounting principles becoming effective after the issuance of the 2004A Bonds.

“Notice Parties” means the Bond Bank, the Trustee, each Remarketing Agent, if any, the Letter of Credit Bank, if any, the Liquidity Facility Provider, if any, the Bond Insurer, the Auction Agent, if any, and each Broker-Dealer, if any.

“Operation and Maintenance Expenses,” or any phrase of similar import, means all reasonable and necessary current expenses of the Waterworks Department, determined under generally accepted accounting principles, of operating, maintaining, and repairing the Waterworks, but excluding interest expense and any allowance for depreciation or amortization; further, the term includes, without limitation: (a) the Service Fee (as defined in the initial Management Agreement) to be paid to the initial Manager pursuant to the Management Agreement and any
similar or comparable management fees to be paid to any future Manager of all or a portion of the Waterworks;
(b) engineering, auditing, reporting, legal, planning, regulatory, and other overhead expenses relating to the
administration, operation, and maintenance of the Waterworks; (c) fidelity bond and property and liability insurance
premiums pertaining to the Waterworks, or a reasonably allocable share of a premium of any blanket bond or policy
pertaining to the Waterworks; (d) payments to pension, retirement, health, and hospitalization funds, and other
insurance, and to any self-insurance fund as insurance premiums not in excess of such premiums which would
otherwise be required for such insurance; (e) any general taxes, payments in lieu of taxes, assessments, excise taxes,
or other charges which may be lawfully imposed on, or paid by, the Waterworks Department, the Waterworks,
revenues therefrom, or the Waterworks Department’s income from or operations of any properties under its control
and pertaining to the Waterworks, or any privilege in connection with the Waterworks or its operation; (f) the
reasonable charges of the Trustee, paying agent, registrar and any other depositary bank, fiduciary or receiver under
the Resolution pertaining to the Waterworks Bonds; (g) contractual services, professional services, salaries, other
administrative expenses, and costs of materials, supplies, repairs, and labor, pertaining to the Waterworks; (h) any
costs of utility services furnished to the Waterworks; (i) any lawful refunds of any Net Revenues; (j) the cost of
funding any amount due the United States as rebate payments under section 148(f) of the Code, and the cost of
calculating and verifying the amount of such rebate payments; (k) fees and charges payable to the Bond Bank
pursuant to the Purchase Agreement; and (l) all other administrative, general, and commercial expenses incurred by
the Waterworks Department in connection with the Waterworks.

“Original Indenture” means the Trust Indenture dated as of April 1, 2002, between the Bond Bank and the
Trustee.

“Permitted Investments” means the investments permitted by Indiana Code 5-13, as amended from time to
time.

“Person” means a corporation, firm, other body corporate (including, without limitation, the federal
government, the State, or any other body corporate and politic other than the Waterworks Department), partnership,
association, or individual, and also includes an executor, administrator, trustee, receiver, or any representative
appointed according to law.

“Pledged Bond” means any Waterworks Bond purchased and held by an issuer of a Credit Facility pursuant to
a Credit Facility Agreement. A Waterworks Bond shall be deemed a Pledged Bond only for the actual period during
which such Waterworks Bond is owned by the provider of a Credit Facility pursuant to a Credit Facility Agreement.

“Pledged Funds” means the Senior Pledged Funds, the Series Pledged Funds and any funds, accounts or
subaccounts created by the Waterworks Department which are pledged to secure the payment of one or more series
of Waterworks Subordinate Bonds.

“Policy” means the financial guaranty insurance policy guaranteeing the payment of scheduled principal of and
interest on the 2004A Bonds issued by the Bond Insurer.

“Principal Payment Date” means each date on which principal is to become due on any Bonds, Waterworks
Bonds or Assumed Obligations, by maturity or mandatory sinking fund redemption.

“Program” means the program for the purchase of Qualified Obligations by the Bond Bank pursuant to the Act
and the Indenture.

“Program Expenses” means all of the Bond Bank’s expenses in carrying out and administering the Program
pursuant to the Indenture and shall include, without limiting the generality of the foregoing, salaries, supplies,
utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery and apparatus,
telephone, insurance premiums, credit enhancement fees, liquidity facility fees, legal, accounting, management,
consulting and banking services and expenses, fees and expenses of the Trustee, the Registrar and the Paying Agent
(as defined in the Indenture), costs of verifications required under the Indenture, costs of issuance not paid from the
proceeds of Bonds, travel, payments for pension, retirement, health and hospitalization, life and disability insurance
benefits, any other costs permitted under the Act, and rebates, if any, which in the opinion of nationally recognized
bond counsel are required to be made under the Code in order to preserve or protect the exclusion from gross income for federal tax purposes of interest on the 2004A Bonds, all to the extent properly allocable to the Program.

“Purchase Agreement” means a Qualified Entity Purchase Agreement between the Waterworks Department and the Bond Bank.

“Purchase Contract” means the Bond Purchase Agreement with respect to the 2004A Bonds between the Bond Bank and the Underwriters.

“Qualified Entity” means the Waterworks Department, a qualified entity under Indiana Code 5-1.4-1-10(a).

“Qualified Obligation” means a Security (as that term is defined in the Act) issued by the Qualified Entity, including the Waterworks Revenue Bonds, which has been acquired by the Bond Bank pursuant to the Indenture.

“Qualified Obligation Payment” means the amounts paid or required to be paid, from time to time, for principal and interest by the Qualified Entity to the Bond Bank on the Qualified Entity’s Qualified Obligation and any Fees and Charges paid or required to be paid by any Qualified Entity to the Bond Bank under the provisions of any agreement for the purchase and sale of Securities (as defined in the Act).

“Qualified Provider” means a counterparty whose senior long term debt obligations, or whose obligations under a Hedge Agreement or Reserve Account Credit Facility are guaranteed by an entity whose senior long term debt obligations, are rated in one of the three highest Rating Categories by a Rating Agency which then has a rating in effect for the 2004A Bonds at the time the subject Hedge Agreement or Reserve Account Credit Facility is entered into.

“Rate Stabilization Account” means any special and separate account created by the Waterworks Department in the Water Fund in its discretion as described in the Resolution.

“Rating Agencies” or “Rating Agency” means FitchRatings, Moody’s Investors Service or Standard & Poor’s Credit Market Services or any successors thereto and any nationally recognized rating agency maintaining a rating on the 2004A Bonds at the request of the Bond Bank.

“Redemption Date” means the date fixed for the redemption prior to their respective fixed maturity dates of any Bonds or Waterworks Bonds in any notice of redemption.

“Refunding Qualified Obligation” means any Qualified Obligation issued to refund any of the Qualified Obligations or another Refunding Qualified Obligation.

“Remarketing Agent” means any Remarketing Agent appointed in connection with the remarketing of 2004A Bonds pursuant to the provisions of the 2004 Supplemental Indenture.

“Reserve Account Credit Facility” means any surety bond, any insurance policy, letter of credit, or line of credit, deposited in the Waterworks Reserve Account in lieu of or in partial substitution for moneys on deposit therein, the issuer of which at the time of deposit of such Reserve Account Credit Facility is a Qualified Provider.

“Resolution” or “Bond Resolution” means the Bond Resolution adopted by the Waterworks Department, as supplemented and amended from time to time.

“Revenues” means the income, revenues and profits of the Funds and Accounts referred to in the granting clauses of the Indenture including, without limitation, all Qualified Obligation Payments and Investment Earnings, but excluding amounts required to be deposited and maintained in the Rebate Fund.

“Senior Hedge Agreement” means any Hedge Agreement relating to Hedged Bonds which are Waterworks Senior Bonds.
“Senior Pledged Funds” means initially the Interest Account, the Principal Account and the Hedge Payments Account and any other funds, accounts or subaccounts created by the Waterworks Department which are pledged to secure the payment of all the Waterworks Senior Bonds and any Hedge Payments related to the Waterworks Senior Bonds whether described pursuant to the Resolution or any supplemental resolution.

“Series of Bonds” or “Bonds of a Series” or “Series” or words of similar meaning means any Series of Bonds authorized by the Indenture or by a supplemental indenture.

“Series Reserve Account” shall mean the special and separate Series Reserve Accounts within the Debt Service Reserve Fund as may be established by a Supplemental Indenture.

“Series Reserve Requirement” means the amount, if any, established by a Supplemental Indenture as the reserve requirement for a Series of Additional Bonds.

“Short-Term Interest Rate Period” means each period, consisting of Bond Interest Terms, during which the 2004A Bonds bear interest at one or more Bond Interest Term Rates.

“State” means the State of Indiana.

“Trust Bank” means the Trustee and any banking institution which is also authorized to exercise and is exercising trust powers, and also means any branch of the Federal Reserve Bank.

“Trustee” means National City Bank of Indiana, and including any successor Trust Bank which may at any time be substituted in its place as such a trustee.

“2002 Bonds” means, collectively, The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2002A (Waterworks Project) and The Indianapolis Local Public Improvement Bond Bank Taxable Bonds, Series 2002B (Waterworks Project).

“2002 Waterworks Revenue Bonds” means the City of Indianapolis, Indiana, Waterworks District Net Revenue Bonds, Series 2002A (Tax-Exempt) and Series 2002B (Taxable).

“2004A Bonds” means The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2004A (Waterworks Project).

“2004 Pledged Funds” means initially the Common Reserve Subaccount and the Construction Fund and any other funds, accounts or subaccounts pledged to secure the 2004 Waterworks Revenue Bonds from time to time.

“2004 Project” means the construction of improvements to and extensions of the Waterworks as more fully described under the caption “FINANCING PLAN.”

“2004 Supplemental Indenture” means the 2004 Supplemental Trust Indenture, dated as of March 1, 2004, between the Bond Bank and the Trustee, which supplements the Original Indenture.


“Underwriters” means City Securities Corporation, Bear, Stearns & Co. Inc. and SBK-Brooks Investment Corp., as co-managers.

“Waterworks” means the right, title and interest in, under and to all of the assets, properties and rights used and useful in the business of storing, supplying, distributing, and selling water to the public, and in providing ancillary services thereto, as described in the Asset Purchase Agreement, the acquisition of which was approved by the Waterworks Department by resolution on February 22, 2004, (after a public hearing following public notice, as required by the Enabling Legislation) and consisting of all properties, real, personal, mixed, tangible, intangible or
otherwise, now owned by the City or the Waterworks Department or hereafter acquired by the Waterworks Department through purchase, construction or otherwise, and used in connection with such Waterworks of the Waterworks Department, and in any way pertaining thereto, all as located in or as necessary for or appropriate for or supporting the operation of the District, including, without limitation, machinery, apparatus, structures, buildings and related or appurtenant furniture, fixtures and other equipment, as such Waterworks is from time to time extended, bettered or otherwise improved, or any combination thereof.

“Waterworks Bonds” means any revenue bonds or notes of the Waterworks Department payable from Net Revenues including the Waterworks Revenue Bonds, any Waterworks Parity Bonds, and any Waterworks Subordinate Bonds.

“Waterworks Common Reserve Requirement” means at any time fifty percent (50%) of the combined maximum annual principal and interest requirements of the Waterworks Senior Bonds which have a claim for payment from the Waterworks Common Reserve Subaccount falling due in any succeeding Fiscal Year.

“Waterworks Department” means the Department of Waterworks of the City.

“Waterworks Parity Bonds” means any additional Waterworks Bonds issued by the Waterworks Department, the principal of, premium if any, and interest on which are payable from Net Revenues on a parity with the Waterworks Bonds and which are issued in accordance with the requirements of the Resolution.

“Waterworks Reserve Requirement” means the Waterworks Common Reserve Requirement and any Waterworks Series Reserve Requirement.


“Waterworks Senior Bonds” means the Waterworks Revenue Bonds, the Assumed Obligations and any Waterworks Parity Bonds.

“Waterworks Series Reserve Requirement” means the amount, if any, established by a supplemental resolution as the reserve requirement for one or more particular series of Waterworks Parity Bonds.

“Waterworks Series Reserve Subaccount” means any special and separate subaccount within the Reserve Account of the Bond Fund as may be established by a supplemental resolution.

“Waterworks Subordinate Bonds” means Waterworks Bonds issued with a right to payment from the Net Revenues and secured by a lien on the Net Revenues or any portion thereof expressly junior and subordinate to the Waterworks Senior Bonds and includes any obligation to repay the Bond Bank any moneys with interest thereon as mutually agreed upon for advances or credits provided to the Waterworks Department.

“Waterworks Subordinate Hedge Agreement” means any Hedge Agreement relating to Hedged Bonds which are Waterworks Subordinate Bonds.

“Weekly Interest Rate” means an adjustable interest rate for the 2004A Bonds established in accordance with the provisions of the 2004 Supplemental Indenture.

“Weekly Interest Rate Period” means each period during which a Weekly Interest Rate is in effect for the 2004A Bonds.
SUMMARY OF MANAGEMENT AGREEMENT

The Department of Waterworks of the Consolidated City of Indianapolis, Indiana (the “Waterworks Department”) has entered into a Management Agreement with Veolia Water Indianapolis, LLC (previously US Filter Operating Services Inc.) (the “Manager”). Pursuant to the Management Agreement, the Manager will run the day-to-day operation and maintenance of the Waterworks, including, among other functions, raw water supply, treatment and distribution, billing, collection and other customer services, certain capital planning, engineering, inspection, construction administration and project management services. Certain capitalized terms used in this summary are defined at the end of this APPENDIX C.

Term of the Management Agreement

The Management Agreement was executed as of March 21, 2002. The initial term of the Management Agreement is 20 years from the Commencement Date, subject to early termination. The Commencement Date was April 30, 2002.

Department Ownership of and Authority Over the Waterworks Assets

The Department shall retain ownership and control of all of the assets of the Waterworks. In addition, the Department will retain authority to:

(a) maintain oversight and policy making;

(b) review, approve and fund Capital Plans developed by the Manager;

(c) seek rate relief before IURC;

(d) pay property tax or provide for payments in lieu of taxes;

(e) conduct negotiations and provide legal support for and approve all intergovernmental, wholesale water and water services agreements;

(f) obtain debt financing; and

(g) monitor contract compliance of the Management Agreement.

Manager Operation, Maintenance and Management of the Waterworks

The Manager has agreed to provide uninterrupted, safe, timely, professional and reliable management of the Waterworks in a cost effective and business-like manner and in accordance with Prudent Utility Practice. The Services the Manager will provide include: (a) maintenance, repair and operation of all the structures, facilities, equipment, materials and grounds of the Waterworks; (b) compliance with applicable standards, requirements and guidance documents, including, but not limited to, the Public Health Service Act, Indiana’s Public Water Supply Act, any IURC service quality standards (and assumption of responsibility for fines and penalties imposed by the IURC, IDEM, IDNR or any other governmental body or agency due generally to the Manager’s negligence); (c) implementation of a state-of-the-art and fully functional computerized maintenance management and reporting program and system for the Waterworks; (d) assessment of and appropriate adjustment to routine operating procedures to improve efficiency and quality of the Waterworks; (e) conduct of Field Operations and disposal of residual sludges; (f) maximization of the Waterworks’ ability to reduce effluent pollution discharges; (g) providing support to the Department related to the planning and implementation of Capital Projects; (h) maintaining, generating, filing and providing to the appropriate entity in a timely manner, all reports, information, notices and records; (i) obtaining, maintaining and meeting all applicable federal, state and local certifications, regulatory, licenses and permit requirements, including, but not limited to, Water Withdrawal Permits, permits required by the
Clean Water Act and Clean Air Act and construction permits issued under IDEM’s Drinking Water Permit Program or the Federal Safe Drinking Water Act; (j) providing all services relating to billing, collections and customer service; (k) maintaining and supporting relationships with other City departments, agencies, neighboring jurisdictions and advisory committees as approved by the Department; (l) providing quarterly unaudited financial statements and annual audited financial statements of the Manager and the Guarantor to the Waterworks Department and (m) assumption of IWC contracts relating to the Waterworks.

**Service Fee**

The Service Fee comprises the Fixed Fee and the Incentive Fee. The structure of the Fixed Fee and Incentive Fee complies with strict requirements of Revenue Procedure 97-13.

**Fixed Fee.** The Fixed Fee is a fixed annual amount the Department shall pay the Manager for the Services. The Fixed Fee will be billed the first day of each Billing Month and paid by the thirtieth (30th) day of the same month.

Beginning with the second Billing Year and during the first five full Billing Years, the Fixed Fee will be adjusted annually on each January 1, by the lesser of (i) two and one-half percent (2.5%) or (ii) 88.6% of the Annual Increase in the CPI. After the fifth full Billing Year, the Fixed Fee will be adjusted annually on each January 1 by 88.6% of the CPI. This adjustment will also apply to the Additional Services the Department may pay the Manager for any architectural, engineering and construction services provided by the Manager during the term of the Management Agreement. See, “Capital Projects.”

**Incentive Fee.** The Department will pay all or a part of the Incentive Fee to the Manager each year based on the Manager’s satisfaction of six general categories of performance measures:

(a) customer service (35%);
(b) water quality (30%);
(c) capital asset replacement cycle (10%);
(d) capital investment adjustment (reward for reducing capital investment by the Department) (5%);
(e) technical operations and maintenance requirements (10%); and
(f) discretionary measures (e.g., creative ideas, WBE/MBE, bringing new resources to Waterworks) (10%).

Each of the categories contains sub-categories with detailed performance measures. To the extent the Manager fully satisfies a performance measure, it will be paid the percentage related to the applicable subcategory.

For each Billing Quarter during a Billing Year, the Department will pay the Manager 60% (the “Interim Percentage”) of the Maximum Incentive Fee for such Billing Year divided by four. This percentage of the Incentive Fee shall be paid by the 45th day after the end of each Billing Quarter (“Periodic Payments”). Some or all of the performance measures used to calculate the Maximum Incentive Fee may be assessed as of the last day of each Billing Quarter and the Department may adjust such Periodic Payments before the end of the Billing Quarter to reflect the Department’s assessment of the Manager’s attainment of the required performance measures. However, a final assessment and report of such measures for each Billing Year shall be made within forty-five (45) days of the last day of the fourth Billing Quarter of each Billing Year. Any difference between the Periodic Payment paid to the Manager and the Incentive Fee earned by the Manager determined pursuant to the final assessment will be paid to the appropriate party within fifteen (15) days of receiving such report.
Capital Projects

The Manager is required to examine the Waterworks each year, develop a rolling five-year Capital Plan for the Waterworks and present that Capital Plan to the Department for review, comment, modification and approval. The initial Capital Plan must be submitted to the Department within ninety (90) days after the Commencement Date. The Capital Plan must set forth, in specific detail, the projects to be contemplated, all schedules information, all costs, including but not limited to items such as, construction, installation, design, planning, scoping, construction administration, construction inspection, project management, and administration. The Capital Plan shall also include the schedule for each of these activities, priority (high medium, low), and reason for each project listed on the Capital Plan.

After the initial submittal, the Manager will be required to submit to the Department a revised Capital Plan by May 31 of each year during the term of the Management Agreement.

Re-negotiations of the Management Agreement

Pursuant to the requirements of the Revenue Procedure, should a change in the Fixed Fee become necessary or appropriate, the Department and the Manager must re-negotiate such change in accordance with the Revenue Procedure and subject to the approval of the Board of the Department. The Management Agreement may be re-negotiated in the event of an Uncontrollable Circumstance.

In addition, the Service Fee may be re-negotiated only after the first five years of the Management Agreement, in the event that:

(a) the 12-month moving annual average of daily finished water demand increases or decreases by 5 million gallons per day, or

(b) the customer base increases or decreases by 10,000 customers, or

(c) a new water treatment plant, major water treatment plant upgrade, a decommissioning of a water treatment plant, or a major system configuration change due to a Capital Project that has a significant impact on operation and maintenance costs.

Finally, should the Department acquire or dispose of Waterworks assets resulting in an increase or decrease of more than 2,000 residential customers of the Waterworks or a gain or loss of commercial customers for the Waterworks with average daily consumption of at least 100,000 gallons, the parties shall, in compliance with the Revenue Procedure and the Agreement, renegotiate the Fixed Fee.

Personnel

**IWC Transferred Employees’ Employment Terms.** The Manager will recognize the IWC union, assume any current IWC collective bargaining agreement, as amended (“CBA”) and offer employment to all union and non-union IWC employees, contingent upon their passing a drug test (to the extent permitted by the CBA). IWC Transferred Employees will be offered positions and wages or salary that are substantially comparable to the employee’s position and wages or salary at the time such employee’s employment with IWC ended. Employees will not be employed by the Department or the City. Generally, IWC Transferred Employees will receive the same retirement and welfare benefits the Manager offers to its similarly situated employees, except as otherwise required by the CBA or specifically provided in the Management Agreement.

The Manager expects to continue Retiree Medical Benefits for all current IWC retirees and active IWC Transferred Employees who vest in the Retiree Medical Benefit on or before December 31, 2004 and as required by the CBA. The Department will retain the Grantor Trust and intends to contribute to the Grantor Trust the amount required in the IURC Order establishing the Grantor Trust, as amended. The Manager will administer the Retiree Medical Benefits, which includes providing insurance for the retirees, paying premiums and claims, monitoring retiree eligibility and reporting on the Grantor Trust to the appropriate governmental agencies. To the extent the
Manager provides Retiree Medical Benefits to retirees who first vest after December 31, 2004, the Manager shall contribute to the Grantor Trust the amount required to fund such retirees benefits. In no event will UDC retirees be paid out of the Grantor Trust.

Key Personnel. The Manager has appointed Tim Hewitt as the “Operations Manager.” The Operations Manager shall be responsible for the direct supervision of the daily activities of Manager personnel employed to operate, support and monitor all activities associated with the Services and will be the primary Manager liaison with the Department. The Department selected the Manager to perform the Services contemplated under the Agreement based, in part, on the past successful experience and expertise of the designated Operations Manager and the Manager’s key personnel, including the Operations Manager (the “Key Personnel”). The Manager shall designate no fewer than three of its top managers as Key Personnel within sixty (60) days of the Commencement Date. Absent Department approval, the Manager shall not replace any Key Personnel. In the event the Manager desires to replace any Key Personnel for any reason, the Manager shall provide the Department with ninety (90)-day’s advance written notice or as much notice as is reasonably practicable under the circumstances. The Department may require the Manager to remove or replace any Key Personnel, with or without cause at any time. The Department, in its discretion, reserves the right to reject any candidate the Manager proposes as a replacement or substitute Key Personnel.

Indemnification and Limitation of Liability

Indemnification. The Manager has agreed that it will defend, indemnify and hold harmless the Departments Parties from and against all liabilities, obligations, claims, losses, expenses (including attorneys’ fees) of every kind and nature whatsoever (including, but not limited to, actual or alleged violation of any law, ordinance, regulation, order, other judicial or administrative decree or any common law duty), claim incurred by third parties, (each, a “Liability” and collectively, “Liabilities”), arising for or by reason of the Manager’s negligent duties, obligations or performances under the Management Agreement, that actually or allegedly is caused by or results from, in whole or in part, any negligent act or omission of a Manager Party or that is proximately caused by the Manager’s conduct in terminating Retiree Benefits.

The Manager has agreed to use reasonable best efforts to incorporate this indemnification obligation in all subcontracts entered into with suppliers of materials or services, and all labor organizations who furnish skilled and unskilled labor, or who may perform any such labor or services in connection with a contract entered into hereunder.

The Manager’s indemnity obligation includes indemnification for all reasonable expenses, court costs and attorney fees, including those incident to appeals incurred by or imposed upon the Department Parties in connection with enforcement or defense of the Department Parties’ right to indemnity hereinabove provided. In addition, the Manager has agreed that the Department Parties may employ any attorney (or attorneys) of their choice and/or may use its in-house counsel in a matter or to enforce or defend the Department Parties’ right to the indemnity hereinabove provided. However, if the Department Parties engage their own legal counsel, and the Manager has engaged or offered to engage legal counsel to defend the Department Parties in the matter, the Department Parties will bear their own costs and expenses of their legal counsel, unless the Manager’s and Department Parties’ positions in the matter are in conflict, in which case all reasonable costs and expenses of the Department Parties’ legal counsel will be borne by the Manager.

The Manager will not indemnify and defend the Department Parties for Liability arising from the underground contamination of Department property, including environmental remediation or clean-up, except to the extent such contamination was caused or aggravated by the Manager’s management, operation or maintenance of the Waterworks in violation of duties imposed under this Agreement. If property or groundwater contamination is discovered and was caused or aggravated by the Manager Parties’ operation or maintenance of the Waterworks in violation of duties imposed under the Management Agreement, then the costs associated with such Liability shall be apportioned between the Manager and the person responsible for such costs (or the Department, if no responsible other person can be identified), if and to the extent it is possible to divide such costs, according to the degree of responsibility the law assigns to each. If the costs associated with such Liability cannot be apportioned in accordance with the immediately preceding sentence of this section, the Manager and the Department will equally share the costs. The Management Agreement does not alter any Liability the Department may have prior to the Commencement Date for environmental remediation, environmental restoration, environmental repair or natural
resources damages, under the Indiana Solid Waste Management Board’s Hazardous Waste Management regulations, the Comprehensive Environmental Response, Compensation and Liability Act, the Solid Waste Disposal Act, and the Federal Water Pollution Control Act.

**Limitation of Liability.** The Manager and the Department acknowledge and agree that because of the unique nature of the undertakings contemplated by the Management Agreement, it is difficult or impossible to determine with precision the amount of damages that would or might be incurred by the Department or the Manager as a result of a breach of the Management Agreement. In no event, however, shall the Department Parties or the Manager Parties be liable for or obligated in any manner, except to the extent of indemnification of claims of third parties pursuant to the Management Agreement, to pay incidental, special, punitive, consequential or indirect damages of any nature to the other party because of a breach of the Management Agreement (including acts of negligence, omissions or strict liability), warranty, delay or otherwise, arising out of the performance or nonperformance by the Department Parties or the Manager Parties of their obligations under the Management Agreement, including, without limitation, suits by third persons, incurred by it whether occurring during or subsequent to the performance of the Management Agreement.

Notwithstanding the above, the Manager will not be liable for matters that are Pre-Closing On-Site Conditions or Pre-Closing Product Liabilities or that were caused by material misrepresentations of fact. However, if appropriate under the circumstances, the Manager will first seek indemnification from a third party prior to seeking indemnification from the Department. If there exists a mutual mistake, unless one party has greater ability to determine or discover the mistake in advance, neither party will seek indemnification from the other.

**Insurance, Letter of Credit and Guaranty**

**Insurance Procurement; Duty to Maintain; Obligation to Provide Continuous Coverage.** The Management Agreement provides that the Manager, on its own behalf and on behalf of any one directly or indirectly employed by it for whose acts or omissions it may be liable, shall secure, or cause to be secured, and maintain, at its cost and expense, including premium payments, certain insurance coverage and policies in such form and substance as are satisfactory to the Department, which coverage and policies must also comply, at a minimum, with the general requirements, including the policy limits, set out in the Management Agreement. All insurance coverage required to be obtained by the Manager under the Management Agreement must be secured prior to the Commencement Date and the policies must be continuously maintained through the term of the Management Agreement. The Manager must assure continuous coverage if any policy is canceled, not renewed or materially changed. The Manager will, at its own expense, pay such extra premium as required to assure no lapse of coverage for any time period.

**Letter of Credit.** As security for the performance of the Manager under the Management Agreement, the Manager has agreed during the term of the Management Agreement and continuing thereafter until all monetary obligations of the Manager have been discharged, to provide the Department with an irrevocable, direct draw letter of credit in a form satisfactory to the Department, and in the amount of forty million dollars ($40,000,000). Upon the occurrence of an Department Default, the Department may draw on such letter of credit in amounts which the Department determines, in its reasonable discretion, to be appropriate. Each bank at which such letter of credit is established and/or maintained will be subject to the approval of the Department. Each such bank will be instructed that it is to honor any draft the Department may present, without prior notice to the Department. Also, such bank shall be instructed that it shall have no objection rights to payment to the Department and that the Manager or the Guarantor shall not have first claim rights to such letter of credit.

**Guaranty.** As additional security for the Manager’s performance under the Management Agreement, the Guarantor has unconditionally and irrevocably guaranteed the Manager’s performance of all of the Manager’s obligations under the Management Agreement, and the payment of all sums owed pursuant to the Management Agreement. In addition, Guarantor shall also be liable for the payment of any damages sustained by the Department as a result of any fraud or material misrepresentation of the Manager or any losses or damages sustained by the Department from or in connection with hazardous materials or wastes (as those terms are defined in the Management Agreement) and/or any other environmental pollution in connection with the Premises, provided any such losses or damages are attributable to the Manager’s use and operation of the Waterworks in breach of its obligations as specified in the Management Agreement. The aggregate maximum liability of the Guarantor under the Guaranty shall not exceed one hundred fifty million dollars ($150,000,000) in the aggregate; provided, however,
this maximum amount excludes (i) any claims or amounts paid through insurance coverages; (ii) claims of personal injury, death or property damage by third parties; or (iii) claims or damages arising due to the willful acts or gross negligence of the Manager.

Events of Default

**Events of Default by the Manager.** The occurrence of any of the following, subject to the notice and opportunity to cure period, if any applicable thereto, shall constitute Events of Default by the Manager (each, a “Manager Default”):

(a) persistent and repeated failure or refusal of the Manager to perform timely any obligation under the Management Agreement;

(b) failure of the Manager to pay amounts owed to the Department under the Management Agreement within thirty (30) days following the date they become due and owing;

(c) failure of the Manager to meet any NPDES permit conditions or requirements on a regular basis;

(d) failure to comply with the Department’s inspection rights as provided for in the Management Agreement;

(e) failure to secure and maintain the insurance required under the Management Agreement;

(f) failure to maintain solvency, as determined under the applicable definition of “insolvent” contained in 11 U.S.C. §101(32), as amended;

(g) the default of the Guarantor under the Guarantee; or

(h) failure to secure and maintain the Letter of Credit as required by, and in accordance with, the terms set forth in the Management Agreement.

**Events of Default by the Department.** The following shall constitute Events of Default on the part of the Department (each, an “Department Default”):

(a) persistent and repeated failure or refusal of the Department to perform timely any material obligation under the Management Agreement; or

(b) failure of the Department to pay amounts owed to the Manager under the Management Agreement within thirty (30) days following the time they become due and payable.

**Default Notices and Opportunity to Cure.** With the exception of a termination of the Management Agreement by the Manager for an Department Default, the Management Agreement shall not be terminated for an Event of Default unless and until (i) the party contemplating termination gives the offending party written notice in reasonable detail of each Event of Default the offending party is alleged to have committed or permitted (a “Default Notice”), and (ii) the offending party shall have failed to cure such Event of Default within thirty (30) days (or such longer period as may reasonably be required to diligently effect such cure) following delivery of the Default Notice to the offending party. Notwithstanding the foregoing, if there are repeated Manager Defaults under sections (a) through (d) of the section described as “Events of Default by the Manager” above, regardless of attempts by the Manager to cure the same, the Department, in its sole discretion, may terminate the Management Agreement without giving a Default Notice or affording the Manager a period to cure.

Termination of the Management Agreement

**Termination of the Management Agreement for a Manager Default.** If the Department gives the Manager notice of the occurrence of a Manager Default under sections (a), (b) or (d) of the section described as “Events of Default by the Manager” above, and the Manager Default is not cured within thirty (30) days (or such longer period
as may reasonably be required to diligently effect such cure) following delivery of the Default Notice, the Department may terminate the Management Agreement. Upon the occurrence of a Manager Default under one or more of sections (c) or (e) through (h) set forth above, the Department may terminate the Management Agreement immediately by delivery of a Default Notice to the Manager.

**Termination of the Management Agreement for an Department Default.** If the Manager gives the Department a Default Notice of the occurrence of an Department Default, and such Department Default is not cured within the period set forth therein, the Manager may terminate the Management Agreement.

**Termination for Labor Unrest.** If, on or after the Commencement Date, personnel employed by the Manager and performing services pursuant to the Manager’s obligations under the Management Agreement shall go on a labor strike or slowdown, or if a work stoppage, walkout or secondary boycott shall occur, for any reason or cause whatsoever, and such act or event effectively prevents the Manager from performing its material obligations under this the Management Agreement, the Department, during the pendency of the period in which performance is prevented, may, in its sole discretion, by notice to the Manager, terminate the Management Agreement immediately.

**Termination for Uncontrollable Circumstances.** If an Uncontrollable Circumstance shall occur after the Commencement Date relative to a material obligation of the Manager or the Department under the Management Agreement and such Uncontrollable Circumstance or the effect thereof prevents performance of such material obligation for a period of thirty (30) days, the Department and the Manager shall, during or after such thirty (30)-day period, meet to review the situation. If, despite the good faith efforts of the parties to reach an agreement, no agreement is reached within a reasonable time considering the nature and extent of the Uncontrollable Circumstance, either party may terminate the Management Agreement upon notice to the other party.

**Termination for Insufficient Funding.** In the event sufficient funds to pay for the Service Fee are unavailable, through the failure of any entity to appropriate funds or otherwise, the Department shall have the right to terminate the Management Agreement upon thirty (30) days prior notice.

**Termination for Adverse Tax Treatment.** If the IRS or any other federal or state taxing authority issues or fails to issue any ruling, or imposes any requirement or obligation, in connection with the Department, the Manager or the Management Agreement, which would adversely affect the tax exempt status of any bonds issued by the Department (in the sole judgment of the Department), the Department may terminate the Management Agreement upon thirty (30) days notice to the Manager.

**Termination for Breach of Assignment Provision.** The Manager will not (i) assign or transfer the Management Agreement or its right, title or interests or obligations therein, in whole or in part, or (ii) voluntarily or involuntarily undergo a Change in Control without, in each instance, the Department’s advance written approval, which the Department has the sole discretion to withhold. Violation of this section will constitute a breach of the Management Agreement and the Department may, in its sole discretion, terminate the Management Agreement.

**Remedies of the Department.** If the Department terminates the Management Agreement as described under “Termination of the Management Agreement for a Manager Default” or “Termination for Labor Unrest” above, the Department shall have the right to seek legal and equitable remedies provided by law. If the Department terminates the Management Agreement as described under “Termination for Labor Unrest” above, the Department shall pay the Manager in addition to those payments and reconciliation amounts for the Service Fee, its unamortized costs incurred in (i) developing, starting-up and performing its obligations under the Management Agreement, including excess personnel costs during the first two (2) years following the Commencement Date as well as its work-in-
process at the time of termination and (ii) the aggregate amount of expenses expended by the Manager under the plans listed below and their successor plans:

(a) IWC Resources Corporation Employees’ Pension Plan;

(b) IWC Resources Corporation Executive Supplemental Benefit Plan;

(c) IWC Resources Corporation Deferred Compensation Plan;

(d) Medicare Supplemental Health Insurance; and

(e) IWC Resources Corporation Group Insurance Plan, as it relates to medical benefits for retirees,

after substantiating such costs to the reasonable satisfaction of the Department, not to exceed one Billing Year’s Fixed Fee determined using the Billing Year of the termination.

**Services after Termination of Management Agreement.** If the Department or the Manager terminates this Agreement, the Manager shall, from the date of the notice of termination, make fully available its managers and employees performing services at the Waterworks for at least six months after the termination date to continue to perform all the operation, maintenance, repair and management services contemplated in this Agreement. The Department may determine that it requires a lesser amount of services, managers, employees and intellectual property in order to provide a smooth and orderly transition of the operations and maintenance of the Waterworks to Department administrators, managers and personnel or, as applicable, the Department’s contracted private Manager; provided, however, in no event shall such provision of Services by the Manager exceed the twentieth (20th) anniversary date of this Agreement as measured from the Commencement Date.

**Manner of Termination Payment.** All performance and payment obligations under the Management Agreement, including payment of the Service Fee that is due and owing, shall continue pursuant to the terms of the Management Agreement until the Management Agreement terminates and any amount accrued but unpaid prior to termination shall, if due and owing, be payable in accordance with the Management Agreement. Except as otherwise specifically provided in the Management Agreement with respect to the time of payment following termination, within ninety (90) days following termination of the Management Agreement, the Department and the Manager shall reconcile all amounts then due and payable to each other under the terms of the Management Agreement. Upon reaching, as a result of such reconciliation, the total amount of the outstanding unpaid balance which the Department and the Manager owe the other, the Department and the Manager shall, within thirty (30) days thereafter, make the final payments in complete discharge of their obligations under the Management Agreement, except those obligations which survive the termination or expiration of the Management Agreement.
Definitions

“Acceptable Raw Water” means all raw water, the use of which is not prohibited by Applicable Law and which does not include substances that: (a) create a fire or explosive hazard at the Waterworks; or (b) are present in concentrations that exceed concentrations detected in the five-year historical data of the Waterworks.

“Affiliate” means the Guarantor, the Manager, and any corporation, partnership, joint venture or other entity controlled by, controlling or under common control with, directly or indirectly, the Guarantor, the Manager or any one of such entities. Solely for purposes of determining a Change in Control, “Affiliate” shall have the meaning ascribed to it in that Section.

“Applicable Law(s)” means any federal, State, Department or local statute, law, municipal charter provision, regulation, ordinance, rule, mandate, judgment, order, decree, permit, code or license requirement or other governmental requirement or restriction, or any interpretation or administration of any of the foregoing by any governmental authority, which applies to the services or obligations of either party under the Management Agreement, whether now or hereafter in effect.

“Asset Purchase Agreement” means the Asset Purchase Agreement by and among the City, NiSource Inc. and IWC Resources Corporation dated November 26, 2001, pursuant to which the Asset Purchase Transaction shall have been consummated.

“Asset Purchase Transaction” means the asset purchase transaction by and among the City, NiSource Inc. and IWC Resources Corporation contemplated by the Asset Purchase Agreement, whereby the City has acquired the Waterworks from IWC Resources Corporation.

“Billing Month” means each accounting month of the Manager, which is a 4/4/5 week cycle in each Billing Quarter. The first Billing Month shall begin on the Commencement Date, and the first Billing Month of each Billing Year shall begin on January 1 and the last Billing Month of each Billing Year shall end on December 31, and the last Billing Month shall end concurrently with the end of the term or date of termination of the Management Agreement.

“Billing Quarter” means a calendar quarter comprising three (3) Billing Months, except that (a) the first Billing Quarter shall commence on the Commencement Date and end on last accounting day of March, June, September or December, depending on which quarter the Commencement Date occurs and (b) the last Billing Quarter shall end concurrently with the end of the term or, as applicable, the date of termination, of the Management Agreement.

“Billing Year” means a calendar year comprising twelve (12) Billing Months, except that (a) the first Billing Year shall commence on the Commencement Date and end on December 31 immediately following the Commencement Date and (b) the last Billing Year shall end concurrently with the end of the term or, as applicable, the date of termination, of the Management Agreement.

“Bond Bank” means The Indianapolis Local Public Improvement Bond Bank.

“Bond Documents” include the terms of the Board Resolution approving the Department’s municipal bonds, the tax representation certificate related thereto, the bond purchase agreement with the Bond Bank and the trust indenture securing the Bond Bank’s bonds issued to purchase the Department’s bonds.

“Capital Project” means (i) an item that will be of a long-term nature having a useful life in excess of three years, as defined by manufacturers’ specifications and (ii) those items that require a modification, alteration, addition to, and or improvement to an existing facility with a construction, installation (including materials) or purchase value in excess of $5,000 and (iii) replacement of equipment that has met or exceeded its useful life and (iv) items for construction, placement of new facilities (e.g. piping, equipment, wells, etc., including material costs) and capital purchases that significantly improve operations and or maintenance, aesthetics, long-term capital conditions or other aspects not generally associated with ongoing operations and maintenance.
“CBA” means the current collective bargaining agreement of IWC employees and any collective bargaining agreement that may be negotiated with respect to IWC Transferred Employees.

“Change in Control” means:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “1934 Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of either (i) the then outstanding shares of common stock of the Manager (the “Outstanding Manager Common Stock”) or (ii) the combined voting power of the then outstanding voting securities of the Manager entitled to vote generally in the election of directors (the “Outstanding Manager Voting Securities”); provided, however, that the following acquisitions shall not constitute a Change in Control: (x) any acquisition by the Manager, (y) any acquisition by an employee benefit plan (or related trust) sponsored or maintained either by the Manager or any corporation controlled by the Manager (for purposes of this section, only, “Affiliate”), or (z) any acquisition by a corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (i), (ii) and (iii) of subsection (b) of this Section are satisfied; or

(b) Approval by the shareholders of the Manager of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (i) more than 55% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Manager Common Stock and Outstanding Manager Voting Securities immediately prior to such reorganization, merger or consolidation in substantially the same proportions as their ownership, immediately prior to such reorganization, merger or consolidation, of the Outstanding Manager Common Stock and Outstanding Manager Voting Securities, as the case may be, (ii) no Person (excluding the Manager, any employee benefit plan (or related trust) sponsored or maintained by the Manager, by an Affiliate, or by such corporation resulting from such reorganization merger or consolidation and any Person beneficially owning immediately prior to such reorganization, merger or consolidation, directly or indirectly, 20% or more of the Outstanding Manager Common Stock or Outstanding Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (iii) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the incumbent board at the time of the execution of the initial agreement providing for such reorganization, merger or consolidation; or

(c) Approval by the shareholders of the Manager of (i) a complete liquidation or dissolution of the Manager or (ii) the sale or other disposition of all or substantially all of the assets of the Manager, other than to a corporation, with respect to which following such sale or other disposition, (x) more than 55% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Manager Common Stock and Outstanding Manager Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership immediately prior to such sale or other disposition, of the Outstanding Manager Common Stock and Outstanding Manager Voting Securities, as the case may be, (y) no Person (excluding the Manager and any employee benefit plan (or related trust) sponsored or maintained by the Manager, by an Affiliate or by the corporation purchasing the assets and any Person beneficially owning, immediately prior to such sale or other disposition directly or indirectly, 20% or more of the Outstanding Manager Common Stock or Outstanding Manager Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities
of such corporation entitled to vote generally in the election of directors and (z) at least a majority of the
members of the board of directors of such corporation were members of the incumbent board at the time of
the execution of the initial agreement or action of the board providing for such sale or other disposition of
assets of the Manager.

“Change in Law” means the enactment, adoption, promulgation, modification, repeal or change after the
Contract Date of any Applicable Law which (a) necessitates or makes advisable a Capital Project, (b) modifies the
Manager’s guarantees under this Agreement, (c) increases the Service Fee by establishing requirements with respect
to the operation or maintenance of the Waterworks, (d) otherwise impacts the Manager’s ability to perform its
obligations under this Agreement, or (e) increases or decreases the rate of State gross retail tax or the rate of the use
tax or any other tax and results in increased or decreased operation expenses to the Manager, which, in the case of
(a), (b), (c), or (d), are more burdensome than the most stringent requirements:

(1) in effect on the Contract Date;

(2) agreed to by the Department as of the Contract Date in any applications for official permits, licenses or
approvals to or for the Waterworks, other than any requirements set forth in said applications to comply
with Applicable Laws;

(3) in the Performance Guarantees in Exhibit 1 to the Management Agreement; or

(4) in the Operations and Maintenance Standards in Exhibit 2 to the Management Agreement,

and which, in the case of (e), any changes on the operation expenses of the Manager as a result of such increase
or decrease in taxes must be: (i) approved by the Board; (ii) minimized by the Manager using its best efforts; and
(iii) considered by the parties to be a re-negotiation of this Agreement, which shall comply with the provisions of the
Revenue Procedure.

For purposes of this definition, no enactment, adoption, promulgation or modification of Applicable Laws shall
be considered a Change in Law if, as of the Contract Date, such Applicable Law would have directly affected the
continued operation, maintenance, repair or management of the Waterworks by the Department after the
Commencement Date in the absence of this Agreement and either (i) such Applicable Law was officially proposed
by the responsible agency and thereafter had become effective without further action, or (ii) the adoption, enactment
or promulgation process by the appropriate federal, State or local body commenced before the Contract Date, and
with respect to which, (A) the comment period expired on or before the Contract Date, (B) any required hearings
concluded on or before the Contract Date in accordance with applicable administrative procedures, and (C) it
thereafter became effective without further action.

The definition of “Change in Law” shall include changes in applicable tax rules and regulations (including taxes
due on Manager’s income), provided, however, that the Manager shall use reasonable efforts to minimize the effects
of any such changes, including, without limitation, utilizing Department resources and assistance, as necessary. Any
material increase in the Manager’s cost to perform the Services resulting from a Change in Law in taxes shall be
subject to Board approval and shall qualify for a re-negotiation of the Agreement in accordance with the
requirements of the Revenue Procedure.

“City” means the Consolidated City of Indianapolis, Marion County, Indiana.

“City-County Council” means the City-County Council of the City.

“Contract Date” means the date the Management Agreement is executed, which is March 21, 2002.

“CP” means the Capital Plan of the Department as provided by the Manager as described in Section 4.09 and
Exhibit 8 of the Management Agreement.
“Department Parties” means the City and all departments (including the Department) and divisions thereof, the Bond Bank, and all officials, employees, agents, consultants and representatives of each of the foregoing, and the members of the Board.

“Grantor Trust” means the Indianapolis Water Company Grantor Trust Agreement dated May 1, 1995 between the Indianapolis Water Company and Joseph R. Broyles, J.A. Rosenfeld and James P. Lathrop, or their respective successors, as Trustees.

“Guarantee” means the guarantee agreement between the Guarantor and the Department.

“Guarantor” means Veolia Environnement, a corporation organized and existing under the laws of France.

“IWC” means Indianapolis Water Company.

“IWC Transferred Employees” means employees transferred from IWC and hired by the Manager pursuant to the Management Agreement and as defined in the Asset Purchase Agreement.

“Key Personnel” means the individuals designated as such by the Department as described in the Management Agreement.

“Manager Parties” means the Manager, the Guarantor, its agents, representatives and contractors, including, but not limited to, any tier of subcontractor to the Manager and any subcontractor to a subcontractor of the Manager, and any person (i) directly or indirectly employed by any of them or (ii) for whose acts any of them may be liable.

“Maximum Incentive Fee” means an amount not to exceed twenty five percent (25%) of the Fixed Fee for any Billing Year.

“NPDES permit” means those National Pollutant Discharge Elimination System permits issued from time to time by the State of Indiana in respect of the operation and maintenance of the Waterworks.

“Pre-Closing On-Site Conditions” shall have the meaning ascribed to it in Section 2.3(a)(iv) of the Asset Purchase Agreement.

“Pre-Closing Product Liabilities” shall have the meaning ascribed to it in Section 2.3(a)(vi) of the Asset Purchase Agreement.

“Prudent Utility Practice” means any of the practices, methods, and acts engaged in or approved by a significant portion of the water utility industry during the relevant time period, or any of the practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act, to the exclusion of all others, but rather to be a range of acceptable practices, methods or acts generally accepted in the region.

“Retiree Medical Benefits” means retiree health insurance, life insurance, and Medicare Part B premium reimbursement.

“Services” means the operation, maintenance, repair and management services provided by Manager Parties pursuant to the Management Agreement, including, without limitation, raw water supply, treatment and distribution, billing collection and other customer services, as well as the provision of certain capital planning, designing, project management or contribution in aid of construction assistance.

“Uncontrollable Circumstance(s)” means any act, event or condition that (a) prevents the Manager or the Department from meeting or (b) materially increases the cost of performing, its obligations under the Management Agreement, if such act, event or condition is beyond the reasonable control of the Party asserting an Uncontrollable
Circumstance as justification for not meeting or performing such obligations; provided, however, with respect to the Manager’s obligations, such act, event or condition is not the result of the Manager’s failure to operate and maintain the Waterworks in accordance with the terms and conditions of the Management Agreement.

(a) Uncontrollable Circumstances include:

(1) flood, Drought, hurricane, tornado, epidemic, severe earthquake, catastrophic fire or explosion, act of a public enemy, war, blockade, insurrection, riot, general unrest, restraint of government and people, civil disturbance, sabotage or similar occurrence;

(2) the order, injunction or judgment of any federal, State or local court, administrative agency or governmental body or officer with jurisdiction over the Department or of the Department acting in its governmental capacity, including any exercise of the power of eminent domain, police power, condemnation or other taking by or on behalf of any public, quasi-public or private entity; provided, however, that such order, injunction or judgment did not arise in connection with or is not related to the negligent or wrongful action or inaction of the Party relying thereon and that neither the contesting in good faith of any such order, injunction, or judgment nor the reasonable failure to so contest shall constitute or be construed as a wrongful or negligent action or inaction of such Party;

(3) the suspension, termination, interruption, denial, failure to issue, modification or failure of renewal of any permit, license, consent, authorization or approval necessary to the operation, maintenance, repair and management of the Waterworks, if such act or event did not arise in connection with, or is not related to, the negligent or willful action or inaction of the Party asserting an Uncontrollable Circumstance; provided, however, that neither the contesting in good faith of any such order nor the reasonable failure to so contest shall be construed as a negligent or willful action or inaction of such Party;

(4) a Change in Law;

(5) the loss or inability to obtain any and all utility services, including sludge disposal and electric power, necessary for the operation, maintenance, repair and management of the Waterworks directly resulting in a partial or total curtailment of operations at the Waterworks for reasons other than the negligent, willful or wrongful action or inaction of the Manager;

(6) the failure of any subcontractor or supplier, other than an Affiliate, to furnish services, materials, chemicals or Equipment on the dates agreed to; provided (A) such failure is the result of a Force Majeure, (B) such failure materially and adversely affects the Manager’s ability to perform its obligations and (C) the Manager is not reasonably able to obtain substitute services, material, chemicals or Equipment on the agreed upon dates; and

(7) unavailability of Acceptable Raw Water.

(b) An Uncontrollable Circumstance shall not include:

(1) any act, event or condition which is caused by the negligence or intentional action of the Party asserting the Uncontrollable Circumstance, its subcontractors, agents and employees;

(2) any event, reasonably foreseeable on the Contract Date;

(3) economic infeasibility;

(4) any labor strike, work stoppage or slowdown on the part of the Manager’s or an Affiliate’s employees;

(5) subject to the definition of a Change in Law regarding sales taxes, any order, injunction or judgment of any federal, State or local court, administrative agency or governmental body interpreting federal, State, or local tax laws; and
(6) weather conditions in the geographic area of the Department, other than those listed in (a)(1) of this definition.

“Waterworks” means the water collection, purification and distribution system set forth on Exhibit 3 of the Management Agreement.
FORM OF OPINION OF BOND COUNSEL

Upon delivery of the 2004A Bonds, Ice Miller proposes to deliver its approving opinion in substantially the form presented below.

The Indianapolis Local Public Improvement Bond Bank
Indianapolis, Indiana

Re: The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2004A (Waterworks Project) (“Bonds”)
Total Issue: $50,000,000
Dated: March 31, 2004

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by The Indianapolis Local Public Improvement Bond Bank (“Issuer”) of $50,000,000 of its Bonds, dated March 31, 2004 (“Bonds”), pursuant to a Trust Indenture, dated as of April 1, 2002, as supplemented by a 2004 Supplemental Trust Indenture, dated as of March 1, 2004 (collectively, the “Indenture”) between the Issuer and National City Bank of Indiana, as Trustee (the “Trustee”). We have examined the law and the certified transcript of proceedings of the Issuer had relative to the authorization, issuance and sale of the Bonds and such other papers as we deem necessary to render this opinion. We have relied upon the certified transcript of proceedings and certificates of public officials and have not undertaken to verify any facts by independent investigation.

Based upon our examination, we are of the opinion, as of the date hereof, as follows:

1. The Bonds are the valid and binding limited obligations of the Issuer enforceable in accordance with the terms and provisions thereof, and together with any additional bonds on a parity therewith hereafter issued, will be secured by a pledge of and payable solely from the Trust Estate (as defined in the Indenture), which includes payments received on the City of Indianapolis, Indiana (“City”) Waterworks District Net Revenue Bonds, Series 2004 (“Qualified Obligations”), and which rank on a parity with The Indianapolis Local Public Improvement Bond Bank Bonds, Series 2002A, dated April 30, 2002, now outstanding in the principal amount of $575,955,000 and maturing semiannually over a period ending January 1, 2035; The Indianapolis Local Public Improvement Bond Bank (Taxable) Bonds, Series 2002B, dated April 30, 2002, now outstanding in the principal amount of $4,415,000 and maturing semiannually over a period ending January 1, 2007; and the Assumed Obligations (as defined in the Indenture), now outstanding in the aggregate principal amount of $38,840,000.

2. Under statutes, decisions, regulations and rulings existing on this date, interest on the Bonds is exempt from income taxation in the State of Indiana (“State”). This opinion relates only to the exemption of interest on the Bonds from State income taxes.

3. Under federal statutes, decisions, regulations and rulings existing on this date, interest on the Bonds is excludable from gross income for purposes of federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended (“Code”). This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance with tax representations and covenants made in the Indenture, in the resolution adopted on March 5, 2002 and ratified by the Board of Directors of the Department of Waterworks of the City (“Board”) on April 22, 2002, and as supplemented by resolution adopted by the Board on February 26, 2004, pursuant to which the Qualified Obligations are authorized and in certificates of the Issuer and the City (collectively, “Tax Representations”). Failure to comply with the Tax Representations could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to their date of issue.

The opinion expressed in paragraph 3 is expressly limited as set forth in this paragraph. If subsequent to the date hereof, the interest rate period applicable to the Bonds is changed, we are not expressing an opinion herein on the effect such change will have on the exclusion from gross income for federal income tax purposes of interest on
the Bonds. As described in the Indenture, a favorable opinion of bond counsel would be required in the event of such change.

It is to be understood that the rights of the owners of the Bonds and the enforceability thereof and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity. It is to be understood that the rights of the owners of the Bonds and the enforceability thereof and of the Indenture may be subject to the valid exercise of the constitutional powers of the Issuer, the City, the State and the United States of America.

Very truly yours,
This UNDERTAKING AGREEMENT (“Agreement”) is made as of March 1, 2004, between the Department of Waterworks of the City of Indianapolis, a special taxing district and a department of the City of Indianapolis (“Obligor”), and National City Bank of Indiana (“Counterparty”), for the purpose of permitting City Securities Corporation, and Bear, Stearns & Co. Inc., as joint book-running managers and as representatives of the Underwriters (together, “Underwriters”), to purchase The Indianapolis Local Public Improvement Bond Bank (“Bond Bank”) Bonds, Series 2004 (Waterworks Project) in the amount of $50,000,000 (“Bonds”), issued pursuant to a Trust Indenture between the Bond Bank and National City Bank of Indiana, as trustee (“Trustee”), dated as of April 1, 2002, as supplemented and amended by a 2004 Supplemental Trust Indenture, dated as of March 1, 2004 (“Indenture”), in compliance with the Securities and Exchange Commission (“SEC”) Rule 15c2-12 (“SEC Rule”).

WHEREAS, the Bond Bank has issued its Bonds pursuant to the Indenture; and

WHEREAS, pursuant to a Qualified Entity Purchase Agreement, between the Bond Bank and the Obligor dated as of March 1, 2004 (“Purchase Agreement”), the Obligor has sold its Department of Waterworks Net Revenue Bonds, Series 2004 (“Qualified Obligations”) to the Bond Bank and the Qualified Obligations shall secure payment of the Bonds; and

WHEREAS, the Obligor is an Obligated Person (as defined in the SEC Rule) because the payments due under the Qualified Obligations are the only source of funds (other than funds held under the Indenture) pledged to pay the principal and interest due on the Bonds; and

WHEREAS, the Obligor is the only Obligated Person with respect to the Bonds;

NOW, THEREFORE, it is agreed by the parties hereto as follows:

1. Definitions. The words and terms defined in this Agreement shall have the meanings herein specified. Those words and terms not expressly defined herein shall have the meanings assigned to them in the SEC Rule.

(a) “Bondholder” or “holder” or any similar term, when used with reference to a Bond or Bonds, means any person who shall be the registered owner of any outstanding Bond, or the holders of beneficial interests in the Bonds.

(b) “Final Official Statement” means the Official Statement, dated as of March __, 2004, relating to the Bonds, including any document included by specific reference to such document previously provided to each NRMSIR and to the Indiana state information depository then in existence, if any (“SID”), or filed with the Municipal Securities Rulemaking Board (“MSRB”).

(c) “NRMSIR” means a nationally recognized municipal securities information repository which is designated as such at any point in time by the SEC. The current NRMSIR’s are listed on Exhibit A attached hereto.

2. Term. The term of this Agreement is from the date hereof to the earlier of (i) the date of the last payment of principal of and interest on the Bonds, or (ii) the date the Bonds are defeased under the Indenture, or (iii) the date of rescission as described in Section 12.

3. Provision of Financial Information. (a) The Obligor hereby undertakes to provide the following financial information:

(i) To the Bond Bank, the Counterparty, each NRMSIR and the SID, when and if available, the audited comprehensive annual financial report of the Obligor and the City of Indianapolis, Indiana (the “City”) for each twelve-month period ending December 31, beginning with December 31, 2003, together
with the opinion of its accountants and all notes thereto, within sixty (60) days of receipt from its certified public accountants; and

(ii) To the Bond Bank, the Counterparty, each NRMSIR and the SID, within 210 days of each December 31, unaudited annual financial information for the Obligor and the City for such calendar year including (A) beginning with December 31, 2003, unaudited financial statements of the Obligor and the City, and (B) beginning with December 31, 2003, operating data of the type including information included under the following headings in the Final Official Statement (collectively, “Annual Information”):

“WATERWORKS FINANCIAL INFORMATION”
“APPENDIX A—ACCOUNTANT’S FINANCIAL FORECAST REPORT—STATISTICAL SUMMARY OF SELECTED FINANCIAL INFORMATION”

(b) If any Annual Information or audited financial statements relating to the Obligor referred to in paragraph (a) of this Section 3 no longer can be generated because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the Obligor to the Bond Bank, each NRMSIR and the SID, along with any other Annual Information or audited financial statements required to be provided under this Agreement, shall satisfy the undertaking to provide such Annual Information or audited financial statements. To the extent available, the Obligor shall cause to be filed along with the other Annual Information or audited financial statements operating data similar to that which can no longer be provided.

(c) The disclosure may be accompanied by a certificate of an authorized representative of the Obligor in the form of Exhibit B attached hereto.

(d) The Obligor agrees to make a good faith effort to obtain Annual Information. However, failure to provide audited financial statements or portions of Annual Information because it is unavailable through circumstances beyond the control of the Obligor shall not be deemed to be a breach of this Agreement. The Obligor further agrees to supplement the Annual Information filing when such data is available.

(e) Annual Information or audited financial statements required to be provided pursuant to this Section 3 may be provided by a specific reference to such Annual Information or audited financial statements already prepared and previously provided to each NRMSIR and the SID, or filed with the SEC; however, if such document is a final official statement, it must also be available from the MSRB.

4. Accounting Principles. The financial information will be prepared on a cash basis as prescribed by the State Board of Accounts, as in effect from time to time, as described in the auditors’ report and notes accompanying the audited financial statements of the Obligor or those mandated by Indiana law from time to time. The audited financial statements of the Obligor, as described in Section 3(a)(i) hereof, will be prepared in accordance with generally accepted accounting principles and Government Auditing Standards issued by the Comptroller General of the United States.

5. Material Events. The Obligor undertakes to disclose in a timely manner the occurrence of only the following events, if material with respect to the Bonds (which determination of materiality shall be made by the Obligor in accordance with the standards established by federal securities laws), to the Bond Bank, to each NRMSIR or to the MSRB, and to the SID:

a. principal and interest payment delinquencies;

b. non-payment related defaults;

c. unscheduled draws on debt service reserves reflecting financial difficulties;

d. unscheduled draws on credit enhancements reflecting financial difficulties;

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

f. adverse tax opinions or events affecting the tax-exempt status of the 2004A Bonds;

g. modifications to the rights of Bondholders;
h. Bond calls (other than scheduled mandatory sinking fund redemptions for which notice is given in accordance with the Indenture);

i. defeasances;

j. release, substitution or sale of property securing repayment of the Bonds; and

k. rating changes.

The disclosure may be accompanied by a certificate of an authorized representative of the Obligor in the form of Exhibit C attached hereto.

6. Notice to Counterparty. The Obligor hereby agrees to provide to the Bond Bank and the Counterparty a copy of any Annual Information, audited financial statements, material event notice, or notice of failure to disclose Annual Information which it files or causes to be filed under Sections 3, 5 and 8 hereof, respectively, concurrently with or prior to such filing.

7. Use of Agent. The Obligor may, at its sole discretion, use an agent (“Dissemination Agent”) in connection with the dissemination of any information required to be provided by the Obligor pursuant to the terms of this Agreement. If a Dissemination Agent is selected for these purposes, the Obligor shall provide prior written notice thereof (as well as notice of replacement or dismissal of such agent) to the Counterparty and the Bond Bank and to each NRMSIR, the SID, and the MSRB.

Further, the Obligor may, at its sole discretion, retain counsel or others with expertise in securities matters for the purpose of assisting the Obligor in making judgments with respect to the scope of its obligations hereunder and compliance therewith, all in order to further the purposes of this Agreement.

8. Failure to Disclose. If, for any reason, the Obligor fails to provide the audited financial statements or Annual Information as required by this Agreement, the Obligor shall provide notice of such failure in a timely manner to the Bond Bank, to each NRMSIR or to the MSRB, and to the SID.

9. Remedies.

(a) The purpose of this Agreement is to enable the Underwriters to purchase the Bonds by providing for an undertaking by the Obligor in satisfaction of the SEC Rule. This Agreement is solely for the benefit of the holders of the Bonds and creates no new contractual or other rights for, nor can it be relied upon by, the SEC, underwriters, brokers, dealers, municipal securities dealers, potential customers, other Obligated Persons, if any, or any other third party. The sole remedy against the Obligor for any failure to carry out any provision of this Agreement shall be for specific performance of the Obligor’s disclosure obligations hereunder and not for money damages of any kind or in any amount or for any other remedy.

(b) Subject to paragraph (e) of this Section 9, if the Obligor fails to provide any information required of it by the terms of this Agreement, any holder of Bonds may pursue the remedy set forth in the preceding paragraph in any court of competent jurisdiction in the county in which the Obligor is located. An affidavit to the effect that such person is a holder of Bonds supported by reasonable documentation of such claim shall be sufficient to evidence standing to pursue this remedy.

(c) Subject to paragraph (e) of this Section 9, any challenge to the adequacy of the information provided by the Obligor by the terms of this Agreement may be pursued only by holders of not less than 25% in principal amount of Bonds then outstanding in any court of competent jurisdiction in the county in which the Obligor is located. An affidavit to the effect that such persons are holders of Bonds supported by reasonable documentation of such claim shall be sufficient to evidence standing to pursue the remedy set forth in the preceding paragraph.

(d) The Counterparty, upon indemnification satisfactory to it and demand by those persons it reasonably believes to be holders of Bonds, may also pursue the remedy set forth in paragraph (b) above in any court of competent jurisdiction in the county in which the Obligor is located. The Counterparty shall have no obligation to pursue any remedial action in the absence of a valid demand from holders of Bonds and indemnification satisfactory to it.
Prior to pursuing any remedy under this Section 9, a holder of Bonds or the Counterparty shall give notice to the Obligor, the Bond Bank and the Counterparty, via registered or certified mail, of such breach and its intent to pursue such remedy. Fifteen (15) days after mailing of such notice, and not before, a holder of Bonds or the Counterparty may pursue such remedy under this Section 9. The Obligor’s failure to honor its covenants hereunder shall not constitute a breach or default of the Bonds, the Indenture, the Purchase Agreement, the Resolution under which the Qualified Obligations were issued, the Qualified Obligations or any other agreement to which the Obligor or Bond Bank is a party.

10. Counterparty’s Obligations. The Counterparty hereto shall have no obligation to take any action whatsoever with respect to information provided by the Obligor under this Agreement, except (i) as set forth in this Section 10 and (ii) any obligations arising from the Counterparty serving as a Dissemination Agent, and no implied covenants or obligations shall be read into this Agreement against the Counterparty. Further, except as set forth in this Section 10, the Counterparty hereto shall have no responsibility to ascertain the truth, completeness, accuracy, or timeliness of the information provided as required hereunder by the Obligor, nor as to its sufficiency for purposes of compliance with the SEC Rule or the requirements of this Agreement.

The Counterparty may, at its sole discretion, retain counsel or others with expertise in continuing disclosure matters for the purpose of assisting the Counterparty in making judgments with respect to the scope of its obligations hereunder and compliance therewith.

If the Counterparty has not received the Annual Information by the date which is ten (10) days before the date set forth in Section 3(a)(ii) of this Agreement, the Counterparty shall notify the Obligor, via registered or certified mail, that it has not received such Annual Information. However, a failure by the Counterparty to provide (or any delay in providing) any notice required by this paragraph shall not: (i) operate to relieve the Obligor of its obligation to provide the Annual Information in the manner and within the time specified in this Agreement; or (ii) constitute a defense for the Obligor, or the basis for any claim, counterclaim, cross-claim or third-party claim by the Obligor, in any action brought pursuant to Section 9 of this Agreement or otherwise. Nothing contained in this paragraph shall operate to grant any additional rights or remedies to any holder of Bonds.

The Counterparty hereto shall be obligated to, and hereby agrees that it will, on the fifth business day after the date required by Section 3(a)(ii) of this Agreement, forward to those persons or entities scheduled to receive Annual Information a notice substantially in the form of Exhibit D attached hereto in the event that the Counterparty has not received a copy of such Annual Information; provided, however, that the Counterparty shall not give such notices as described in this paragraph and the immediately preceding paragraph if the Obligor has provided the Counterparty with notice that the Obligor has issued notice pursuant to Section 9 hereof.

11. Resignation and Removal of Counterparty. The Counterparty may resign in its capacity under this Agreement at any time by giving written notice thereof to the Obligor. So long as the Obligor has not failed to honor its obligations as set forth in Sections 3, 5 and 8 hereof, the Obligor may remove the Counterparty in its capacity under this Agreement at any time by giving written notice thereof to the Counterparty and the Bond Bank. Upon such resignation or removal, the Obligor shall promptly appoint a successor Counterparty.

12. Modification of Agreement. The Obligor and the Counterparty may, from time to time, amend or modify this Agreement without the consent of or notice to the holders of the Bonds but with notice to the Bond Bank if either (a)(i) such amendment or modification is 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 the Obligor, or type of business conducted, (ii) this Agreement, as so amended or modified, would have complied with the requirements of the SEC Rule on the date hereof, after taking into account any amendments or interpretations of the SEC Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interests of the holders of the Bonds, as determined either by (A) nationally recognized bond counsel, (B) the Counterparty, (C) the Trustee, or (D) an approving vote of the holders of the Bonds pursuant to the terms of Article 12 of the Indenture at the time of such amendment or modification; or (b) such amendment or modification (including an amendment or modification which rescinds this Agreement) is permitted by the SEC Rule, as then in effect.
13. **Interpretation Under Indiana Law.** It is the intention of the parties hereto that this Agreement and the rights and obligations of the parties hereunder shall be governed by and construed and enforced in accordance with, the law of the State of Indiana.

14. **Severability Clause.** In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

15. **Successors and Assigns.** All covenants and agreements in this Agreement made by the Obligor and the Counterparty shall bind their successors, whether so expressed or not.

16. **Notices.** All notices required to be given under this Agreement shall be made at the following addresses:

   If to the Obligor:   Department of Waterworks of the City of Indianapolis  
                      200 East Washington Street, Suite 2421  
                      Indianapolis, IN 46204

   If to the Counterparty: National City Bank of Indiana  
                          One National City Center  
                          P.O. Box 5035  
                          Indianapolis, Indiana 46255  
                          Attention: Corporate Trust Department

   If to the Bond Bank: The Indianapolis Local Public Improvement Bond Bank  
                        Attention: Executive Director  
                        2421 City-County Building  
                        200 E. Washington Street  
                        Indianapolis, IN 46204

IN WITNESS WHEREOF, the Obligor and the Counterparty have caused this Agreement to be executed as of the ____ day of March, 2004.

DEPARTMENT OF WATERWORKS OF THE CITY OF INDIANAPOLIS

______________________________________________
Chairperson

Attest:

______________________________________________
Secretary-Treasurer

NATIONAL CITY BANK OF INDIANA, as Counterparty

______________________________________________
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APPENDIX F

AUCTION PROCEDURES
ARTICLE I.
DEFINITIONS

Section 1.01. Definitions. In addition to the words and terms elsewhere defined in this Official Statement, the following words and terms as used in this APPENDIX F and elsewhere in this Official Statement have the following meanings unless the context or use indicates another or different meaning or intent:

“Agent Member” means a member of, or participant in, the Securities Depository who will act on behalf of a Bidder.

“All Hold Rate” means, as of any Auction Date, 45% of the Index in effect on such Auction Date.

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means any auctioneer appointed in accordance with the 2004 Supplemental Indenture for the 2004A Bonds and, initially, Wilmington Trust Company.

“Auction Agreement” means an agreement approved by the Bond Insurer between the Auction Agent and the Bond Bank pursuant to which the Auction Agent agrees to follow the procedures specified in the 2004 Supplemental Indenture, with respect to the 2004A Bonds while bearing interest at an Auction Rate, as such agreement may from time to time be amended or supplemented with the consent of the Bond Insurer. The initial Auction Agent Agreement shall be the Auction Agent Agreement, dated as of March 1, 2004, by and between Wilmington Trust Company and the Bond Bank.

“Auction Date” means, during any period in which the Auction Procedures are not suspended in accordance with the provisions hereof, (a) if the 2004A Bonds are in a daily Auction Rate Period, each Business Day; (b) if the 2004A Bonds are in a Flexible Auction Rate Period, the last Business Day of the Flexible Auction Rate Period; and (c) if the 2004A Bonds are in any other Auction Rate Period, the Business Day immediately preceding each Auction Rate Interest Payment Date for the 2004A Bonds (whether or not an Auction will be conducted on such date); provided, however, that the last Auction Date with respect to the 2004A Bonds in an Auction Rate Period other than a daily Auction Rate Period or a Flexible Auction Rate Period will be the earlier of (i) the Business Day immediately preceding the Auction Rate Interest Payment Date immediately preceding the effective date of a change in the Interest Rate Period from an Auction Rate Period to a different Interest Rate Period for the 2004A Bonds and (ii) the Business Day immediately preceding the Auction Rate Interest Payment Date immediately preceding the Maturity Date; and provided further, however, that if such 2004A Bonds are in a daily Auction Rate Period, the last Auction Date will be the earlier of (A) the Business Day immediately preceding the effective date of a change in the Interest Rate Period applicable to such 2004A Bonds from an Auction Rate Period to a different Interest Rate Period; and (B) the Business Day immediately preceding the Maturity Date; and provided further, however, that the last Business Day of a Flexible Auction Rate Period shall be the Auction Date for the Auction Rate Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Rate Period to another Auction Rate Period, there will be two Auctions, one for the last daily Auction Rate Period and one for the first Auction Rate Period following the conversion.

“Auction Multiple” means, as of any Auction Date, the Percentage of Index (in effect on such Auction Date) determined as set forth below, based on the Prevailing Rating of the 2004A Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

<table>
<thead>
<tr>
<th>Prevailing Rating</th>
<th>Percentage of Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>“AAA”/“Aaa”</td>
<td>175%</td>
</tr>
<tr>
<td>“AA”/“Aa”</td>
<td>200</td>
</tr>
<tr>
<td>“A”/“A”</td>
<td>250</td>
</tr>
<tr>
<td>“BBB”/“Baa”</td>
<td>275</td>
</tr>
<tr>
<td>Below “BBB”/“Baa”</td>
<td>300</td>
</tr>
</tbody>
</table>
“Auction Procedures” means the procedures for conducting Auctions for the 2004A Bonds during an Auction Rate Period set forth in the 2004 Supplemental Indenture and described in this APPENDIX F.

“Auction Rate” means, for each Auction Rate Period, the rate of interest to be borne by the 2004A Bonds during that Auction Rate Period. The Auction Rate shall be determined pursuant to these Auction Procedures and if Sufficient Clearing Bids exist, the Auction Rate shall be the Winning Bid Rate; provided, however, if all of the 2004A Bonds are the subject of Submitted Hold Orders, the Auction Rate shall be the All Hold Rate, and if Sufficient Clearing Bids do not exist, the Auction Rate shall be the Maximum Auction Rate.

“Auction Rate Interest Payment Date” means:

   (a) when used with respect to any Auction Rate Period (including the initial Auction Rate Period commencing on and including the effective date of a change in the Interest Rate Period to an Auction Rate Period and expiring on and including the initial Auction Date (or, if such initial Auction Date is not followed by a Business Day, the next succeeding day that is followed by a Business Day) determined by the Bond Bank in connection with a change in the Interest Rate Period to an Auction Rate Period) other than a daily Auction Rate Period or a Flexible Auction Rate Period, the Business Day immediately following such Auction Rate Period;

   (b) when used with respect to a daily Auction Rate Period, the first Business Day of the month immediately succeeding such Auction Rate Period; or

   (c) when used with respect to a Flexible Auction Rate Period of (i) seven or more but fewer than 92 days, the Business Day immediately following such Flexible Auction Rate Period; or (ii) 92 or more days, (A) in the case of 2004A Bonds with Auctions generally conducted on Fridays each thirteenth Monday after the first day of such Flexible Auction Rate Period or the next Business Day if such Monday is not a Business Day and on the Business Day immediately following such Flexible Auction Rate Period; (B) in the case of 2004A Bonds with Auctions generally conducted on Mondays, each thirteenth Tuesday after the first day of such Flexible Auction Rate Period or the next Business Day if such Tuesday is not a Business Day and on the Business Day immediately following such Flexible Auction Rate Period; (C) in the case of 2004A Bonds with Auctions generally conducted Tuesdays, each thirteenth Wednesday after the first day of such Flexible Auction Rate Period or the next Business Day if such Wednesday is not a Business Day and on the Business Day immediately following such Flexible Auction Rate Period; (D) in the case of 2004A Bonds with Auctions generally conducted Wednesdays, each thirteenth Thursday after the first day of such Flexible Auction Rate Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Flexible Auction Rate Period; and (E) in the case of 2004A Bonds with Auctions generally conducted on Thursdays, each thirteenth Friday after the first day of such Flexible Auction Rate Period or the next Business Day if such Friday is not a Business Day and on the Business Day immediately following such Flexible Auction Rate Period.

“Auction Rate Period” means the Interest Rate Period during which the 2004A Bonds bear interest at an Auction Rate. The Auction Rate Period shall be:

   (a) a Flexible Auction Rate Period;

   (b) with respect to 2004A Bonds in a daily Auction Rate Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;

   (c) with respect to 2004A Bonds in a seven-day Auction Rate Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); (ii) Mondays, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a
Business Day); (iii) Tuesdays, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); (iv) Wednesdays, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day; provided, however, that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday); and (v) Thursdays, a period of generally seven days beginning on a Friday (or the day following the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day; provided, however, that if such Thursday is the day before Thanksgiving Day, on the Monday following such Thursday);

(d) with respect to 2004A Bonds in a 28-day Auction Rate Period and with Auctions generally conducted on (i) Fridays, a period of generally 28 days beginning on a Monday (or the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Sunday) and ending on the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); (ii) Mondays, a period of generally 28 days beginning on a Tuesday (or the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); (iii) Tuesdays, a period of generally 28 days beginning on a Wednesday (or the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); (iv) Wednesdays, a period of generally 28 days beginning on a Thursday (or the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day; provided, however, that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday); and (v) Thursdays, a period of generally 28 days beginning on a Friday (or the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Thursday) and ending on the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day; provided, however, that if such Thursday is Thanksgiving Day, on the Monday following such Thursday);

(e) with respect to 2004A Bonds in a 35-day Auction Rate Period and with Auctions generally conducted on (i) Fridays, a period of generally 35 days beginning on a Monday (or the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Sunday) and ending on the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); (ii) Mondays, a period of generally 35 days beginning on a Tuesday (or the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); (iii) Tuesdays, a period of generally 35 days beginning on a Wednesday (or the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); (iv) Wednesdays, a period of generally 35 days beginning on a Thursday (or the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day; provided, however, that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday); and (v) Thursdays, a period of generally 35 days beginning on a Friday (or the last day of the prior Auction Rate Period if the prior Auction Rate Period does not end on a Thursday) and ending on the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which
case on the next succeeding day which is followed by a Business Day; provided, however, that if such Thursday is Thanksgiving Day, on the Monday following such Thursday);

(f) with respect to 2004A Bonds in a three-month Auction Rate Period, a period of generally three months (or shorter period upon a conversion from another Auction Rate Period) beginning on the day following the last day of the prior Auction Rate Period and ending on the day that is 90 days thereafter (unless such day is not Wednesday, in which case on the first Wednesday succeeding such day); provided, however, that if such day is not followed by a Business Day, on the next succeeding day which is followed by a Business Day and further provided that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday; and

(g) with respect to 2004A Bonds in a six-month Auction Rate Period, a period of generally six months (or shorter period upon a conversion from another Auction Rate Period) beginning on the day following the last day of the prior Auction Rate Period and ending on the day that is 180 days thereafter (unless such day is not Wednesday, in which case on the first Wednesday succeeding such day); provided, however, that if such day is not followed by a Business Day, on the next succeeding day which is followed by a Business Day and further provided that if such Wednesday is the day before Thanksgiving Day, on the Monday following such Wednesday;

provided, however, that:

(h) if there is a conversion of the 2004A Bonds with Auctions generally to be conducted on Fridays (i) from a daily Auction Rate Period to a seven-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on the next succeeding Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); (ii) from a daily Auction Rate Period to a 28-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion; and (iii) from a daily Auction Rate Period to a 35-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(i) if there is a conversion of the 2004A Bonds with Auctions generally to be conducted on Mondays (i) from a daily Auction Rate Period to a seven-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); (ii) from a daily Auction Rate Period to a 28-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion; and (iii) from a daily Auction Rate Period to a 35-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(j) if there is a conversion of the 2004A Bonds with Auctions generally to be conducted on Tuesdays (i) from a daily Auction Rate Period to a seven-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on the next succeeding Tuesday (unless such Tuesday is not followed
by a Business Day, in which case on the next succeeding day which is followed by a Business Day); (ii) from a daily Auction Rate Period to a 28-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion; and (iii) from a daily Auction Rate Period to a 35-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion; and

(k) if there is a conversion of the 2004A Bonds with Auctions generally to be conducted on Wednesdays (i) from a daily Auction Rate Period to a seven-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day); (ii) from a daily Auction Rate Period to a 28-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion; and (iii) from a daily Auction Rate Period to a 35-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion; and

(l) if there is a conversion of the 2004A Bonds with Auctions generally to be conducted on Thursdays (i) from a daily Auction Rate Period to a seven-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on the next succeeding Thursday (unless such Thursday is not followed by a Business Day); (ii) from a daily Auction Rate Period to a 28-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion; and (iii) from a daily Auction Rate Period to a 35-day Auction Rate Period, the next Auction Rate Period shall begin on the date of the conversion (i.e., the Auction Rate Interest Payment Date for the prior Auction Rate Period) and shall end on Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

provided further, however, that any Auction Rate Period that is greater than 35 days may be extended as provided in the 2004 Supplemental Indenture, as described in Section 2.03(d) of this APPENDIX F.

“Available Bonds” means on each Auction Date, the aggregate principal amount of the outstanding 2004A Bonds that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in Section 2.01(a) of this APPENDIX F.

“Bidder” means each Existing Owner and Potential Owner who places an Order.

“Broker-Dealer” means for the 2004A Bonds any entity that is permitted by law to perform the functions required of a Broker-Dealer described in the 2004 Supplemental Indenture that is a member of, or a direct
participant in, the Securities Depository, that has been selected by the Bond Bank, that has been approved by the Bond Insurer, and that is a party to a Broker-Dealer Agreement with the Auction Agent and the Bond Bank. The initial Broker-Dealers for the 2004A Bonds shall be Bear, Stearns & Co. Inc., SBK-Brooks Investment Corp. and City Securities Corporation.

“Broker-Dealer Agreement” means an agreement approved by the Bond Insurer among the Auction Agent, a Broker-Dealer and the Bond Bank, pursuant to which such Broker-Dealer agrees to follow the procedures described in the 2004 Supplemental Indenture, as such agreement may from to time be amended or supplemented with the consent of the Bond Insurer. The initial Broker-Dealer Agreements with respect to the 2004A Bonds shall be the Broker-Dealer Agreement, dated as of March 1, 2004, by and among Wilmington Trust Company, as Auction Agent, Bear, Stearns & Co. Inc., as Broker-Dealer, and the Bond Bank, the Broker-Dealer Agreement, dated as of March 1, 2004, by and among Wilmington Trust Company, as auction agent, SBK-Brooks Investment Corp., as Broker-Dealer and the Bond Bank and the Broker-Dealer Agreement, dated as of March 1, 2004, by and among Wilmington Trust Company, as Auction Agent, City Securities Corporation, as Broker-Dealer, and the Bond Bank.

“Default Rate” means, in respect of any Auction Rate Period other than a daily Auction Rate Period, a per annum rate equal to 300% of the Index determined by the Trustee on the Auction Date immediately preceding the first day of such Auction Rate Period or, in the case of 2004A Bonds in a daily Auction Rate Period, 300% of the Index determined by the Trustee on the Auction Date which was the first day of such Auction Rate Period; provided, however, the Default Rate will not exceed the Maximum Interest Rate.

“Existing Owner” means a person who is listed as the beneficial owner of 2004A Bonds in the records of the Auction Agent.

“Flexible Auction Rate Period” means any period of not less than seven nor more than 1,092 days which is not another Auction Rate Period and which begins on an Auction Rate Interest Payment Date and ends on (a) in the case of 2004A Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day; (b) in the case of 2004A Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day; (c) in the case of 2004A Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day; (d) in the case of 2004A Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day; and (e) in the case of 2004A Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day.

“Hold Order” has the meaning specified in Section 2.01(a) of this APPENDIX F.

“Index” has the meaning specified in Section 2.06 of this APPENDIX F.

“Maximum Auction Rate” means, as of any Auction Date, the product of the Index multiplied by the Auction Multiple; provided, however, that the Maximum Auction Rate will not exceed the Maximum Interest Rate.

“Order” means a Hold Order, Bid or Sell Order.

“Potential Owner” means any person, including any Existing Owner who may be interested in acquiring a beneficial interest in the 2004A Bonds, in addition to the 2004A Bonds currently owned by such person, if any.

“Prevailing Rating” means:

(a) “AAA”/“Aaa,” if the 2004A Bonds will have a rating of “AAA” by S&P and a rating of “Aaa” by Moody’s;
(b) if not “AAA”/“Aaa,” “AA”/“Aa” if the 2004A Bonds will have a rating of “AA-” or better by S&P and a rating of “Aa3” or better by Moody’s;

(c) if not “AAA”/“Aaa” or “AA”/“Aa” “A-”/“A” if the 2004A Bonds will have a rating of “A-” or better by S&P and a rating of “A3” or better by Moody’s; and

(d) if not “AAA”/“Aaa,” “AA”/“Aa” or “A”/“A,” then below “A”/“A,” whether or not the 2004A Bonds are rated by any securities rating agency.

For purposes of this definition, S&P’s rating categories of “AAA,” “AA” and “A-” and Moody’s rating categories of “Aaa,” “Aa3” and “A3,” will be deemed to refer to and include the respective rating categories correlative thereto in the event that any such rating agencies will have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof will use different rating categories. If the 2004A Bonds are not rated by a rating agency, the requirement of a rating by such rating agency will be disregarded. If the ratings for the 2004A Bonds are split between two of the foregoing categories, the lower rating will determine the Prevailing Rating. If there is no rating, then the Auction Rate will be the Default Rate.

“Principal Office” means, with respect to the Auction Agent, the office thereof designated in writing to the Bond Bank, the Trustee and each Broker-Dealer.

“Sell Order” has the meaning specified in Section 2.01(a) of this APPENDIX F.

“Submission Deadline” means 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Rate Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Rate Period, or such other time on such date as will be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

“Submitted Bid” has the meaning specified in Section 2.03(b) of this APPENDIX F.

“Submitted Hold Order” has the meaning specified in Section 2.03(b) of this APPENDIX F.

“Submitted Order” has the meaning specified in Section 2.03(b) of this APPENDIX F.

“Submitted Sell Order” has the meaning specified in Section 2.03(b) of this APPENDIX F.

“Sufficient Clearing Bids” means an Auction for which the aggregate principal amount of 2004A Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Auction Rate is not less than the aggregate principal amount of 2004A Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Auction Rate.

“Winning Bid Rate” means the lowest rate specified in any Submitted Bid which if selected by the Auction Agent as the Auction Rate would cause the aggregate principal amount of 2004A Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

ARTICLE II.

AUCTION PROCEDURES

Section 2.01. Orders by Existing Owners and Potential Owners.

(a) Prior to the Submission Deadline on each Auction Date:
(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as will be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of 2004A Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Rate Period without regard to the rate determined by the Auction Procedures for such Auction Rate Period;

(B) the principal amount of 2004A Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Rate Period if the rate determined by the Auction Procedures for such Auction Rate Period will not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Auction Rate Interest Payment Date (or the same day in the case of a daily Auction Rate Period) if the rate determined by the Auction Procedures for the next succeeding Auction Rate Period will be less than the rate per annum then specified by such Existing Owner); and/or

(C) the principal amount of 2004A Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Auction Rate Interest Payment Date (or the same day in the case of a daily Auction Rate Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Rate Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the 2004A Bonds, the Broker-Dealers will contact Potential Owners, including persons that are Existing Owners, to determine the principal amount of 2004A Bonds, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Rate Period is not less than the rate per annum then specified by such Potential Owner.

(iii) for the purposes hereof an Order containing the information referred to in clause (i)(A) above is herein referred to as a “Hold Order”, an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a “Bid,” and an Order containing the information referred to in clause (i)(C) above is herein referred to as a “Sell Order.

(b) (i) A Bid by an Existing Owner will constitute an irrevocable offer to sell:

(A) the principal amount of 2004A Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date will be less than the rate specified therein;

(B) such principal amount or a lesser principal amount of 2004A Bonds to be determined as described in Section 2.04(a)(v) of this APPENDIX F if the rate determined by the Auction Procedures on such Auction Date will be equal to such specified rate; or

(C) a lesser principal amount of 2004A Bonds to be determined as described in Section 2.04(b)(iv) of this APPENDIX F if such specified rate will be higher than the Maximum Auction Rate, and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner will constitute an irrevocable offer to sell:

(A) the principal amount of 2004A Bonds specified in such Sell Order; or
(B) such principal amount or a lesser principal amount of 2004A Bonds as described in Section 2.04(b)(iv) of this APPENDIX F if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner will constitute an irrevocable offer to purchase:

(A) the principal amount of 2004A Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date will be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of 2004A Bonds as described in Section 2.04(a)(vi) of this APPENDIX F if the rate determined by the Auction Procedures on such Auction Date will be equal to such specified rate.

(c) Anything in the 2004 Supplemental Indenture to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies 2004A Bonds to be held purchased or sold in a principal amount which is not $25,000 or an integral multiple thereof will be rounded down to the nearest $25,000, and the Auction Agent will conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Rate Period, any portion of an Order of an Existing Owner which relates to a 2004A Bond which has been called for redemption on or prior to the Auction Rate Interest Payment Date next succeeding such Auction will be invalid with respect to such portion and the Auction Agent will conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction other than during a daily Auction Rate Period, no portion of a 2004A Bond which has been called for redemption on or prior to the Auction Rate Interest Payment Date next succeeding such Auction will be included in the calculation of Available Bonds for such Auction; and

(iv) the Auction Procedures will be suspended during the period commencing on the date of the Auction Agent’s receipt of notice from the Bond Bank of the occurrence of an Event of Default resulting from a failure to pay principal, premium or interest on any 2004A Bond when due (provided, however, that for purposes of this provision only, payment by the Bond Insurer will be deemed to cure such Event of Default and no suspension of the Auction Procedures will occur) but will resume two Business Days after the date on which the Auction Agent receives notice from the Bond Bank that such Event of Default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

Section 2.02. Submission of Orders by Broker-Dealers to Auction Agent.

(a) Each Broker-Dealer will submit to the Auction Agent in writing or by such other method as will be reasonably acceptable to the Auction Agent, including such electronic communication acceptable to the parties, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying, if requested, with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of 2004A Bonds, if any, that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:
(A) the principal amount of 2004A Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of 2004A Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of 2004A Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent will round such rate up to the next highest 0.001%.

(c) If an Order or Orders covering all of the 2004A Bonds held by an Existing Owner is or are not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent will deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of 2004A Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Rate Period to another Auction Rate Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of 2004A Bonds to be converted held by such Existing Owner, the Auction Agent will deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of 2004A Bonds to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of outstanding 2004A Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders will be considered valid as follows:

(i) all Hold Orders will be considered Hold Orders, but only up to and including in the aggregate the principal amount of 2004A Bonds held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner will be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of 2004A Bonds held by such Existing Owner over the principal amount of the 2004A Bonds subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of an Existing Owner with the same rate will be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of 2004A Bonds held by such Existing Owner over the principal amount of 2004A Bonds held by such Existing Owner subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids will be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of 2004A Bonds held by such Existing Owner over the principal amount of 2004A Bonds held by such Existing Owner subject to Hold Orders referred to in clause (i) above; and

(D) the principal amount, if any, of such 2004A Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) will be treated as the subject of a Bid by a Potential Owner; and

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(iii) all Sell Orders will be considered Sell Orders, but only up to and including a principal amount of 2004A Bonds equal to the excess of the principal amount of 2004A Bonds held by such Existing Owner over the sum of the principal amount of the 2004A Bonds considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of 2004A Bonds considered to be subject to Bids of such Existing Owner pursuant to clause (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate will be aggregated and considered a single Bid and each Bid submitted with a different rate will be considered a separate Bid with the rate and the principal amount of 2004A Bonds specified therein.

(f) None of the Bond Bank, the Trustee or the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder, nor shall any of the Bond Bank, the Trustee or the Auction Agent be responsible for failure by any Securities Depository to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers. None of the Bond Bank, the Trustee or the Auction Agent shall have any liability in the event that there are not Sufficient Clearing Bids from time to time pursuant to the Auction Procedures.

Section 2.03. Determination of Auction Rate.

(a) Not later than 9:30 a.m., New York City time, on each Auction Date for the 2004A Bonds, the Auction Agent will advise the Broker-Dealers and the Trustee by telephone or other electronic communication acceptable to them of the All Hold Rate, the Maximum Auction Rate and the Index for the 2004A Bonds.

(b) Promptly after the Submission Deadline on each Auction Date for the 2004A Bonds, the Auction Agent will assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a Submitted Hold Order” a “Submitted Bid” or a “Submitted Sell Order “ as the case may be, and collectively as a “Submitted Order ) and will determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to paragraph (b) above the Auction Agent will advise the Bond Bank by telephone (promptly confirmed in writing), telex or facsimile or other electronic communication acceptable to the parties of the Auction Rate for the next succeeding Auction Rate Period and the Auction Agent will promptly notify DTC of such Auction Rate.

(d) In the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Rate Period, (i) if the preceding Auction Rate Period was a period of 35 days or less, the new Auction Rate Period shall be the same as the preceding Auction Rate Period and the Auction Rate for the new Auction Rate Period shall be the same as the Auction Rate for the preceding Auction Rate Period; and (ii) if the preceding Auction Rate Period was a period of greater than 35 days, the preceding Auction Rate Period shall be extended to the seventh day following the day that would have been the last day of such Auction Rate Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Rate in effect for the preceding Auction Rate Period will continue in effect for the Auction Rate Period as so extended. In the event an Auction Rate Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Rate Period as so extended to take effect for an Auction Rate Period beginning on the Business Day immediately following the last day of the Auction Rate Period as extended which Auction Rate Period will end on the date it would otherwise have ended on had the prior Auction Rate Period not been extended.

(e) In the event that the Auction Procedures are suspended pursuant to the 2004 Supplemental Indenture as described in Section 2.01(c)(iv) of this APPENDIX F due to the failure to pay principal of or premium or interest on any 2004A Bond by the Bond Bank and the Bond Insurer shall have failed to make
a payment under the terms of the Policy, the Auction Rate for the next succeeding Auction Rate Period will be the Default Rate.

(f) In the event of a failed conversion to a Daily Interest Rate, a Weekly Interest Rate, a Bond Interest Term Rate, a Long-Term Interest Rate or a Fixed Interest Rate, or in the event of a failure to change the length of the current Auction Rate Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Rate Period, the Auction Rate for the next Auction Rate Period will be the Maximum Auction Rate and the Auction Rate Period will be a seven-day Auction Rate Period.

(g) If the 2004A Bonds are not rated or if the 2004A Bonds are no longer registered in the name of the Securities Depository, then the Auction Rate will be the Default Rate or the Maximum Auction Rate, respectively, the next succeeding Auction Rate Period will be a seven-day Auction Rate Period and the 2004A Bonds will be converted to a non-Auction Rate Period as soon as is practicable.

Section 2.04. Allocation of 2004A Bonds.

(a) In the event of Sufficient Clearing Bids for the 2004A Bonds, subject to the further provisions of paragraphs (c) and (d) below, Submitted Orders will be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner will be accepted, thus requiring each such Existing Owner to continue to hold the 2004A Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner will be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate will be rejected, thus requiring each such Existing Owner to sell the 2004A Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate will be accepted, thus requiring each such Existing Owner to continue to hold the 2004A Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate will be accepted, thus requiring each such Potential Owner to purchase the 2004A Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate will be accepted, thus requiring each such Existing Owner to continue to hold the 2004A Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of 2004A Bonds obtained by multiplying (A) the aggregate principal amount of outstanding 2004A Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clause (iii) or (iv) above; by (B) a fraction the numerator of which will be the principal amount of outstanding 2004A Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which will be the aggregate principal amount of outstanding 2004A Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid will be rejected, thus requiring each such Existing Owner to sell any excess amount of 2004A Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate will be accepted, thus requiring each such Potential Owner to purchase the 2004A Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of 2004A Bonds obtained by multiplying (A) the aggregate principal amount of outstanding 2004A Bonds which are not the subject of Submitted Hold Orders described in
clause (i) above or of Submitted Bids described in clause (iii), (iv) or (v) above; by (B) a fraction the numerator of which will be the principal amount of outstanding 2004A Bonds subject to such Submitted Bid and the denominator of which will be the sum of the aggregate principal amount of outstanding 2004A Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid will be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate will be rejected.

(b) In the event there are not Sufficient Clearing Bids for the 2004A Bonds, subject to the further provisions of paragraphs (c) and (d) below, Submitted Orders for the 2004A Bonds will be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner will be accepted, thus requiring each such Existing Owner to continue to hold the 2004A Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Auction Rate will be accepted, thus requiring each such Existing Owner to continue to hold the 2004A Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Auction Rate will be accepted, thus requiring each such Potential Owner to purchase the 2004A Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner will be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Auction Rate with respect to the 2004A Bonds will be deemed to be and will be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of 2004A Bonds obtained by multiplying (A) the aggregate principal amount of 2004A Bonds subject to Submitted Bids described in clause (iii) above; by (B) a fraction the numerator of which will be the principal amount of outstanding 2004A Bonds held by such Existing Owner subject to such Submitted Sell Order, or such Submitted Bid deemed to be a Submitted Sell Order, and the denominator of which will be the principal amount of outstanding 2004A Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid will be deemed to be and will be accepted as a Hold Order and each such Existing Owner will be required to continue to hold such excess amount of 2004A Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Auction Rate with respect to the 2004A Bonds will be rejected.

(c) If, as a result of the procedures described in paragraph (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of 2004A Bonds which is not an Authorized Denomination for 2004A Bonds on any Auction Date, the Auction Agent will by lot, in such manner as it will determine in its sole discretion, round up or down the principal amount of 2004A Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of 2004A Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date will be in an Authorized Denomination, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any 2004A Bonds on such Auction Date.

(d) If, as a result of the procedures described in paragraph (a) above, any Potential Owner would be required to purchase 2004A Bonds in a principal amount that is less than an Authorized Denomination on any Auction Date, the Auction Agent will by lot, in such manner as it will determine in its sole
discretion, allocate 2004A Bonds for purchase among Potential Owners so that the principal amount of 2004A Bonds purchased on such Auction Date by any Potential Owner will be an Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing 2004A Bonds on such Auction Date.

Section 2.05. Notice of Auction Rate.

(a) Not later than 3:00 p.m. on each Auction Date, the Auction Agent will notify by telephone or other telecommunication device or other electronic communication acceptable to the parties or in writing each Broker-Dealer that participated in the Auction held on such Auction Date of the following:

(i) the Auction Rate determined on such Auction Date for the succeeding Auction Rate Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the principal amount of 2004A Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the principal amount of 2004A Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the 2004A Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of 2004A Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of 2004A Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders, or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner will: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected, and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Existing Owner’s Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of 2004A Bonds to be purchased pursuant to such Bid (including, with respect to the 2004A Bonds in a daily Auction Rate Period, accrued interest if the purchase date is not an Auction Rate Interest Payment Date for such 2004A Bond) against receipt of such Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Owner’s Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of 2004A Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

Section 2.06. Index.

(a) The Index on any Auction Date with respect to 2004A Bonds in any Auction Rate Period of less than 180 days shall be the greater of LIBOR or the Thirty-Day “AA” Financial Composite Commercial
Paper Rate on such date. The Index with respect to 2004A Bonds in any Auction Rate Period of 180 days or more but less than 365 days shall be the greater of LIBOR or the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Rate Period, as last published in *The Wall Street Journal*. The Index with respect to 2004A Bonds in any Auction Rate Period of 365 days or more shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Rate Period, as last published in *The Wall Street Journal*. If LIBOR, the Thirty-Day “AA” Financial Composite Commercial Paper Rate or the rate on United States Treasury Securities last published in *The Wall Street Journal* is unavailable, the Index will be an index or rate agreed to by all Broker-Dealers and consented to by the Bond Bank and the Bond Insurer.

“Thirty-Day ‘AA’ Financial Composite Commercial Paper Rate” on any date of determination, means the interest equivalent of the Thirty-Day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated “AA” by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by (i) the Federal Reserve Board or the Business Day immediately preceding such date of determination, or (ii) if the Federal Reserve Board does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by Lehman Commercial Paper Inc., Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated or, in lieu of any thereof, their respective affiliates or successors which are commercial paper dealers (the “Commercial Paper Dealers”), to the Auction Agent before the close of business on the Business Day immediately preceding such date of determination.

For purposes of the definitions of Thirty-Day “AA” Financial Composite Commercial Paper Rate, the “interest equivalent” means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the Thirty-Day “AA” Financial Composite Commercial Paper Rate, the Thirty-Day “AA” Financial Composite Commercial Paper Rate will be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any substitute commercial paper dealer not included within the definition of Commercial Paper Dealer above, which may be CS First Boston Corporation or Morgan Stanley Dean Witter or their respective affiliates or successors which are commercial paper dealers (a “Substitute Commercial Paper Dealer”) selected by the Bond Bank to provide such commercial paper rate or rates not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the Bond Bank does not select any such Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers.

“LIBOR” on any date of determination for any Auction Rate Period, means (i) for any Auction Rate Period of fewer than 49 days, the offered rate for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or on the next preceding day if such dealings in U.S. dollars are transacted in the London interbank market; (ii) for any Auction Rate Period of (A) 49 or more but fewer than 70 days, such rates for deposits in U.S. dollars for a two-month period; (B) 70 or more but fewer than 85 days, the arithmetic average of such rates for deposits in U.S. dollars for two and three-month periods; (C) 85 or more but fewer than 120 days, such rate for deposits in U.S. dollars for a three-month period; (D) 120 or more but fewer than 148 days, the arithmetic average of such rates for deposits in U.S. dollars for three- and six-month periods; (E) 148 or more but fewer than 180 days, such rate for deposits in U.S. dollars for a six-month period; (F) 180 or more but fewer than 225 days, the arithmetic average of such rates for deposits in U.S. dollars for six- and nine-month periods; (G) 225 or more but fewer than 290 days, such rate for deposits in U.S. dollars for a nine-month period; (H) 290 or more but fewer than 325 days, the arithmetic average of such rates for deposits in U.S. dollars for nine-month and one-year periods; and (I) 325 or more but fewer than 365 days, such rate for deposits in U.S. dollars for a one-year period.

(b) If for any reason on any Auction Date the Index will not be determined as provided in the 2004 Supplemental Indenture and described herein, the Index will be the Index for the Auction Rate Period ending on such Auction Date.
The determination of the Index as provided herein will be conclusive and binding upon the Bond Bank, the Broker-Dealers, the Auction Agent and the Owners of the 2004A Bonds.

Section 2.07. Miscellaneous Provisions Regarding Auctions.

(a) In the 2004 Supplemental Indenture and this APPENDIX F, each reference to the purchase, sale or holding of 2004A Bonds will refer to beneficial interests in 2004A Bonds, unless the context clearly requires otherwise.

(b) During an Auction Rate Period, the provisions of the Indenture, including, without limitation, the definitions contained therein and described in this APPENDIX F, including, without limitation, the definitions of Auction Multiple, Auction Rate, Default Rate, Index, Maximum Auction Rate, Maximum Interest Rate, and All Hold Rate, may be amended pursuant to the 2004 Supplemental Indenture by obtaining the consent of the Bond Insurer and the consent of the Owners of all outstanding 2004A Bonds bearing interest at an Auction Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Bond Bank mailed Notice by Mail of such proposed amendment to the Owners of the outstanding 2004A Bonds as required by the 2004 Supplemental Indenture, (i) the Auction Rate which is determined on such date is the Winning Bid Rate; and (ii) there is delivered to the Bond Bank and the Bond Insurer a Favorable Opinion of Bond Counsel, the proposed amendment will be deemed to have been consented to by the Owners of all affected outstanding 2004A Bonds bearing interest at an Auction Rate.

(c) If the Securities Depository notifies the Bond Bank that it is unwilling or unable to continue as Owner of the 2004A Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Bond Bank within 90 days after the Bond Bank receives notice or becomes aware of such condition, as the case may be, the Bond Bank shall execute and the Bond Bank, acting as registrar, shall authenticate and deliver certificates representing the 2004A Bonds. Such 2004A Bonds shall be registered in such names and authorized denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Bond Bank.

(d) During an Auction Rate Period, so long as the ownership of the 2004A Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a Beneficial Owner may sell, transfer or otherwise dispose of a 2004A Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer; provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer; and (ii) a sale, transfer or other disposition of 2004A Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such 2004A Bonds to that Broker-Dealer or another customer of that Broker-Dealer will not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the 2004A Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Section 2.08. Changes in Auction Rate Period or Auction Date.

(a) Changes in Auction Rate Period.

(i) During any Auction Rate Period, the Bond Bank may, from time to time on any Auction Rate Interest Payment Date, change the length of the Auction Rate Period with respect to all of the 2004A Bonds among daily, seven-days, 28-days, 35-days, three months, six months and a Flexible Auction Rate Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Rate Period and the interest rate borne by such 2004A Bonds. The Bond Bank will initiate the change in the length of the Auction Rate Period by giving Notice by Mail to the Bond Insurer, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Rate Period will change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Rate Period.
Any such changed Auction Rate Period will be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Rate Period and will be for all 2004A Bonds.

The change in the length of the Auction Rate Period for the 2004A Bonds will not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

The change in length of the Auction Rate Period for the 2004A Bonds will take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such Auction Rate Period, Notice by Mail from the Bond Bank specifying the change in the length of the Auction Rate Period; (B) if the changed Auction Rate Period is to be greater than ninety (90) days, the Bond Insurer has consented and (C) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Rate Period. For purposes of the Auction for such first Auction Rate Period only, each Existing Owner will be deemed to have submitted Sell Orders with respect to all of its 2004A Bonds except to the extent such Existing Owner submits an Order with respect to such 2004A Bonds. If the condition referred to in (A) or (B) above is not met, the Auction Rate for the next Auction Rate Period will be determined pursuant to the Auction Procedures and the Auction Rate Period will be the Auction Rate Period determined without reference to the proposed change. If the conditions referred to in (A) and (B) is met but the condition referred to in (C) above is not met, the Auction Rate for the next Auction Rate Period will be the Maximum Auction Rate, and the Auction Rate Period will be a seven-day Auction Rate Period.

On the conversion date for 2004A Bonds selected for conversion from one Auction Rate Period to another, any 2004A Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any Auction Rate Period, the Auction Agent, with the written consent of the Bond Bank, may specify an earlier Auction Date for the 2004A Bonds (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of “Auction Date” in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the 2004A Bonds. The Auction Agent will provide notice of its determination to specify an earlier Auction Date for an Auction Rate Period by means of a Notice by Mail delivered at least 45 days prior to the proposed changed Auction Date to the Bond Bank, the Broker-Dealers and the Securities Depository.

Section 2.09. Conversions From an Auction Rate Period. At the option of the Bond Bank and with the consent of the Bond Insurer, the Interest Rate Period applicable to all of 2004A Bonds may be converted from an Auction Rate Period to a Daily Interest Rate Period, a Weekly Interest Rate Period, a Long-Term Interest Rate Period, a Short-Term Interest Rate Period or a Fixed Interest Rate Period in accordance with the 2004 Supplemental Indenture.

ARTICLE III.

AUCTION AGENT

Section 3.01. Auction Agent.

(a) One or more Auction Agents (after the initial Auction Agent) shall be appointed by the Bond Bank to perform the functions specified in the 2004 Supplemental Indenture and described herein. The Auction Agent for the 2004A Bonds shall designate its principal office and signify its acceptance of the duties and obligations imposed upon it hereunder by entering into an Auction Agreement which will set
forth such procedural and other matters relating to the implementation of the Auction Procedures as will be satisfactory to the Bond Bank and the Bond Insurer.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in 2004A Bonds with the same rights as if such entity were not the Auction Agent.

Section 3.02. Qualifications of Auction Agent; Resignation; Removal. The Auction Agent will be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof; or (b) a member of NASD having a capitalization of at least $50,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the Resolution and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the 2004 Supplemental Indenture by giving at least ninety (90) days notice to the Bond Bank and the Bond Insurer. The Auction Agent may be removed by the Bond Insurer or by Bond Bank with the consent of the Bond Insurer by notice, delivered to the Auction Agent. Upon any such resignation or removal, the Bond Bank shall appoint a successor Auction Agent meeting the requirements of the 2004 Supplemental Indenture, such Auction Agent must be approved by the Bond Insurer. In the event of the resignation or removal of the Auction Agent, the Auction Agent will pay over, assign and deliver any moneys and 2004A Bonds held by it in such capacity to its successor. Except as may be otherwise provided in the Auction Agreement, the Auction Agent will continue to perform its duties until its successor has been appointed by the Bond Bank.

ARTICLE IV.

BROKER-DEALERS

Section 4.01. Broker-Dealers. One or more Broker-Dealers shall be appointed by the Bond Bank to perform the functions specified in the 2004 Supplemental Indenture and described herein with respect to the 2004A Bonds issued in an Auction Rate Period. One or more Broker-Dealers shall be appointed by the Bond Bank with respect to 2004A Bonds on or prior to the effective date of a change in the Interest Rate Period to an Auction Rate Period. Each Broker-Dealer will signify its acceptance of the duties and obligations imposed upon it hereunder by entering into a Broker-Dealer Agreement, which shall set forth such procedural and other matters relating to the performance of its functions as shall be satisfactory to the Bond Bank.

Section 4.02. Resignation; Removal. Any Broker-Dealer may at any time resign and be discharged of the duties and obligations created in the 2004 Supplemental Indenture and described herein by giving 30 days notice to the Bond Bank with the consent of the Bond Insurer. Any Broker-Dealer may be removed by the Bond Bank. Upon any such resignation or removal, the Bond Bank will appoint a successor Broker-Dealer. In the event of the resignation or removal of any Broker-Dealer, such Broker-Dealer will pay over, assign and deliver any moneys and 2004A Bonds held by it in such capacity to its successor. There must be at least one Broker-Dealer at all times during an Auction Rate Period.
SPECIMEN BOND INSURANCE POLICY
[THIS PAGE INTENTIONALLY LEFT BLANK]
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

[Signature]
President

Attest: [Signature]
Assistant Secretary
APPENDIX H

SPECIMEN SURETY BOND POLICY
MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this Surety Bond, hereby unconditionally and irrevocably guarantees the full and complete payments that are to be applied to payment of principal of and interest on the Obligations (as hereinafter defined) and that are required to be made by or on behalf of [NAME OF ISSUER] (the "Issuer") under the [TITLE OF THE DOCUMENT] (the "Document") to [NAME OF PAYING AGENT], (the "Paying Agent"), as such payments are due but shall not be so paid, in connection with the issuance by the Issuer of [TITLE OF THE OBLIGATIONS] (the "Obligations"), [IF PARITY " together with any bonds issued on a parity therewith,"], provided, that the amount available hereunder for payment pursuant to any one Demand for Payment (as hereinafter defined) shall not exceed [a: FIXED COVERAGE [Dollar Amount of Coverage] or the [Debt Service Reserve Fund Requirement] (as defined in the Document) for the Obligations, whichever is less (the "Surety Bond Limit"); provided, further, that the amount available at any particular time to be paid to the Paying Agent under the terms hereof (the "Surety Bond Coverage") shall be reduced and may be reinstated from time to time as set forth herein.] or [b: VARIABLE COVERAGE the annual amount set forth for the applicable bond year on Exhibit A attached hereto (the "Surety Bond Limit"); provided, further, that the amount available at any particular time to be paid to the Paying Agent under the terms hereof (the "Surety Bond Coverage") shall be reduced and may be reinstated from time to time as set forth herein.]

1. As used herein, the term "Owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the applicable paying agent, the Issuer or any designee of the Issuer for such purpose. The term "Owner" shall not include the Issuer or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment for the Obligations.

2. Upon the later of: (i) three (3) days after receipt by the Insurer of a demand for payment in the form attached hereto as Attachment 1 (the "Demand for Payment"), duly executed by the Paying Agent; or (ii) the payment date of the Obligations as specified in the Demand for Payment presented by the Paying Agent to the Insurer, the Insurer 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 to the Paying Agent, of amounts that are then due to the Paying Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

3. Demand for Payment hereunder may be made by prepaid telecopy, telex, TWX or telegram of the executed Demand for Payment c/o the Insurer. If a Demand for Payment made hereunder does not, in any instance, conform to the terms and conditions of this Surety Bond, the Insurer shall give notice to the Paying Agent, as promptly as reasonably practicable, that such Demand for Payment was not effected in accordance with the terms and conditions of this Surety Bond and briefly state the reason(s) therefor. Upon being notified that such Demand for Payment was not effected in accordance with this Surety Bond, the Paying Agent may attempt to correct any such nonconforming Demand for Payment if, and to the extent that, the Paying Agent is entitled and able to do so.

4. The amount payable by the Insurer under this Surety Bond pursuant to a particular Demand for Payment shall be limited to the Surety Bond Coverage. The Surety Bond Coverage shall be reduced automatically to the extent of each payment made by the Insurer hereunder and will be reinstated to the extent of each reimbursement of the Insurer pursuant to the provisions of Article II of the Financial Guaranty Agreement dated the date hereof between the Insurer and the [ISSUER OR OBLIGOR] (the "Financial Guaranty Agreement"); provided, [ANNUAL PREMIUM OPTION: that no premium is due and unpaid on this Surety Bond and] that in no event shall such reinstatement exceed the Surety Bond Limit. The Insurer will notify the Paying Agent, in writing within five (5) days of such reimbursement, that the Surety Bond Coverage has been reinstated to the extent of such reimbursement pursuant to the Financial Guaranty Agreement and such reinstatement shall be effective as of the date the Insurer gives such notice. The notice to the Paying Agent will be substantially in the form attached hereto as Attachment 2.
5. Any service of process on the Insurer or notice to 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.

6. The term of this Surety Bond shall expire [ANNUAL PREMIUM OPTION: unless cancelled pursuant to paragraph 9 hereof,] on the earlier of (i) [MATURITY DATE] (the maturity date of the Obligations being currently issued), or (ii) the date on which the Issuer has made all payments required to be made on the Obligations pursuant to the Document.

7. The premium payable on this Surety Bond is not refundable for any reason, including the payment prior to maturity of the Obligations.

8. [OPTIONAL FIRST SENTENCE: This Surety Bond shall be governed by and interpreted under the laws of the State of (STATE)]. Any suit hereunder in connection with any payment may be brought only by the Paying Agent within [1 or 3 years] after (i) a Demand for Payment, with respect to such payment, is made pursuant to the terms of this Surety Bond and the Insurer has failed to make such payment, or (ii) payment would otherwise have been due hereunder but for the failure on the part of the Paying Agent to deliver to the Insurer a Demand for Payment pursuant to the terms of this Surety Bond, whichever is earlier.

   [NOS. 9 and 11 are OPTIONAL]

9. Subject to the terms of the Document, the Issuer shall have the right, upon 30 days prior written notice to the Insurer and the Paying Agent, to terminate this Surety Bond. In the event of a failure by the Issuer to pay the premium due on this Surety Bond pursuant to the terms of the Financial Guaranty Agreement, the Insurer shall have the right upon [No. of days] days prior written notice to the Issuer and the Paying Agent to cancel this Surety Bond. No Demand for Payment shall be made subsequent to such notice of cancellation unless payments are due but shall not have been so paid in connection with the Obligations.

10. There shall be no acceleration payment due under this Policy unless such acceleration is at the sole option of the Insurer.

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

In witness whereof, the Insurer has caused this Surety Bond to be executed in facsimile on its behalf by its duly authorized officers, this [DATE] day of [MONTH,YEAR]

MBIA INSURANCE CORPORATION

________________________________
President

________________________________
Assistant Secretary

SB-DSRF-9[STATE CODE] 4/95
EXHIBIT A
Surety Bond No. XXXXXX

<table>
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<th>Bond Year</th>
<th>Maximum Annual Debt Service</th>
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<tbody>
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<td>199 to 199</td>
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DEMAND FOR PAYMENT

________, 19__

MBIA Insurance Corporation
113 King Street
Armonk, New York  10504

Attention:  President

Reference is made to the Surety Bond No. XXXXXX (the "Surety Bond") issued by the MBIA Insurance Corporation (the "Insurer"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

The Paying Agent hereby certifies that:

(a) In accordance with the provisions of the Document (attached hereto as Exhibit A), payment is due to the Owners of the Obligations on ________ (the "Due Date") in an amount equal to $______ (the "Amount Due").

(b) The [Debt Service Reserve Fund Requirement] for the Obligations is $__________.

(c) The amounts legally available to the Paying Agent on the Due Date will be $_____ less than the Amount Due (the "Deficiency").

(d) The Paying Agent has not heretofore made demand under the Surety Bond for the Amount Due or any portion thereof.

The Paying Agent hereby requests that payment of the Deficiency (subject to the Surety Bond Coverage) be made by the Insurer under the Surety Bond and directs that payment under the Surety Bond be made to the following account by bank wire transfer of federal or other immediately available funds in accordance with the terms of the Surety Bond: _______________________________________________________

[Paying Agent's Account]

[PAYING AGENT]

By __________________________
Its __________________________
NOTICE OF REINSTATEMENT

_______, 19__

[Paying Agent]

[Address]

Reference is made to the Surety Bond No. XXXXXX (the "Surety Bond") issued by the MBIA Insurance Corporation (the "Insurer"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

The Insurer hereby delivers notice that it is in receipt of payment from the Obligor pursuant to Article II of the Financial Guaranty Agreement and as of the date hereof the Surety Bond Coverage is $               .

MBIA Insurance Corporation

________________________
President

Attest: ________________________
Assistant Secretary