

**NEW ISSUE – BOOK-ENTRY ONLY
NOT BANK QUALIFIED**

**RATINGS: Moody's: "Aa1"
S&P: "AA+"
See "RATINGS"**

In the opinion of Gilmore & Bell, P.C., Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), (1) the interest on the Series 2015 Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, (2) the interest on the Bonds is exempt from Nebraska income taxation by the State of Nebraska and (3) the Bonds have not been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code. See "TAX MATTERS" in this Official Statement.

OFFICIAL STATEMENT
\$12,220,000
THE CITY OF LINCOLN, NEBRASKA
SANITARY SEWER REVENUE REFUNDING BONDS
SERIES 2015

Dated: date of delivery

Due: June 15, as shown on inside cover

The Series 2015 Bonds are issuable in fully registered form and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Series 2015 Bonds. Purchases of the Series 2015 Bonds will be originally made in book-entry form only, in the denomination of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC participants. Beneficial owners of the Series 2015 Bonds will not receive physical delivery of bond certificates so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2015 Bonds. So long as DTC or its nominee is the registered owner of the Series 2015 Bonds, payments of the principal or redemption price of and interest on the Series 2015 Bonds will be made directly to DTC. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of the DTC participants. Interest is payable on June 15 and December 15 of each year, beginning December 15, 2015. BOKF, National Association is bond registrar and paying agent for the Series 2015 Bonds (the "Registrar"). For terms relating to principal and interest payments made to DTC or its nominee or in the event that the use of book-entry form is discontinued, see "THE SERIES 2015 BONDS - Book-Entry System."

The Series 2015 Bonds maturing on or after June 15, 2026 are subject to optional redemption prior to maturity at any time on or after June 15, 2025 as set forth herein. See "THE SERIES 2015 BONDS - Optional Redemption."

The Series 2015 Bonds are being issued together with other funds available to the City for the purpose of (a) providing for the payment of the principal of and interest on \$13,320,000 outstanding principal amount of the City's Sanitary Sewer Revenue Bonds, Series 2005, dated August 3, 2005 maturing on and after June 15, 2015 (the "Refunded Bonds"), through and including June 15, 2015 (the "Redemption Date") and redeeming on the Redemption Date all of the then-outstanding Refunded Bonds, (b) paying costs of issuance of the Series 2015 Bonds and (c) funding a 2015 Account in the Reserve Fund. The Series 2015 Bonds, together with (a) \$16,730,000 outstanding principal amount of the City's Sanitary Sewer Revenue Bonds, Series 2007, dated April 18, 2007, (b) \$34,275,000 outstanding principal amount of the City's Sanitary Sewer Revenue Refunding Bonds, Series 2012, dated May 24, 2012, and (c) all additional bonds hereafter issued pursuant to Ordinance No. 18171 of the City (as amended and supplemented from time to time, the "Ordinance"), are payable solely from and are secured by a pledge of the net earnings (gross revenues less operating and maintenance expenses) of the System and money, if any, from time to time on deposit in certain funds and accounts created by the Ordinance. See "INTRODUCTION," "SECURITY," and "APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE."

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

THE SERIES 2015 BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY AND NEITHER THE FULL FAITH AND CREDIT OF THE CITY OR THE STATE OF NEBRASKA (THE "STATE"), NOR ANY FUNDS DERIVED BY THE CITY FROM SOURCES OTHER THAN THOSE SPECIFICALLY MENTIONED IN THE PRECEDING PARAGRAPH, ARE PLEDGED TO THE PAYMENT THEREOF. THE SERIES 2015 BONDS ARE SPECIAL, REVENUE OBLIGATIONS OF THE CITY AND THE PRINCIPAL OR REDEMPTION PRICE THEREOF AND INTEREST PAYABLE THEREON DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE THEREON. THE SERIES 2015 BONDS DO NOT CONSTITUTE A DEBT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION UNDER THE LAWS OF THE STATE. THE SERIES 2015 BONDS AND THE INTEREST THEREON DO NOT, DIRECTLY OR INDIRECTLY, OBLIGATE THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATIONS FOR THEIR PAYMENT, AND THE SERIES 2015 BONDS DO NOT NOW AND SHALL NEVER CONSTITUTE A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF.

MATURITY SCHEDULE – SEE INSIDE COVER

The Series 2015 Bonds are offered when, as, and if issued, subject to the approval of legality by Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel. Certain legal matters will be passed on by Jeffery R. Kirkpatrick, City Attorney. It is expected that the Series 2015 Bonds will be available for delivery through DTC on or about April 9, 2015.

AMERITAS INVESTMENT CORP.

The date of this Official Statement is March 26, 2015

MATURITY SCHEDULE

\$12,220,000

**THE CITY OF LINCOLN, NEBRASKA
SANITARY SEWER REVENUE REFUNDING BONDS
SERIES 2015**

<u>Maturity (June 15)</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP Number</u>
2016	\$655,000	1.00%	0.350%	100.766%	534323 HV5
2017	720,000	2.00	0.720	102.767	534323 HW3
2018	735,000	2.00	1.010	103.093	534323 HX1
2019	745,000	2.00	1.260	103.005	534323 HY9
2020	760,000	2.00	1.450	102.735	534323 HZ6
2021	775,000	2.00	1.620	102.226	534323 JA9
2022	790,000	2.00	1.840	101.070	534323 JB7
2023	805,000	3.00	2.000	107.512	534323 JC5
2024	830,000	3.00	2.130	107.220	534323 JD3
2025	855,000	3.00	2.250	106.789	534323 JE1
2026	885,000	2.40	2.500	99.027	534323 JF8
2027	905,000	4.00	2.610*	112.356	534323 JG6
2028	945,000	4.00	2.730*	111.221	534323 JH4
2029	980,000	4.00	2.800*	110.565	534323 JJ0
2030	835,000	2.85	3.000	98.178	534323 JK7

*Yield to first optional call date of June 15, 2025.

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

Christopher J. Beutler, Mayor

City Council Members

Doug Emery (Chair)

Jon Camp
Jonathan Cook
Roy Christensen

Carl Eskridge
Trent Fellers
Leirion Gaylor Baird

City Department Heads

Steve Hubka Interim Finance Director
Jeffery R. Kirkpatrick City Attorney
David Cary Acting Planning Director
Lynn Johnson Parks and Recreation Director
Kevin Wailes LES Administrator and CEO
David Landis Urban Development Director
Pat Leach Library Director
Miki Esposito Public Works and Utilities Director
Thomas Casady Public Safety Director
Judith A. Halstead, MS Health Director
Douglas J. McDaniel Personnel Director
Chad Blahak Building and Safety Director
Jim Peschong Police Chief
John Huff Fire Chief

Peggy Tharnish, City Controller

Underwriter

Ameritas Investment Corp.

Bond Counsel

Gilmore & Bell, P.C.

Registrar and Paying Agent

BOKF, National Association

Independent Auditors

BKD LLP

REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, sales representative or other person has been authorized by the City or the Underwriter to give any information or to make any representations with respect to the Series 2015 Bonds other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2015 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Underwriter. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2015 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2015 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES OR "BLUE SKY" LAWS. THE SERIES 2015 BONDS ARE OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION. THE SECURITIES DESCRIBED HEREIN 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.

FORWARD-LOOKING STATEMENTS

This Official Statement contains "forward-looking statements" within the meaning of federal securities laws. These forward-looking statements include statements about the City's future expectations, plans and strategies, and other statements that are not historical in nature. These forward-looking statements are based on the current expectations of the City. When used in this Official Statement, the words "project," "plan," "expect," "estimate," "budget," "intend," "anticipate," "should," "will," and similar expressions are intended to identify forward-looking statements. Forward-looking statements involve future risks and uncertainties that could cause actual results and experience to differ materially from the anticipated results or other expectations or assumptions expressed in forward-looking statements. The City undertakes no obligation to update any forward-looking statements contained in this Official Statement to reflect future events or developments.

TABLE OF CONTENTS

Page

INTRODUCTION.....	1
AUTHORITY	1
SECURITY	2
PLAN OF REFUNDING	3
ESTIMATED SOURCES AND USES OF FUNDS.....	4
DEBT SERVICE REQUIREMENTS	5
THE CITY OF LINCOLN, NEBRASKA SANITARY SEWER SYSTEM.....	6
Projected Operating Results and Debt Service Coverage	7
General Information	9
Employee Information.....	14
THE SERIES 2015 BONDS	15
General	15
Book-Entry System	15
Optional Redemption	16
Notice and Effect of Call for Redemption.....	16
Interchangeability and Transfer.....	16
RATINGS	17
TAX MATTERS	17
Opinion of Bond Counsel.....	17
Other Tax Consequences.....	18
CONTINUING DISCLOSURE	19
LITIGATION	21
UNDERWRITING	21
LEGAL MATTERS	22
INDEPENDENT AUDITORS	22
MISCELLANEOUS.....	22
THE CITY OF LINCOLN, NEBRASKA.....	APPENDIX A
FINANCIAL STATEMENTS	APPENDIX B
SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE	APPENDIX C
BOOK-ENTRY SYSTEM	APPENDIX D
FORM OF BOND COUNSEL OPINION	APPENDIX E

(THIS PAGE INTENTIONALLY LEFT BLANK)

OFFICIAL STATEMENT

\$12,220,000

**THE CITY OF LINCOLN, NEBRASKA
SANITARY SEWER REVENUE REFUNDING BONDS
SERIES 2015**

INTRODUCTION

This Official Statement is provided by The City of Lincoln, Nebraska (the “**City**”) to furnish information about the City, its municipally owned and operated sanitary sewer collection and treatment system (the “**System**”), and its \$12,220,000 Sanitary Sewer Revenue Refunding Bonds, Series 2015 (the “**Series 2015 Bonds**”). The Series 2015 Bonds are being issued pursuant to Ordinance No. 18171, duly passed by the Council on May 5, 2003 and approved by the Mayor on May 9, 2003, as amended and supplemented from time to time including, but not limited to Ordinance No. 20162 passed by the Council on March 2, 2015 and approved by the Mayor on March 5, 2015 (collectively, the “**Ordinance**”). The Series 2015 Bonds, together with (a) \$16,730,000 outstanding principal amount of the City’s Sanitary Sewer Revenue Bonds, Series 2007, dated April 18, 2007 (the “**Series 2007 Bonds**”), (b) \$34,275,000 outstanding principal amount of the City’s Sanitary Sewer Revenue Refunding Bonds, Series 2012, dated May 24, 2012 (the “**Series 2012 Bonds**”), and (c) all additional sanitary sewer revenue bonds hereinafter issued by the City pursuant to the Ordinance and outstanding thereunder (collectively, the “**Bonds**”) are payable solely from and secured by a pledge of the Net Revenues (hereinafter defined) of the System. The City will use the proceeds of the Series 2015 Bonds, together with other legally available funds of the City to (a) provide for the payment of the principal of and interest on \$13,320,000 outstanding principal amount of the City’s Sanitary Sewer Revenue Bonds, Series 2005, dated August 3, 2005, maturing on and after June 15, 2015 (the “**Refunded Bonds**”), through and including June 15, 2015 (the “**Redemption Date**”) and redeeming on the Redemption Date all of the then-outstanding Refunded Bonds, (b) pay the costs of issuing the Series 2015 Bonds, and (c) funding a 2015 Account in the Reserve Fund.

Descriptions of and references to the Series 2015 Bonds, the Ordinance, related transaction documents and other matters do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the complete texts thereof, copies of which are available for inspection at the offices of the Underwriter in Lincoln, Nebraska. Definitions of initially capitalized terms used in this Official Statement and a summary of the Ordinance may be found in “**APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE.**”

AUTHORITY

The Series 2015 Bonds are authorized pursuant to the provisions of Sections 15-244 and 18-1803 to 18-1805, inclusive, Reissue Revised Statutes of Nebraska, as amended, Article IX, Section 44 of the City’s Home-Rule Charter and the Ordinance. The Ordinance permits the issuance of sanitary sewer revenue refunding bonds (the “**Refunding Bonds**”) and additional sanitary sewer revenue bonds (the “**Additional Bonds**”) on a parity with the Series 2007 Bonds, the Series 2012 Bonds, and the Series 2015 Bonds. See “**APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Refunding Bonds**” and “**- Additional Bonds.**”

SECURITY

The Series 2007 Bonds, the Series 2012 Bonds and the Series 2015 Bonds, together with any Refunding Bonds and Additional Bonds hereafter issued by the City in accordance with the provisions of the Ordinance (collectively, the **“Bonds”**), are payable solely from and secured by a pledge of the Net Revenues. The Ordinance defines (a) **“Net Revenues”** as Revenues less Operation and Maintenance Expenses plus Depreciation, determined in accordance with generally accepted accounting principles for proprietary governmental operations such as the System, (b) **“Revenues”** as (1) total operating revenues, plus (2) interest income, plus (3) tap fees, plus (4) impact fees, if any, allocable to the System, plus (5) such other revenues and income as shall be determined to be appropriate in accordance with generally accepted accounting principles for proprietary governmental operations such as the System, (c) **“Operation and Maintenance Expenses”** as the necessary expenditures for operating and maintaining the System and shall include expenditures generally classified as operating expenses in accordance with generally accepted accounting principles for proprietary governmental operations such as the System and (d) **“Depreciation”** as depreciation and amortization expenses with respect to the System, classified as such in accordance with generally accepted accounting principles for proprietary governmental operations such as the System. **The full faith and credit of the City is not pledged to the payment of the Bonds.**

The Ordinance requires the City to fix, establish, maintain and collect such rates, charges and fees for sanitary sewerage services furnished by the System and revise such rates, charges and fees to produce Revenues each fiscal year sufficient (i) to pay all Operation and Maintenance Expenses, (ii) to produce Net Revenues equal to the annual debt service due and payable in such fiscal year of the then Outstanding Bonds; and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the System reasonably anticipated to be paid from Revenues.

If the Net Revenues in any fiscal year are less than the amount specified in the preceding paragraph, the City will within sixty (60) days from the date of receipt of the annual audit for such fiscal year either (a) cause such rates and charges to be revised and adjusted to comply with the Ordinance or (b) obtain a written report from an independent consultant after a review and study of the operations of the System has been made concluding that, in its opinion, the rates and charges then in effect for the current fiscal year are sufficient or adjustments and revisions need to be made to such rates and charges to comply with the Ordinance and such adjustments and revisions to sanitary sewer rates and charges are promptly implemented and enacted in accordance with such consultant’s report.

The Ordinance establishes a 2015 Reserve Account for the Series 2015 Bonds and requires the deposit therein of an amount equal to the Reserve Requirement for the Series 2015 Bonds. The **“Reserve Requirement”** with respect to a Series (as defined in the Ordinance) of Bonds is defined to be the least of (a) 10% of the stated principal amount of such Series of Bonds, (b) the maximum annual principal and interest requirements on such Series of Bonds, or (c) 125% of the average annual principal and interest requirements on such Series of Bonds. If the aggregate initial offering price of such Series of Bonds to the public is less than 98% or more than 102% of par, such offering price shall be used in clause (a) in lieu of the stated principal amount. The Ordinance requires the creation of similar reserve accounts for Additional Bonds and Refunding Bonds hereafter issued pursuant to the Ordinance.

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

PLAN OF REFUNDING

On the date of issuance of the Series 2015 Bonds, a portion of the net proceeds thereof, together with certain other funds held by City with respect to the Refunded Bonds, will be deposited into an escrow account (the **“Escrow Account”**) to be held under an Escrow Agreement, dated April 9, 2015 (the **“Escrow Agreement”**), between the City and BOKF, National Association, Lincoln, Nebraska (the **“Escrow Agent”**). Such deposit will be sufficient to pay when due the principal amount or redemption price of and all interest due on the Refunded Bonds through and including the Redemption Date and to redeem on the Redemption Date all of the then outstanding Refunded Bonds.

After the issuance of the Series 2015 Bonds and the deposit of the proceeds thereof and other moneys with the Escrow Agent pursuant to the Escrow Agreement, the Series 2005 Bonds will be payable from the deposit thereof held for such purpose by the Escrow Agent. Under the Escrow Agreement, the moneys held by the Escrow Agent are irrevocably pledged to the payment of the Series 2005 Bonds and the interest thereon and may be applied only to such payment, and the Series 2005 Bonds will no longer be deemed outstanding for purposes of the Ordinance.

[The remainder of this page intentionally left blank]

ESTIMATED SOURCES AND USES OF FUNDS

SOURCES OF FUNDS:

Principal Amount of Series 2015 Bonds	\$12,220,000.00
Plus: Net Original Issue Premium	592,567.05
Series 2005 Bond Fund	779,230.36
2005 Account in Reserve Fund	1,248,463.34
TOTAL SOURCES:	\$14,840,260.75

USES OF FUNDS:

Deposit to Escrow Fund	\$13,613,181.25
2015 Account in Reserve Fund	1,045,797.50
Costs of Issuance (including Underwriters' Discount)	181,282.00
TOTAL USES:	\$14,840,260.75

[The remainder of this page intentionally left blank]

DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for the City's outstanding Series 2007 Bonds, Series 2012 Bonds and the Series 2015 Bonds for each of the fiscal years ending August 31:

<u>Year</u>	<u>Outstanding⁽¹⁾</u> <u>Bonds</u>	<u>Series 2015 Bonds</u>			<u>Aggregate</u> <u>Debt Service</u>
	<u>Annual</u> <u>Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual</u> <u>Debt Service</u>	
2015	\$4,307,993.75	\$ 0.00	\$ 0.00	\$ 0.00	\$4,307,993.75
2016	4,643,537.50	655,000.00	390,485.21	1,045,485.21	5,689,022.71
2017	4,624,437.50	720,000.00	323,437.50	1,043,437.50	5,667,875.00
2018	4,603,112.50	735,000.00	309,037.50	1,044,037.50	5,647,150.00
2019	4,579,937.50	745,000.00	294,337.50	1,039,337.50	5,619,275.00
2020	4,574,637.50	760,000.00	279,437.50	1,039,437.50	5,614,075.00
2021	4,564,287.50	775,000.00	264,237.50	1,039,237.50	5,603,525.00
2022	4,556,268.76	790,000.00	248,737.50	1,038,737.50	5,595,006.26
2023	4,551,281.26	805,000.00	232,937.50	1,037,937.50	5,589,218.76
2024	4,529,856.26	830,000.00	208,787.50	1,038,787.50	5,568,643.76
2025	4,540,756.26	855,000.00	183,887.50	1,038,887.50	5,579,643.76
2026	4,539,137.50	885,000.00	158,237.50	1,043,237.50	5,582,375.00
2027	4,530,112.50	905,000.00	136,997.50	1,041,997.50	5,572,110.00
2028	3,959,862.50	945,000.00	100,797.50	1,045,797.50	5,005,660.00
2029	1,360,587.50	980,000.00	62,997.50	1,042,997.50	2,403,585.00
2030	1,359,062.50	835,000.00	23,797.50	858,797.50	2,217,860.00
2031	1,361,781.26	0.00	0.00	0.00	1,361,781.26
2032	1,362,093.76	0.00	0.00	0.00	1,362,093.76
TOTALS:	\$68,548,743.81	\$12,220,000.00	\$3,218,150.21	\$15,438,150.21	\$83,986,894.02

⁽¹⁾Excluding the Series 2005 Bonds to be refunded

[The remainder of this page intentionally left blank.]

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

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

<u>Fiscal Year</u> <u>Ending</u> <u>August 31</u>	<u>Annual</u> <u>Discharge</u> <u>in H.C.F.⁽¹⁾</u>	<u>Revenue</u> <u>Per</u> <u>H.C.F.⁽¹⁾</u>	<u>Revenues⁽²⁾</u>	<u>Net</u> <u>Operating</u> <u>Costs⁽³⁾</u>	<u>Net</u> <u>Operating</u> <u>Revenue</u>	<u>Debt</u> <u>Service</u> <u>Requirement⁽⁴⁾</u>	<u>Debt</u> <u>Service</u> <u>Coverage</u>
2010	11,030,108	2.04	\$22,472,096	\$11,664,594	\$10,807,502	\$6,426,444	1.68
2011	11,142,038	2.11	23,546,370	12,543,964	11,002,406	6,512,609	1.69
2012	11,252,451	2.20	24,763,975	12,378,673	12,385,302	6,793,014	1.82
2013	10,907,308	2.29	24,988,276	12,522,160	12,466,116	6,577,604	1.90
2014	10,964,705	2.47	27,049,162	13,337,986	13,711,176	7,131,915	1.92

⁽¹⁾H.C.F. = Hundred Cubic Feet

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

⁽³⁾Total operating expense less depreciation.

⁽⁴⁾Includes payments on a loan from the Nebraska Department of Environmental Quality, the proceeds of which were used to make improvements to the System. Payments on such loan from the Revenues are junior and subordinate to payments of the principal of and interest on the Bonds.

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

[The remainder of this page intentionally left blank.]

**Projected Operating Results
and Debt Service Coverage**

<u>Fiscal Year</u> <u>Ending</u> <u>August 31</u>	<u>Annual</u> <u>Discharge</u> <u>H.C.F.⁽¹⁾</u>	<u>Revenue</u> <u>Per</u> <u>H.C.F.⁽¹⁾</u>	<u>Revenues⁽²⁾</u>	<u>Net</u> <u>Operating</u> <u>Costs⁽³⁾</u>	<u>Net</u> <u>Operating</u> <u>Revenue</u>	<u>Debt</u> <u>Service</u> <u>Requirement⁽⁴⁾</u>	<u>Debt</u> <u>Service</u> <u>Coverage</u>
2015	10,964,705	2.56	\$28,060,940 ^(a)	\$14,116,905	\$13,944,035	\$7,487,949	1.86
2016	10,964,705	2.65	29,101,900 ^(b)	14,858,985	14,242,915	7,334,169	1.94
2017	10,964,705	2.73	29,899,250 ^(c)	15,455,686	14,443,564	7,315,067	1.97
2018	10,964,705	2.81	30,762,404 ^(d)	16,077,443	14,684,961	7,431,867 ^(f)	1.98
2019	10,964,705	2.88	31,635,844 ^(e)	16,725,379	14,910,465	7,811,588	1.91

⁽¹⁾ H.C.F. = Hundred Cubic Feet

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

⁽³⁾ Total operating expense less depreciation.

⁽⁴⁾ Includes payments on a loan from the Nebraska Department of Environmental Quality, the proceeds of which were used to make improvements to the System. Payments on such loan from the Revenues are junior and subordinate to payments of the principal of and interest on the Bonds.

^(a) 3.00% Rate increase for the Fiscal Year ended 2015.

^(b) 3.00% Rate increase for the Fiscal Year ended 2016.

^(c) 3.00% Rate increase proposed for the Fiscal Year ended 2017.

^(d) 3.00% Rate increase proposed for the Fiscal Year ended 2018.

^(e) 3.00% Rate increase proposed for the Fiscal Year ended 2019.

^(f) Increase due to estimated \$5,000,000 bond issue in Fiscal Year ended 2019.

The figures presented above have been prepared by the Business Office of the Public Works and Utilities Department. The projections are based on historical discharge data and population growth of 1% and a historical inflationary increase in operation and maintenance costs of 3½% annually. Neither proposed rate increases for years ending 2017 through 2019 nor the proposed bond issue for the fiscal year ending 2019 have been approved by the City Council.

[The remainder of this page intentionally left blank]

Sanitary Sewer Rates and Charges

The City’s rates for the use of the System are fixed by the Council. The Council has increased rates periodically to maintain the System on a sound financial basis. The Council instituted a 3.00% increase effective November 15, 2014, and a 3.00% increase effective November 15, 2015.

(a) The basic sanitary sewer use unit charge is \$1.859.

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

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

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

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

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

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

WATER METER SIZE	Effective November 2014 SERVICE CHARGE	Effective November 2015 SERVICE CHARGE
5/8 inch	\$ 1.98	\$ 2.32
3/4 inch	3.85	4.50
1 inch	6.86	8.01
1-1/2 inch	13.59	15.88
2 inch	21.77	25.43
3 inch	40.89	47.77
4 inch	68.20	79.67
6 inch	136.28	159.20
8 inch	218.06	254.75
10 inch	313.57	366.32

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

Largest Sanitary Sewer Users
(Discharge for Fiscal Year Ended August 31, 2014)

<u>User</u>	<u>Hundred Cubic Feet</u>	<u>Revenue</u>	<u>Percentage of Total Operating Revenue</u>
University of Nebraska	350,742	\$709,097	2.7%
State of Nebraska	282,751	551,008	2.0
Archer-Daniels Midland Company	158,125	317,710	1.2
University of Nebraska Foundation	121,171	241,587	0.9
Bryan Health	106,415	214,195	0.8
Lincoln Industries	102,948	207,891	0.8
Lincoln Housing Authority	87,307	203,716	0.8
Lincoln Public Schools	82,463	189,798	0.7
City of Lincoln	75,592	167,760	0.6
Zoetis	61,963	128,535	0.5
Top Ten User Totals	1,429,477	\$2,931,297	

These users accounted for approximately 11% of the System's Revenues for the fiscal year ended August 31, 2014.

Number of Sanitary Sewer Customers

<u>Fiscal Year Ended (August 31)</u>	<u>Number of Customers</u>
2009-10	78,376
2010-11	78,811
2011-12	79,346
2012-13	80,066
2013-14	80,851

General Information

The City limits cover about 92 square miles, incorporating an estimated population of 268,738 as of August 31, 2014 (recent population estimate by Lincoln-Lancaster County Planning Department). An additional 40 square miles are predicted to become part of the community over the next 25 years, as outlined in the Comprehensive Plan. City policy requires annexation of land prior to providing service by the System. Currently, the System includes over 994 miles of pipeline, 14 wastewater lift stations, 2 wastewater treatment facilities, and serves 80,851 residential, commercial, industrial, and institutional accounts.

Wastewater Collection The existing System provides service to 13 major drainage basins, with plans of a total of 17. The System components include pipelines ranging in size from 8 to 90 inches in diameter; approximately 16,120 manholes; and 16 “siphon crossings” of stream channels. System flow-through is generated predominantly by gravity; however, some portions of the System are served by wastewater lift (pumping) stations. There are 14 wastewater lift stations located throughout the collection portions of the System. Collection pipelines are primarily constructed of vitrified clay pipe (VCP), plastic pipe (PVC), reinforced concrete pipe (RCP), both lined (with protective PVC plastic liner) and unlined, centrifugally cast fiberglass reinforced polymer mortar, and ductile iron. The current minimum diameter or size of new sanitary sewer installed for any type of service area is eight inches.

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

- cleaning 500 miles of pipeline by high pressure jet flushing and other mechanical means;
- chemically treating or jet root cutting for root intrusion 100 miles of System pipeline and performing an average of 100 corrective pipeline repairs;
- rehabilitating or repairing 100 manholes;
- conducting 175 service taps and abandonments;
- examining via internal television 100 miles of System pipeline; and
- upgrading, replacing, or rehabilitating approximately 10,000 lineal feet of sewer system.

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

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

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

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

Automatic flow monitoring equipment continuously records data describing hydraulic flows at 31 selected key points in the collection side of the System. System personnel utilize a computerized integrated data collection and database management system to retrieve flow data from each of the remote locations, using conventional telephone and wireless technology. Precipitation data is obtained from weather stations located throughout the System. An average of 14,875 station days per year of hydraulic flow evaluations are performed and an average of 3,100 station days per year of precipitation data are collected. Collected information is utilized to identify potential sources of extraneous flow (infiltration and inflow), perform statistical correlations of precipitation to peak flows in the System, and develop design flow equations for sizing of wastewater pipelines, lift station pumping systems, and treatment facilities. This information is also used in combination with mobile television results to schedule pipeline repairs and replacement needs.

Industrial Pretreatment Program and Treatment Facilities Monitoring Industrial discharges from 29 industries and commercial businesses are monitored by field sampling crews, allowing analytical examination of samples by laboratory staff. These measures ensure compliance with pretreatment permits

and aid treatment plant operations. The industrial program is required by the Federal Clean Water Act and the State of Nebraska's Department of Environmental Quality (NDEQ). A joint Memorandum of Understanding between NDEQ and the City describes the City's essential pretreatment activities. System personnel perform required monitoring and general administration for the various classified categorical industries and business identified under this program.

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

- collecting 1,553 industrial sanitary sewer samples;
- performing 13,000 industrial analyses;
- 3,094 station days per year of corrosive and other gas monitoring within the collection system; and
- 37,400 individual analyses in support of treatment plant operation and regulatory reporting.

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

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

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

New NPDES permits were received for both treatment facilities and became effective on July 1, 2014. These permits contained new effluent discharge limits for ammonia and total residual chlorine. Construction of the necessary nitrification treatment process improvements and installation of ultraviolet (UV) effluent disinfection systems have been completed. The UV disinfection systems were completed and operational in May of 2004 at the Northeast facility and in May of 2005 at the Theresa Street facility. Nitrification treatment process improvements for the removal of ammonia and capacity improvements to meet future growth needs in the City began in August of 2004 for both the Northeast and Theresa Street facilities. Improvements for nitrification at the NETP became operational in December of 2005.

Reduction and treatment of odors, such as hydrogen sulfide, generated at the treatment facilities are managed by chemical odor control methods at each treatment facility. The System manages the biosolids land application program through an interlocal agreement and partnership with the University of Nebraska - Lincoln (UNL) Cooperative Extension in The County of Lancaster, Nebraska (the "**County**")

and local county agricultural crop producers. The treated biosolids meet the Class “B” requirements of 40 CFR, Part 503 of the US EPA Sewage Sludge Regulations.

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

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

- The West Side Train (originally placed into service in 1996; modification and improvements for nitrification in October of 2000);
- The East Side Train (originally placed into service in 1973; modifications and improvements for nitrification completed in July of 2003); and
- The New Central Train, completed in November 2007.

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

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

- Hydraulic capacity - 65 millions per day (mgd)*
- Nitrification and capacity improvements - 27.4 mgd*

* Based on Theresa Street Wastewater Treatment Facility Capacity letter, HDR Engineering, October 15, 2006

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

Methane gas produced by the anaerobic digestion process is used by electrical co-generation units to generate electrical power and heat the anaerobic digester and related solids digestion buildings. This process generates approximately 50 percent of the electrical energy used by treatment processes and equipment at the Theresa Street facility. Additional uses for the biogas are currently being evaluated. The

operation of the co-generation facility also complies with the requirements of a Federal Clean Air Act Emissions permit.

Additionally, a liquid waste receiving facility provides for treatment of liquid wastes from such sources as septic tanks, chemical toilet wastes, mud sumps, grit traps, and other liquid wastes generated in the City and County. These waste products are transported by private liquid waste haulers to the Theresa Street liquid waste receiving and handling station. System personnel operate and monitor the quantity and strength of the liquid wastes each year and perform an evaluation and audit of the operation to set specific fees and rates for the handling and treatment of the wastes. System laboratory personnel review special liquid waste permits for each waste type received and perform an average of 8,300 tests and analyses per year on the wastes received at the station.

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

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

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

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

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

- Hydraulic capacity - 20 mgd*
- Nitrification and capacity improvements - 10 mgd*

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

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

Solids generated by primary clarification and secondary treatment processes are anaerobically digested in conventional round-shaped digesters. Waste activated sludge solids from the secondary treatment process are thickened by rotary drum thickeners prior to anaerobic digestion. The anaerobically digested biosolids are currently thickened and pumped to a biosolids holding pond that is located on the City-owned biosolids injection site. The liquid biosolids are pumped from the pond and are injected sub-

surface into the agricultural crop land at the injection site and also into adjacent City-owned crop land. The injected biosolids meet the Class “B” requirements of 40 CFR, Part 503 of the US EPA Sewage Sludge Regulations. As previously mentioned, management of the site occurs with the UNL Cooperative Extension in the County office. Methane gas produced by the anaerobic digestion process of treatment solids is used by solids heating boilers and heat exchangers for a hot water heating system to heat the anaerobic digesters and provide hot water for heating other on-site treatment process buildings and related solids digestion buildings.

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

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

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

Employee Information

The System has 87 employees as of the date of this Official Statement. All employees, with the exception of six managers who are not currently represented by any bargaining unit, are represented by either the Public Association of Governmental Employees or by the City Employees Association. In addition to Social Security, the City has a contributory retirement plan for its employees, including employees of the System. The plan is a straight money purchase plan. Employee forfeitures are used to reduce the employer’s contribution. All past service costs and vested benefits are fully funded. The total retirement expense for employees of the System, including Social Security, was \$891,000 for the Fiscal Year ended August 31, 2014.

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

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

Miki Esposito	Director of Public Works & Utilities
	Years of Related Experience: 3
	Years with City of Lincoln: 4
Donna Garden	Assistant Director of Public Works & Utilities
	Years of Related Experience: 10
	Years with City of Lincoln 1

Fran Mejer

Public Works & Utilities Business Manager

Years of Related Experience: 23

Years with City of Lincoln: 23

THE SERIES 2015 BONDS

General

The Series 2015 Bonds will be initially issued in fully registered, book-entry form only (see **“Book-Entry System”** under this heading), in denominations of \$5,000 or any integral multiple thereof, will have a date of original issue (the **“Date of Original Issue”**) of the date of delivery thereof, will bear interest from the Date of Original Issue payable semiannually on June 15 and December 15 of each year, commencing December 15, 2015, and will mature on June 15 in the years and in the principal amounts, and will bear interest at the rates (calculated on the basis of a 360-day year consisting of twelve, 30-day months) as set forth on the inside cover of this Official Statement. Each installment of interest shall be payable by check or draft mailed by BOKF, National Association, as the bond registrar and paying agent for the Series 2015 Bonds (the **“Registrar”**), on the due date thereof (or on the next business day if such due date falls on a Saturday, Sunday or bank holiday applicable to the Registrar) to the registered owner of a Series 2015 Bond as shown on the bond registration records maintained by the Registrar as of the Record Date (hereinafter defined) therefor. The principal of each Series 2015 Bond shall be payable only upon the surrender of such Series 2015 Bond to the Registrar. The **“Record Date”** for each installment of interest shall be the last day (whether a business day or not) of the calendar month next preceding the interest payment date.

Book-Entry System

General. The Depository Trust Company (**“DTC”**), New York, New York, will act as securities depository for the Series 2015 Bonds. The ownership of one fully registered Series 2015 Bond for each maturity, as set forth on the inside cover of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as the nominee for DTC. Ownership interests in the Series 2015 Bonds will be available to purchasers only through a book-entry system maintained by DTC (the **“Book-Entry System”**). A description of DTC, the Book-Entry System and definitions of initially capitalized terms used herein are found in **“APPENDIX D - BOOK-ENTRY SYSTEM”** to this Official Statement.

Risk Factors. Beneficial Owners of the Series 2015 Bonds may experience some delay in their receipt of distributions of the principal or redemption price of and interest on the Series 2015 Bonds because such distributions will be forwarded by the Registrar to DTC, credited by DTC to its Direct Participants, and then credited to the accounts of the Beneficial Owners either directly or indirectly through Indirect Participants.

Because transactions in the Series 2015 Bonds can only be effected through DTC, DTC Participants and certain banks, the ability of a Beneficial Owner to pledge Series 2015 Bonds to persons or entities that do not participate in the Book-Entry System, or otherwise to take actions in respect of such Series 2015 Bonds, may be limited due to the lack of physical certificates. Beneficial Owners will not be recognized by the Registrar as registered owners for purposes of the Ordinance, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and DTC Participants.

Optional Redemption

Series 2015 Bonds maturing on or prior to June 15, 2025 are not subject to redemption prior to their stated maturities. Series 2015 Bonds maturing on or after June 15, 2026 are subject to redemption prior to maturity at the option of the City in whole or in part, at any time on or after June 15, 2025 in such principal amounts and from such maturity or maturities as the City shall specify and by lot in integral multiples of \$5,000 within a maturity at a redemption price equal to 100% of the principal amount then being redeemed, together with accrued interest on such principal amount to the date fixed for redemption.

Notice and Effect of Call for Redemption

Notice of redemption will be mailed by first class mail by the Registrar not less than 30 days prior to the redemption date to the registered owner of each Series 2015 Bonds, all or a portion of which is called for redemption. Each notice of redemption shall designate the Series 2015 Bonds to which such notice relates, the Date of Original Issue of such Series 2015 Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and address of the Registrar), the CUSIP number (if any) of the maturity, and, if less than all of such maturity, the distinctive certificate numbers of the Series 2015 Bonds of such maturity to be redeemed and, in the case of any Series 2015 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of such Series 2015 Bonds the redemption price thereof or such specified portion of the principal amount thereof in the case of a Series 2015 Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date, interest thereon shall cease to accrue, and shall require that such Series 2015 Bonds be then surrendered at the address of the Registrar specified in the redemption notice. Failure of any owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

So long as DTC is effecting book-entry transfers of the Series 2015 Bonds, the Registrar will provide the notices of Series 2015 Bonds to be redeemed to DTC. It is expected that DTC will, in turn, notify the DTC Participants and that the DTC Participants, in turn, will notify or cause notification to be given to the Beneficial Owners. Any failure on the part of DTC or a DTC Participant, or failure on the part of a nominee of a Beneficial Owner of a Bond (having been mailed notice from the Registrar, a DTC Participant or otherwise) to notify the Beneficial Owner of the Bond so affected, will not affect the validity of the redemption of such Bond.

Interchangeability and Transfer

The Series 2015 Bonds, upon surrender thereof to the Registrar with a written instrument of transfer satisfactory to the Registrar duly executed by the registered owner or its duly authorized attorney, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of Series 2015 Bonds in registered form of the same series, rate of interest, maturity and of any authorized denomination.

In all cases in which the privilege of exchanging or transferring the Series 2015 Bonds is exercised, the City shall execute and the Registrar shall deliver the Series 2015 Bonds in accordance with the Ordinance. For every such transfer or exchange of Series 2015 Bonds, the Registrar shall require the payment by the registered owner requesting such transfer or exchange of any tax or other governmental charges payable with respect thereto, and may charge a sum not exceeding the actual cost for each new Bond.

Neither the City nor the Registrar is required to make any such exchange or registration of transfer of Series 2015 Bonds during the period between a Record Date and the next succeeding interest payment date or, in the case of any proposed redemption of Series 2015 Bonds, after notice of the redemption of such Series 2015 Bonds or any portion thereof shall have been given pursuant to the Ordinance.

The foregoing procedures do not apply to Beneficial Owners, whose transfer and exchange privileges will be governed by the procedures described under “**THE SERIES 2015 BONDS - Book-Entry System**” herein so long as the Series 2015 Bonds are held in book-entry format.

RATINGS

Moody’s Investors Service has assigned the Series 2015 Bonds the rating of “Aa1” and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., has assigned the Series 2015 Bonds the rating of “AA+.” Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained from Moody’s Investors Service, 7 World Trade Center, 250 Greenwich Street, 23rd Floor, New York, New York 10007, telephone (212) 553-0300, and Standard & Poor’s Ratings Services, 55 Water Street, New York, New York, 10041, telephone (212) 438-2124.

Generally, rating agencies base their ratings on such information and materials and investigations, studies and assumptions furnished to and obtained and made by the rating agencies. The debt ratings are not a recommendation to purchase, sell or hold a security, inasmuch as they do not comment as to market price or suitability for a particular investor. There is no assurance that the above ratings will remain for any given period of time or that they may not be lowered, suspended or withdrawn entirely by either or both rating services if they deem circumstances are appropriate. Any downward change in, suspension or withdrawal of either or both ratings may have an adverse effect on the market price of the Series 2015 Bonds.

TAX MATTERS

The following is a summary of the material federal and State of Nebraska income tax consequences of holding and disposing of the Series 2015 Bonds. This summary is based upon laws, regulations, rulings and judicial decisions now in effect, all of which are subject to change (possibly on a retroactive basis). This summary does not discuss all aspects of federal income taxation that may be relevant to investors in light of their personal investment circumstances or describe the tax consequences to certain types of owners subject to special treatment under the federal income tax laws (for example, dealers in securities or other persons who do not hold the Series 2015 Bonds as a capital asset, tax-exempt organizations, individual retirement accounts and other tax deferred accounts, and foreign taxpayers), and, except for the income tax laws of the State of Nebraska, does not discuss the consequences to an owner under any state, local or foreign tax laws. The summary does not deal with the tax treatment of persons who purchase the Series 2015 Bonds in the secondary market. Prospective investors are advised to consult their own tax advisors regarding federal, state, local and other tax considerations of holding and disposing of the Series 2015 Bonds.

Opinion of Bond Counsel

In the opinion of Gilmore & Bell, P.C., Bond Counsel, under the law existing as of the issue date of the Series 2015 Bonds:

Federal and Nebraska Tax Exemption. The interest on the Series 2015 Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is exempt from income taxation by the State of Nebraska.

Alternative Minimum Tax. Interest on the Series 2015 Bonds is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Bank Qualification. The Series 2015 Bonds have not been designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

Bond counsel’s opinions are provided as of the date of the original issue of the Series 2015 Bonds, subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2015 Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2015 Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2015 Bonds. Bond Counsel is expressing no opinion regarding other federal, state or local tax consequences arising with respect to the Series 2015 Bonds but has reviewed the discussion under the heading “**TAX MATTERS.**”

Other Tax Consequences

Original Issue Discount. For federal income tax purposes, original issue discount (“**OID**”) is the excess of the stated redemption price at maturity of a Series 2015 Bond over its issue price. The issue price of a Series 2015 Bond is the first price at which a substantial amount of the Series 2015 Bonds of that maturity have been sold (ignoring sales to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers). Under Section 1288 of the Code, OID on tax-exempt bonds accrues on a compound basis. The amount of OID that accrues to an owner of a Series 2015 Bond during any accrual period generally equals (1) the issue price of that Series 2015 Bond, plus the amount of OID accrued in all prior accrual periods, multiplied by (2) the yield to maturity on that Series 2015 Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (3) any interest payable on that Series 2015 Bond during that accrual period. The amount of OID accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excludable from gross income for federal income tax purposes, and will increase the owner’s tax basis in that Series 2015 Bond. Prospective investors should consult their own tax advisors concerning the calculation and accrual of OID.

Original Issue Premium. If a Series 2015 Bond is issued at a price that exceeds the stated redemption price at maturity of the Series 2015 Bond, the excess of the purchase price over the stated redemption price at maturity constitutes “premium” on that Series 2015 Bond. Under Section 171 of the Code, the purchaser of that Series 2015 Bond must amortize the premium over the term of the Series 2015 Bond using constant yield principles, based on the purchaser’s yield to maturity. As premium is amortized, the owner’s basis in the Series 2015 Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the owner. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the Series 2015 Bond prior to its maturity. Even though the owner’s basis is reduced, no

federal income tax deduction is allowed. Prospective investors should consult their own tax advisors concerning the calculation and accrual of bond premium.

Sale, Exchange or Retirement of Series 2015 Bonds. Upon the sale, exchange or retirement (including redemption) of a Series 2015 Bond, an owner of the Series 2015 Bond generally will recognize gain or loss in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale, exchange or retirement of the Series 2015 Bond (other than in respect of accrued and unpaid interest) and such owner's adjusted tax basis in the Series 2015 Bond. To the extent a Series 2015 Bond is held as a capital asset, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the Series 2015 Bond has been held for more than 12 months at the time of sale, exchange or retirement.

Reporting Requirements. In general, information reporting requirements will apply to certain payments of principal, interest and premium paid on the Series 2015 Bonds, and to the proceeds paid on the sale of the Series 2015 Bonds, other than certain exempt recipients (such as corporations and foreign entities). A backup withholding tax will apply to such payments if the owner fails to provide a taxpayer identification number or certification of foreign or other exempt status or fails to report in full dividend and interest income. The amount of any backup withholding from a payment to an owner will be allowed as a credit against the owner's federal income tax liability.

Collateral Federal Income Tax Consequences. Prospective purchasers of the Series 2015 Bonds should be aware that ownership of the Series 2015 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Series 2015 Bonds. Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of Series 2015 Bonds should consult their tax advisors as to the applicability of these tax consequences and other federal income tax consequences of the purchase, ownership and disposition of the Series 2015 Bonds, including the possible application of state, local, foreign and other tax laws.

CONTINUING DISCLOSURE

Continuing Disclosure

The City is executing the Continuing Disclosure Undertaking for the benefit of the owners and Beneficial Owners of the Series 2015 Bonds and in order to assist the Underwriter in complying with Rule 15c2-12 of the Securities and Exchange Commission (the "**Rule**"). The City is the only "obligated person" within the meaning of the Rule with responsibility for continuing disclosure. The City believes it has complied in all material respects with its prior undertakings under the Rule in the past five years.

Annual Reports. Pursuant to the Continuing Disclosure Undertaking, the City shall, not later than **May 1** of each year, commencing May 1, 2016, provide to the Municipal Securities Rulemaking Board ("**MSRB**") the following financial information and operating data (the "**Annual Report**"):

- (a) The audited financial statements of the City, including the sanitary sewer system, for the prior fiscal year, prepared in accordance with generally accepted accounting principles. If audited financial statements are not available by the time the Annual Report is required to be

filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement relating to the Series 2015 Bonds, and the audited financial statements shall be filed in the same manner as the Annual Report promptly after they become available.

(b) Updates as of the end of the fiscal year of the financial information and operating data relating to the City contained in **APPENDIX A** of this Official Statement in substantially the same format contained in this Official Statement.

Material Event Notices. Pursuant to the Continuing Disclosure Undertaking, not later than 10 business days after the occurrence of any of the following events, the City shall also give, or cause a dissemination agent to give, notice of the occurrence of any of the following events with respect to the Series 2015 Bonds (“**Material Events**”):

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions; the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2015 Bonds, or other material events affecting the tax status of the Series 2015 Bonds;
- (7) modifications to rights of bondowners, if material;
- (8) bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution or sale of property securing repayment of the Series 2015 Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the City;
- (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) appointment of a successor or additional trustee or the change of name of the trustee, if material.

If the City has not submitted the Annual Report to the MSRB by the date specified above, the City shall send a notice to the MSRB of the failure of the City to file the Annual Report on a timely basis, which notice shall be given by the City in accordance with the above procedures.

The City may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under the Continuing Disclosure Undertaking, and may discharge any such dissemination agent, with or without appointing a successor dissemination agent. The dissemination agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to the Continuing Disclosure Undertaking.

Notwithstanding any other provision of the Continuing Disclosure Undertaking, the City and any dissemination agent may amend the Continuing Disclosure Undertaking (and such dissemination agent shall agree to any amendment so requested by the City) and any provision of the Continuing Disclosure Undertaking may be waived, provided Bond Counsel or other counsel experienced in federal securities law matters provides the City and any dissemination agent with its opinion that the undertaking of the City, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to the Continuing Disclosure Undertaking.

In the event of a failure of the City or any dissemination agent to comply with any provision of the Continuing Disclosure Undertaking, any owner or Beneficial Owner of the Series 2015 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or any dissemination agent, as the case may be, to comply with its obligations under the Continuing Disclosure Undertaking. A default under the Continuing Disclosure Undertaking shall not be deemed an event of default under the Ordinance, and the sole remedy under the Continuing Disclosure Undertaking in the event of any failure of the City or any dissemination agent to comply with the Continuing Disclosure Undertaking shall be an action to compel performance.

Electronic Municipal Market Access System (EMMA). All Annual Reports and notices of Material Events required to be filed by the City or the dissemination agent pursuant to the Continuing Disclosure Undertaking must be submitted to the MSRB through the MSRB's Electronic Municipal Market Access system ("**EMMA**"). EMMA is an internet-based, online portal for free investor access to municipal bond information, including offering documents, material event notices, real-time municipal securities trade prices and MSRB education resources, available at www.emma.msrb.org. Nothing contained on EMMA relating to the City or the Series 2015 Bonds is incorporated by reference in this Official Statement.

LITIGATION

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2015 Bonds or questioning or affecting the validity of the Series 2015 Bonds or the proceedings and authority under which they are to be issued. None of the creation, organization or existence of the City or the title of the members of the Council or other officers of the City to their respective offices is being contested or questioned.

There is no litigation pending that in any manner questions the right of the City to pass the Ordinance pursuant to which the Series 2015 Bonds are being issued.

UNDERWRITING

The Underwriter has agreed, subject to certain customary closing conditions, to purchase the Series 2015 Bonds at an aggregate purchase price of \$12,710,535.05 (equal to the par amount of the Series 2015 Bonds plus net original issue premium in the amount of \$592,567.05 and less Underwriter's discount of \$102,032.00), and to make a public offering of the Series 2015 Bonds at not in excess of the public offering prices or less than the yields set forth on the inside cover page of this Official Statement. The Underwriter will be obligated to purchase all such Series 2015 Bonds if any such Series 2015 Bonds are purchased. The Series 2015 Bonds may be offered and sold to certain dealers at prices lower than such public offering prices, and such public offering prices may be changed from time to time by the Underwriter.

LEGAL MATTERS

All legal matters incident to the authorization and issuance of the Series 2015 Bonds are subject to the approval of Bond Counsel. Certain legal matters will be passed on by Jeffery R. Kirkpatrick, City Attorney. Bond Counsel has participated in the preparation of this Official Statement, but the factual and financial information appearing herein has been supplied or reviewed by certain officials of the City and other sources, as referred to herein, and Bond Counsel expresses no opinion as to the accuracy or sufficiency thereof.

INDEPENDENT AUDITORS

The financial statements and schedules of the System for the years ended August 31, 2014 and 2013, included in “**APPENDIX B – FINANCIAL STATEMENTS**” to this Official Statement, have been audited by BKD LLP, independent auditors, as stated in their report appearing herein. The System did not request BKD LLP to perform any updating procedures subsequent to the date of its audit report on the August 31, 2014 and 2013 financial statements.

MISCELLANEOUS

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

The information set forth in this Official Statement should not be construed as representing all of the conditions affecting the City or the Series 2015 Bonds.

This Official Statement is issued by the City.

THE CITY OF LINCOLN, NEBRASKA

APPENDIX A

THE CITY OF LINCOLN, NEBRASKA

(THIS PAGE INTENTIONALLY LEFT BLANK)

THE CITY OF LINCOLN

General

Lincoln, the capital of Nebraska, is located in southeastern Nebraska near the center of population of the state. The City was originally incorporated in 1869. It is approximately midway between Chicago and Denver. It has an area of 92.82 square miles, and in its growth and development has annexed five other municipalities so that the City includes most of the urban area of Lancaster County. It enjoys a unique position in Nebraska as the center of the state governmental and educational activities.

Population

The 1980 population of the City was 171,932; the 1990 population was 191,972; the 2000 population was 225,588; and the 2010 population was 258,379, a 14.5 percent increase over the 2000 count. The 2010 count represents 90.5 percent of the population of Lancaster County, the county in which the City is located. The estimated 2014 population is 268,738.

City Government

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

City government has a broad range of responsibilities, including electric, water, and sanitary sewer systems, and an impressive park and playground system of over 6,557 acres maintained for public use, nine public swimming pools, and five public golf courses. The City has cooperated actively with the county government in several joint governmental buildings, and in other specific areas of responsibility, including health, planning, civil defense, data processing, tax collection, parks, and jail facilities. There are cooperative agreements with the United States government on parks and flood control, with the University of Nebraska on planning and property transfer, with the area Watershed District on flood control, and with the Lincoln School District on recreation.

Transportation

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

Lincoln is served by two commercial airports with daily shuttle service available between locations. The Lincoln Municipal Airport is located less than 10 minutes from downtown and has daily departures to Chicago, Denver, Minneapolis and Atlanta. Eppley Airfield, located in east Omaha, is 65 minutes from downtown Lincoln and offers service from numerous airlines. Together the two airports offer more than 100 arrivals and departures daily. The Lincoln Municipal Airport also offers General Aviation services. The General Aviation runway is 8,649 feet long, and the runway is lit dusk to dawn.

Railroad transportation facilities include those of Burlington Northern/Santa Fe and Union Pacific, both maintaining yards in Lincoln. AMTRAK provides daily passenger and package express services. Ground transportation is furnished by Greyhound/Black Hills Stage Lines, multiple taxi companies and local StarTran bus services.

The average commute in Lincoln is 19 minutes and nearly 18 percent of area commuters spend less than 10 minutes on the road.

Government Center

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

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

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

Education

The University of Nebraska, with approximately 24,207 students, Nebraska Wesleyan University, with approximately 2,065 students, Union College, with approximately 881 students, Kaplan University, with approximately 462 students, Bryan LGH College of Health Sciences with approximately 714 students, and Southeast Community College, with approximately 10,168 students and with a number of facilities for both full-time and part-time occupational training, are located in the City of Lincoln. The City's modern and progressive school system, with an enrollment of over 39,066 is served by 6 high schools, 11 middle schools, and 38 elementary schools. Lincoln is home to over 30 private and parochial schools. Lincoln's private school offerings range from pre-K to high school institutions. Affiliations include Roman Catholic, Lutheran, SDA, and nondenominational Christians.

Building Permits and Property Values

LAST TEN YEARS

FISCAL YEAR	COMMERCIAL 1 CONSTRUCTION		RESIDENTIAL 1 CONSTRUCTION		PROPERTY VALUE 2		TOTALS
	# PERMITS	VALUE	# PERMITS	VALUE	COMMERCIAL	RESIDENTIAL	
2014	1,197	\$ 264,070,303	2,300	\$ 249,343,435	\$ 4,962,314,863	\$ 11,403,992,418	\$ 16,366,307,281
2013	1,341	484,317,980	2,323	250,266,476	4,787,396,700	11,181,988,692	15,969,385,392
2012	1,372	338,918,061	2,319	186,712,560	4,476,953,562	10,745,000,908	15,221,954,470
2011	1,320	223,215,672	2,336	155,181,140	4,477,256,519	10,648,151,681	15,125,408,200
2010	1,234	241,509,266	2,225	116,914,465	4,438,463,100	10,546,474,527	14,984,937,627
2009	1,196	199,331,086	1,794	104,316,385	4,382,749,195	10,839,440,027	15,222,189,222
2008	1,064	274,267,477	2,261	149,678,215	4,246,365,596	10,723,170,809	14,969,536,405
2007	994	293,968,408	2,820	202,786,768	4,236,340,817	10,402,515,684	14,638,856,501
2006	1,088	263,006,153	3,150	195,885,622	3,814,534,869	9,083,290,211	12,897,825,080
2005	1,092	204,677,969	3,387	277,158,200	3,694,097,147	8,727,702,573	12,421,799,720

¹ City of Lincoln, Building and Safety Department.

² Lancaster County Assessor.

Police and Fire Protection

Lincoln has fourteen fire stations manned by 282 firefighters and three police stations with 319 police officers.

City Employee Information

For the 2014-2015 fiscal year, contracts have been signed with all but two of our unions. Unions include: the Lincoln Police Union (LPU) representing police officers; the International Association of Firefighters (IAF) representing firefighters, the Amalgamated Transit Union (ATU) representing transit workers, the Public Association of Government Employees (PAGE) representing labor, trades, and clerical personnel, the City Employees Association (CEA) representing supervisory, highly technical, and professional personnel, and the Lincoln M Class Employees Association (LMCEA) representing upper management, administration and professional personnel. The LPU and IAF contracts have not been negotiated and are operating under the terms of their prior year contracts. All other contracts will expire at the end of August, 2016.

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

SELECTED ECONOMIC INDICATORS

LINCOLN SMSA (LANCASTER COUNTY) NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

	MAY 31, 2014		NOVEMBER 30, 2014	
	Number Employed	Percent of Total	Number Employed	Percent of Total
Industry Manufacturing:				
Durable Goods	8,674	4.6	8,749	4.6
Nondurable Goods	5,149	2.7	5,182	2.7
Total Industry Manufacturing	13,823	7.3	13,931	7.3
Nonmanufacturing:				
Natural Resource & Construction	7,980	4.2	8,117	4.3
Transportation, Communications & Utilities	10,906	5.8	10,979	5.8
Wholesale Trade	4,111	2.2	4,082	2.1
Retail Trade	20,014	10.7	21,048	11.0
Information	2,491	1.3	2,651	1.4
Finance, Insurance & Real Estate	14,510	7.7	14,719	7.7
Services (except domestic)	73,498	39.1	74,202	38.9
Government	40,849	21.7	40,888	21.5
Total Nonmanufacturing	174,359	92.7	176,686	92.7
TOTAL	188,182	100.0	190,617	100.0

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

As of December 2014 the unemployment rate in Lincoln was 2.7%, notably one of the lowest unemployment rates in the United States.

LINCOLN SMSA (LANCASTER COUNTY LABOR FORCE DATA 2013-2004) (For the Calendar Year Indicated)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Civilian Labor Force	167,515	165,931	162,266	160,154	159,634	160,601	157,841	156,204	156,033	156,100
Unemployment	5,898	5,993	6,587	6,818	6,944	4,837	4,365	4,308	5,603	5,470
Percent of Labor Force	3.5	3.6	4.1	4.3	4.3	3.0	2.8	2.8	3.6	3.5
Employment	161,617	159,938	155,679	153,336	152,690	155,764	153,476	151,896	150,430	150,630

STATE OF NEBRASKA

Percent of Labor Force										
Unemployment	3.9	4.0	4.5	4.7	4.7	3.3	3.0	3.0	3.9	3.9

Source: State of Nebraska, Department of Labor

* Labor Force Data for 2014 is unavailable at date of print

**LINCOLN PRINCIPAL EMPLOYERS
CURRENT YEAR**

<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
State of Nebraska	8,988	1	4.95 %
Lincoln Public Schools	7,975	2	4.39
University of Nebraska-Lincoln	6,179	3	3.40
BryanLGH Medical Center	3,796	4	2.09
US Government	3,206	5	1.77
City of Lincoln	2,593	6	1.43
Saint Elizabeth Regional Medical Center	2,350	7	1.29
Burlington Northern Railroad	2,000	8	1.10
Madonna Rehabilitation Hospital	1,400	9	0.77
B&R Stores, Inc.	1,391	10	0.77
Total	39,878		21.96 %

**DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

<u>Year</u>	<u>Population 1</u>	<u>Per Capita Personal Income 2</u>	<u>School Enrollment 3</u>
2014	268,738	\$	39,066
2013	265,404	42,743	37,845
2012	262,341	41,584	36,902
2011	258,379	39,018	36,530
2010	254,001	37,231	35,896
2009	251,624	36,653	34,973
2008	248,744	38,204	34,061
2007	241,167	36,624	33,466
2006	239,213	35,251	32,934
2005	238,625	33,644	32,505

Sources:

1 Lincoln/Lancaster Planning Department.

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

Per Capital Income is based on Lincoln Metropolitan Statistical Area, which includes all of Lancaster and Seward Counties. Per Capita Income for 2014 is unavailable.

3 Lincoln Public Schools.

Median age from the 2010 census was 31.8. Education statistics per the 2010 Census indicate that 92.4% of the population 25 years and older has a high school degree or greater with 35.2% of the same population holding a Bachelor's degree or greater.

**LINCOLN UTILITY CUSTOMERS
LAST TEN YEARS**

<u>Year</u>	<u>Water Customers</u>	<u>Gas Customers</u>	<u>Electricity Customers</u>
2014	81,196	96,368	131,915
2013	80,418	95,480	130,537
2012	79,698	94,592	129,163
2011	79,184	94,231	128,373
2010	78,740	93,916	129,322
2009	77,973	93,679	128,115
2008	77,532	93,419	126,978
2007	76,816	93,301	124,878
2006	75,919	92,824	123,376
2005	74,649	92,152	121,508

Source: Indicated Utility Companies



SELECTED FINANCIAL STATISTICS

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION ¹ LAST TEN FISCAL YEARS

Fiscal Year	General Government	Public Safety	Streets And Highways	Culture And Recreation	Economic Opportunity	Health And Welfare	Mass Transit	Debt Service	Totals
2014	\$ 51,044,096	72,833,698	21,054,394	25,172,100	13,792,741	22,097,954	14,419,436	36,449,212	256,863,631
2013	42,761,424	72,489,536	18,355,326	22,323,942	12,831,193	21,339,175	11,980,828	31,721,325	233,802,749
2012	39,048,320	70,444,362	18,471,067	22,518,532	14,673,671	22,070,619	10,288,935	31,689,831	229,205,337
2011	36,622,362	69,537,057	18,335,078	21,794,585	15,811,914	21,993,415	15,088,883	26,439,462	225,622,756
2010	35,865,006	64,679,523	19,832,223	21,483,873	15,359,628	21,652,729	12,034,413	17,032,401	207,939,796
2009	34,428,477	63,984,484	16,445,304	22,449,569	11,321,242	20,349,757	9,575,670	16,990,105	195,544,608
2008	35,278,575	61,147,903	16,482,240	21,686,564	14,685,668	21,053,132	10,707,601	14,427,795	195,469,478
2007	33,946,258	60,953,651	17,430,452	21,719,544	11,670,315	20,378,863	14,877,357	11,589,720	192,566,160
2006	34,666,641	60,064,604	16,928,575	20,938,212	12,623,307	25,566,267	8,901,327	11,016,269	190,705,202
2005	32,532,685	58,669,932	17,064,845	21,669,847	14,870,592	19,126,931	8,306,921	10,562,993	182,804,746

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

GENERAL GOVERNMENTAL REVENUES BY SOURCE ¹ LAST TEN FISCAL YEARS

Fiscal Year	Taxes And Special Assessment	Inter-Governmental	Permits And Fees	Reimbursement For Services	Investment Earnings	Other	Totals
2014	\$ 172,251,539	79,378,553	23,794,402	14,283,172	10,571,021	10,985,173	311,263,860
2013	166,316,730	81,340,882	22,936,015	8,341,522	1,732,354	12,037,497	292,705,000
2012	161,333,989	68,267,660	20,239,031	7,850,732	4,744,887	20,209,185	282,645,484
2011	144,632,640	71,532,824	18,524,372	7,521,366	5,454,877	11,279,552	258,945,631
2010	131,562,303	61,640,301	16,432,219	7,004,334	5,197,259	6,467,138	228,303,554
2009	130,360,416	75,099,973	17,119,002	6,600,299	5,791,391	7,818,015	242,789,096
2008	130,094,818	73,830,720	18,013,104	6,511,457	6,806,258	7,667,778	242,924,135
2007	125,328,388	63,928,043	19,126,239	6,491,112	10,371,565	7,052,107	232,297,454
2006	121,857,986	60,757,501	18,423,079	7,063,192	4,082,196	7,886,377	220,070,331
2005	119,318,079	63,180,171	16,535,049	6,936,334	4,327,311	12,028,417	222,325,361

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

**SPECIAL ASSESSMENT COLLECTIONS
LAST TEN YEARS¹**

Fiscal Year Ended <u>August 31</u>	Special Assessment Collections <u>Including Interest</u>
2014	\$ 1,577,645
2013	1,021,572
2012	1,151,931
2011	1,103,720
2010	1,136,150
2009	1,071,238
2008	1,418,936
2007	1,448,146
2006	1,667,037
2005	1,413,582

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

Authority to Levy Taxes

Article IX, Section 3 of the Home Rule Charter of the City provides that the City shall have power to levy a tax each year for general revenue purposes upon all property subject to taxation; provided that the maximum amount of taxes that can be levied by the City in any one year for general revenue purposes shall not exceed an amount known as the City tax limit. The City tax limit is a tax ceiling established by using the September 1, 1966 City dollar tax limit as an initial tax limit, and increasing that tax limit each year following 1966 by 7% so that in each fiscal year thereafter, the amount of the City tax limit shall be the amount of the city tax limit for the previous year, plus 7% thereof. In addition, the City also has the power to levy taxes each year sufficient to pay any judgment existing against the City and the interest on bonded debt and the principal on any bonded debt maturing during the fiscal year or within six months thereafter, as well as taxes authorized by state law. The City is also authorized to receive all taxes collected and distributed pursuant to state law and in lieu of tax payments imposed by law. The 2014 tax levy for the 2014-2015 fiscal year is \$127,141,801 below the legal limit, a tax rate per \$100 valuation of .31958. The assessed value upon which the 2014 levy is based is \$17,380,126,373. By charter, only 90% of the property tax levy may be appropriated.

For the 2014-2015 fiscal year the City is subject to a state imposed lid on the appropriation of “restricted funds”, that are revenues received from property tax, sales tax, state aid, in-lieu of tax and highway allocation fees. Bonded indebtedness, capital improvements, and costs associated with inter local agreements are exempt from the lid. For 2014-2015 the City can also use authority equal to the greater of 2.5% or the amount of real growth in the tax base that was 1.573%. An additional 1% can be authorized by a 75% vote of the City Council but was not utilized for the 2014-2015 budget. The 2014-2015 budget is \$13,339,709 below the state imposed lid limit.

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

The fiscal year of the City begins September 1 and ends August 31. Taxes are levied in October. First installments of real estate taxes are delinquent the following April 1, second installments delinquent August 1; personal property taxes are delinquent April 1 and August 1. Delinquent taxes bear 14 percent interest. The figures below include interest and penalties. The figures below do not include motor vehicle in lieu of ad valorem taxes.

Tax Year	Taxes Levied	Collected As Of August 31		Accumulated Collections As Of August 31, 2014	
		Amount	Percent	Amount	Percent
2014	\$ 54,007,569	\$ 52,616,370	97.42 %	\$ 52,616,370	97.42 %
2013	52,644,511	51,226,109	97.31	52,590,023	99.90
2012	50,201,909	48,788,943	97.19	50,131,930	99.86
2011	45,620,336	44,206,917	96.90	45,565,359	99.88
2010	45,210,589	43,791,366	96.86	45,191,351	99.96
2009	45,885,354	44,385,970	96.73	45,879,271	99.99
2008	45,231,843	43,526,689	96.23	45,050,396	99.60
2007	43,339,708	41,815,295	96.48	43,314,455	99.94
2006	40,930,818	39,549,553	96.63	40,927,826	99.99
2005	38,793,370	37,488,504	96.64	38,749,283	99.89

TEN LARGEST TAXPAYERS

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

Taxpayers	Type of Business	2014 Assessed Valuations	Percentage Of Total Assessed Valuation
B & J Partnership Ltd.	Building Management	89,450,400	0.52%
Burlington Northern	Railroad	86,184,394	0.50%
Kawasaki	Manufacturing	71,904,009	0.42%
Chateau Van Dorn LLC	Real Estate Development	63,329,443	0.37%
Nebco	Construction/Development	61,314,738	0.36%
Ameritas Life Insurance Corp	Insurance	59,539,049	0.35%
WEA Gateway LLC	Retail Management	58,201,700	0.34%
BryanLGH	Hospital	48,142,800	0.28%
Windstream	Telecommunications	46,124,247	0.27%
Assurity Life Insurance Co.	Insurance	41,180,873	0.24%
		\$ 625,371,653	3.65%

CITY SALES TAX INFORMATION

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

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

Year Ended August 31	Amount
2014	\$ 66,393,391
2013	63,134,808
2012	61,472,342
2011	57,959,545
2010	54,925,013
2009	54,255,376
2008	55,733,297
2007	53,960,485
2006	54,270,346
2005	53,781,209

**GENERAL FUND TAX COLLECTIONS
LAST TEN YEARS**

Fiscal Year	Property and Motor Vehicle Taxes	Sales and Use Taxes	Sundry Taxes	Taxes In Lieu	Occupation Taxes	Total
2014	\$ 37,428,736	\$ 66,393,391	\$ 31,218	\$ 2,042,148	\$ 11,184,522	\$ 117,080,015
2013	34,599,257	63,134,808	28,713	1,962,330	11,741,366	111,466,474
2012	33,574,992	61,472,342	31,610	1,936,396	12,583,795	109,599,135
2011	31,449,267	57,959,545	30,957	1,755,098	11,699,691	102,894,558
2010	31,486,553	54,925,013	11,895	1,620,431	10,467,534	98,511,426
2009	33,783,984	54,255,376	8,143	1,540,752	10,071,230	99,659,485
2008	32,181,660	55,733,297	18,600	1,511,404	9,670,060	99,115,021
2007	31,454,763	53,960,485	10,492	1,399,939	9,596,588	96,422,267
2006	28,366,526	54,270,346	9,526	1,315,038	8,936,502	92,897,938
2005	26,727,618	53,781,209	12,445	1,159,742	9,169,791	90,850,805

**TAXABLE ASSESSED VALUATION
LAST TEN YEARS ¹**

Tax Year	Real Estate	All Other	Total
2015	\$ 16,602,382,002	\$ 777,744,371	\$ 17,380,126,373
2014	16,366,307,281	744,661,478	17,110,968,759
2013	15,969,385,392	706,811,504	16,676,196,896
2012	15,221,954,470	678,874,343	15,900,828,813
2011	15,125,408,200	755,852,220	15,881,260,420
2010	14,984,937,627	761,515,955	15,746,453,582
2009	15,222,189,222	713,383,515	15,935,572,737
2008	14,969,536,405	684,390,085	15,653,926,490
2007	14,638,856,501	703,307,287	15,342,163,788
2006	12,897,825,080	685,425,215	13,583,250,295

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

**TOTAL PROPERTY TAX LEVIES
ALL OVERLAPPING GOVERNMENTS
LAST TEN YEARS ¹**

	Tax Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
City of Lincoln	0.3158	0.3158	0.3158	0.2879	0.2879	0.2879	0.2879	0.2833	0.3009	0.2950
School District No. 1	1.2441	1.2447	1.2461	1.2462	1.2537	1.2668	1.2719	1.2764	1.3142	1.3141
Lancaster County	0.2813	0.2843	0.2683	0.2683	0.2683	0.2683	0.2755	0.2655	0.2841	0.2797
Educational Service Unit #18	0.0150	0.0150	0.0150	0.0145	0.0150	0.0150	0.0141	0.0141	0.0150	0.0150
Community Technical College	0.0667	0.0627	0.0627	0.0600	0.0676	0.0722	0.0689	0.0689	0.0696	0.0655
Lower Platte South Natural Res. Dist.	0.0361	0.0378	0.0398	0.0406	0.0410	0.0410	0.0418	0.0416	0.0422	0.0323
Railroad Transportation Safety Dist.	0.0130	0.0100	0.0260	0.0260	0.0260	0.0260	0.0260	0.0246	0.0260	0.0260
Lancaster County Correctional JPA City	0.0172	0.0177	0.0185	0.0189	0.0194	0.0195	-	-	-	-
Lancaster County Correctional JPA County	0.0096	0.0099	0.0105	0.0106	0.0107	0.0106	-	-	-	-
Agricultural Society of Lancaster County	0.0015	0.0015	0.0016	0.0017	0.0016	0.0015	0.0016	0.0016	0.0018	0.0020
Lancaster County Fairgrounds	0.0034	0.0037	0.0037	0.0038	0.0038	0.0038	0.0043	0.0037	0.0042	0.0042
Public Building Commission	0.0170	0.0167	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170
	<u>2.0207</u>	<u>2.0198</u>	<u>2.0250</u>	<u>1.9955</u>	<u>2.0120</u>	<u>2.0296</u>	<u>2.0090</u>	<u>1.9967</u>	<u>2.0750</u>	<u>2.0508</u>

¹The assessment rate is 100% of market and the levy is expressed as the tax per \$100 of estimated market value.

DEBT MANAGEMENT

OUTSTANDING INDEBTEDNESS AS OF AUGUST 31, 2014

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

Original Amount	Issued	Issue	Interest Rate	When Due	Date Callable	Interest Date	Outstanding	
General Obligation Bonds:								
General Bonds:								
9,950	06/15/05	Storm Sewer Construction	3.250 - 4.250	Serial 2006 to 2025	2015	Semiannually	6,340	
8,295	06/27/07	Stormwater Drainage and Flood Mgmt	4.625 - 5.000	Serial 2008 to 2027	2017	"	6,230	
8,200	02/10/11	Stormwater Bonds	2.000 - 4.500	Serial 2013 to 2030	2020	"	7,470	
19,290	06/21/11	Refunding	0.2000 - 5.000	Serial 2011 to 2022	2019	"	14,525	
8,090	06/26/12	Refunding	1.000 - 3.000	Serial 2013 to 2023	na	"	6,310	
6,385	03/20/13	Stormwater Bonds	2.000 - 4.000	Serial 2014 to 2029	2023	"	6,385	
1,515	03/20/13	Stormwater Bonds	3.125	Term 2032	2023	"	1,515	
Total General Bonds							\$ 48,775	
Tax Allocation Bonds:								
5,500	04/21/04	Tax Allocation Bonds	3.000 - 4.800	Serial 2004 to 2015	2010	"	1,415	
365	08/15/05	Tax Allocation Bonds	4.750	Serial 2006 to 2018	Anytime	"	125	
288	10/01/06	Tax Allocation Bonds	5.100	Serial 2008 to 2016	Anytime	"	89	
2,205	04/05/07	Tax Allocation Bonds	5.000 - 5.550	Serial 2009 to 2018	2012	"	1,245	
601	06/01/07	Tax Allocation Bonds	5.240	Serial 2008 to 2018	Anytime	"	518	
388	06/01/07	Tax Allocation Bonds	5.240	Serial 2007 to 2020	Anytime	"	220	
369	06/15/07	Tax Allocation Bonds	5.400	Serial 2007 to 2014	Anytime	"	29	
42	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2021	Anytime	"	27	
71	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2017	Anytime	"	48	
474	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2022	Anytime	"	168	
547	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	362	
200	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	130	
611	06/30/09	Tax Allocation Bonds	7.00	Serial 2011 to 2023	Anytime	"	544	
3,375	07/28/09	Tax Allocation Bonds	2.500 - 6.400	Serial 2011 to 2023	Anytime	"	2,760	
263	04/01/11	Tax Allocation Bonds	3.990	Serial 2011 to 2022	Anytime	"	204	
103	04/15/13	Tax Allocation Bonds	2.370	Serial 2013 to 2025	Anytime	"	92	
Total Tax Allocation Bonds							\$ 7,976	
Tax Supported Bonds:								
27,000	12/05/06	Highway Allocation Fund	4.000 - 5.000	Serial 2008 to 2027	2016	Semiannually	19,865	
28,095	06/06/12	Highway Allocation Fund	1.000 - 5.000	Serial 2012 to 2023	na	"	25,110	
16,515	07/23/13	Limited Tax Arena Bonds	2.000 - 4.500	Serial 2016 to 2031	2023	"	16,515	
2,635	07/23/13	Limited Tax Arena Bonds	2.000 - 4.500	Term 2035	2023	"	2,635	
5,850	07/23/13	Limited Tax Arena Bonds	2.000 - 4.500	Term 2037	2023	"	5,850	
Total Tax Supported Bonds							\$ 69,975	
Special Assessment Bonds:								
825	8/18/11	Special Assessment	0.400 - 3.700	Serial 2012 to 2026		Semiannually	675	
375	8/18/11	Special Assessment	4.200	Term 2031		"	375	
3,000	11/23/11	Special Assessment	2.000 - 3.500	Serial 2012 to 2031		"	2,615	
Total Special Assessment Bonds							\$ 3,665	
West Haymarket Joint Public Agency								
31,515	9/8/10	Facility Bonds Taxable Build America Bonds	3.500 - 4.45	Serial 2020 to 2030	Anytime	Semiannually	31,515	
68,485	9/8/10	Facility Bonds Taxable Build America Bonds	4.750 / 5.000	Term 2035 & 2045	Anytime	"	68,485	
15,785	12/01/10	Facility Bonds Taxable Build America Bonds	4.000 - 5.000	Serial 2020 - 2025	Anytime	"	15,785	
52,180	12/01/10	Facility Bonds Taxable Build America Bonds	5.400 / 5.800 / 6.000	Term 2030 2035 2039	Anytime	"	52,180	
32,035	12/01/10	Recovery Zone Economic Development	6.750	Term 2045	Anytime	"	32,035	
44,290	8/24/11	Facility Bonds	3.500 - 5.000	Serial 2021 to 2032	2021	"	44,290	
55,710	8/24/11	Facility Bonds	4.250 - 5.000	Term 2036 & 2042	2021	"	55,710	
20,850	12/04/13	Facility Bonds	2.000 - 5.000	Serial 2014 to 2038	2023	"	20,850	
7,325	12/04/13	Facility Bonds	4.500	Term 2043	2021	"	7,325	
Total West Haymarket Joint Public Agency							\$ 328,175	
TOTAL GENERAL OBLIGATION BONDS								\$ 458,566
Tax Supported Bonds:								
11,080	3/13/02	Antelope Valley Project	1.500 - 5.000	Serial 2002 to 2016	2012	Semiannually	\$ 3,690	
Revenue Bonds:								
18,000	08/03/05	Wastewater Revenue	4.000 - 5.000	Serial 2006 to 2030	2015	Semiannually	\$ 13,320	
16,710	04/18/07	Wastewater Revenue	4.000 - 4.500	Serial 2008 to 2029	2017	"	12,980	
3,750	04/18/07	Wastewater Revenue	4.375	Term 2032	2017	"	3,750	
38,290	05/24/12	Wastewater Revenue	1.000 - 5.000	Serial 2013 to 2028	2023	"	34,275	
Total Wastewater Bonds							\$ 64,325	
10,515	08/04/09	Water Revenue	2.000 - 4.125	Serial 2013 to 2029	2019	Semiannually	9,575	
4,905	08/04/09	Water Revenue	4.5000	Term 2034	2019	"	4,905	
10,895	06/21/12	Water Revenue Refunding	1.000 - 4.000	Serial 2013 to 2022	N/A	"	8,860	
28,595	05/30/13	Water Revenue Refunding	1.000 - 5.000	Serial 2013 to 2025	2023	"	26,035	
Total Water Bonds							\$ 49,375	
7,745	01/27/11	Parking Revenue and Refunding	2.000 - 5.000	Serial 2015 to 2024	2021	"	7,745	
10,775	01/27/11	Parking Revenue and Refunding	5.000 / 5.125 / 5.500	Term 2026 & 2031	2021	"	10,775	
9,315	11/29/12	Parking Revenue and Refunding	400 - 4.000	Serial 2013 to 2027	2022	"	7,920	
2,765	11/29/12	Parking Revenue and Refunding	3.00	Term 2032	2022	"	2,765	
Total Parking Bonds							\$ 29,205	
8,340	02/26/13	Solid Waste Management Revenue and Refunding	.250 - 4.000	Serial 2013 to 2029	2023	Semiannually	\$ 7,315	
93,045	10/01/03	Electric Revenue and Refunding Bonds	3.000 - 5.000	Serial 2004 to 2026	2014	"	6,760	
183,230	05/15/07	Electric Revenue and Refunding Bonds	4.000 - 5.000	Serial 2009 to 2035	2016	"	163,835	
81,850	05/15/07	Electric Revenue and Refunding Bonds	4.500 / 4.750	Term 2034 & 2037	2016	"	81,850	
247,150	08/15/12	Electric Revenue and Refunding Bonds	1.000 - 5.000	Serial 2013 to 2032	2022	"	235,305	
30,165	08/15/12	Electric Revenue and Refunding Bonds	3.625 - 5.000	Term 2037	2022	"	30,165	
75,525	06/20/13	Electric Revenue and Refunding Bonds	2.700 - 5.000	Serial 2021 to 2025	2023	"	75,525	
Total Electric Bonds							\$ 593,440	
TOTAL REVENUE BONDS								\$ 743,660

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

Fiscal Year Ended August 31	Governmental Activities					
	General Obligation Bonds		Tax Supported Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 10,139	21,035	815	162	5,346	1,238
2016	11,405	20,683	855	122	6,200	1,136
2017	10,538	20,322	2,020	51	4,590	978
2018	10,766	19,962	-	-	3,940	852
2019	10,585	19,577	-	-	3,667	745
2020-2024	79,297	89,858	-	-	15,030	2,261
2025-2029	70,951	72,878	-	-	4,743	357
2030-2034	70,825	57,339	-	-	215	10
2035-2039	78,305	39,436	-	-	-	-
2040-2044	82,775	17,781	-	-	-	-
2045-2046	22,980	1,363	-	-	-	-
	<u>458,566</u>	<u>380,234</u>	<u>3,690</u>	<u>335</u>	<u>43,731</u>	<u>7,577</u>

Fiscal Year Ended August 31	Business-Type Activities					
	Revenue Bonds		Loans Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 29,895	31,967	1,828	1,051	399	36
2016	31,075	30,735	1,646	1,011	346	29
2017	33,060	29,490	1,687	969	352	23
2018	34,445	28,052	1,730	925	202	17
2019	35,900	26,526	1,774	881	155	13
2020-2024	201,150	107,131	9,382	3,689	485	19
2025-2029	165,810	64,967	9,907	2,361	-	-
2030-2034	120,915	34,207	9,727	847	-	-
2035-2038	91,410	12,431	-	-	-	-
	<u>\$ 743,660</u>	<u>365,506</u>	<u>37,681</u>	<u>11,734</u>	<u>1,939</u>	<u>137</u>

Fiscal Year Ended August 31	Major Enterprise Funds					
	Wastewater System		Water System		Electric System	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 4,343	3,145	4,310	2,154	21,060	26,371
2016	4,372	2,962	4,254	2,078	22,050	25,382
2017	4,537	2,778	4,320	2,000	23,800	24,398
2018	4,627	2,666	4,433	1,858	24,990	23,208
2019	4,723	2,543	4,556	1,712	26,240	21,958
2020-2024	25,963	10,238	22,329	5,932	151,345	89,640
2025-2029	27,478	4,896	9,824	2,728	126,600	56,906
2030-2034	10,388	833	9,124	1,082	105,945	32,762
2035-2038	-	-	-	-	91,410	12,431
	<u>\$ 86,431</u>	<u>30,061</u>	<u>63,150</u>	<u>19,544</u>	<u>593,440</u>	<u>313,056</u>

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

Net position of \$3,941,983, \$2,989,196, \$4,804,519, and \$1,367,802 are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, Tax Allocation Bonds, and Special Assessment Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

The City has entered into lease agreements for financing the acquisition of land, buildings, street lights, emergency ambulances and defibrillators, fire engines, golf equipment and computer equipment and software. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future

minimum lease payments as of the inception date. Assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Land	\$ 1,774,450	\$ 210,000
Buildings	25,492,801	1,646,732
Improvements	219,925	-
Infrastructure	19,583,531	-
Machinery and Equipment	6,392,824	3,423,476
Construction In Progress	52,500	-
Less Accumulated Depreciation, (where applicable)	(10,664,292)	(2,568,981)
Total	<u>\$ 42,851,739</u>	<u>\$ 2,711,227</u>

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

The general obligation debt of all local governmental units which provide services within the City’s boundaries and which debt must be borne by properties in the City (commonly called overlapping debt) as of August 31, 2014, is summarized below (unaudited):

<u>Governmental Units</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Direct And Overlapping Debt To The City</u>
Direct:			
City	\$ 517,769,000	100.0 %	\$ 517,769,000
Overlapping:			
School District #1	442,052,535	99.5	439,842,000
Lower Platte South N.R.D.	-	75.4	-
Lancaster County	370,000	85.4	316,000
Public Building Commission	33,880,000	85.4	28,934,000
Lancaster County Correctional Facility	52,050,000	85.4	44,451,000
Lancaster County Fairgrounds	9,900,000	85.4	8,455,000
	<u>538,252,535</u>		<u>521,998,000</u>
Total	<u>\$ 1,056,021,535</u>		<u>\$ 1,039,767,000</u>

The City has no direct liability for the School District, Lower Platte South N.R.D., Lancaster County, Public Building Commission, Lancaster County Fairgrounds or Lancaster County Correctional Facility debt summarized above. This results in a per capita direct City debt of \$1,926.67; a per capita direct and overlapping debt of \$3,869.07; a ratio of direct City debt to 2014 actual valuation of 3.03 percent; and a ratio of direct and overlapping debt to 2014 actual valuation of 6.08 percent.

In addition to the governmental units listed above, the Airport Authority of the City of Lincoln, Nebraska (the “Airport Authority”), a body politic and corporate separate and distinct from the City of Lincoln, provides services within the City’s boundaries and has overlapping general obligation indebtedness. As of June 30, 2014, the Airport Authority had outstanding \$32,640,000 in aggregate principal amount of its general obligation airport bonds. The Airport Authority anticipates that such bonds will be paid from revenues derived from its operations of the Lincoln Municipal Airport, but the Airport Authority is authorized to levy a property tax, at a rate not to exceed three and five-tenths cents (\$.035) on each \$100 of taxable valuation, on all the taxable property in the City. The Airport Authority has not levied a property tax since 1985 for any purpose, including airport operating expenses or debt service on its bonds.

Debt Payment Record

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

Contingencies

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

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

Fiscal Year	Principal	Interest ²	Total Debt Service	Total General Governmental Expenditures ¹	Ratio Of Debt Service To Total General Expenditures
2014	\$ 9,662,748	\$ 5,240,713	\$ 14,903,461	\$ 256,863,631	5.80 %
2013	8,427,726	4,266,429	12,694,155	233,802,749	5.43
2012	7,485,645	5,123,060	12,608,705	229,205,337	5.50
2011	6,857,978	5,147,840	12,005,818	225,622,756	5.32
2010	7,457,532	5,676,933	13,134,465	207,939,796	6.32
2009	8,036,544	5,814,071	13,850,615	195,544,608	7.08
2008	6,824,828	5,979,172	12,804,000	195,469,478	6.55
2007	5,617,536	4,986,687	10,604,223	192,566,160	5.51
2006	5,770,794	4,670,734	10,441,528	190,705,202	5.48
2005	5,421,699	4,860,926	10,282,625	182,804,746	5.62

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

² Does not include fiscal and miscellaneous charges.

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

Fiscal Year	General Obligation Bonded Debt	Sinking Funds	Net General Obligation Bonded Debt	Population 1	Net G.O. Bonded Debt Per Capita	Assessed Valuation Real And Personal	Ratio of Net Debt To Assessed Valuation Real & Personal ²	Assessed Valuation Of Taxable Real Property 2	Ratio of Net Debt To Estimated Valuation Of Taxable Real Property
2014	\$ 130,391,000	\$ 9,427,000	\$ 120,964,000	268,738	\$ 450.12	\$ 17,110,968,759	0.71%	\$ 16,366,307,281	0.74%
2013	139,274,000	15,640,000	123,634,000	265,404	465.83	16,676,196,896	0.74%	15,969,385,392	0.77%
2012	113,958,000	15,142,000	98,816,000	262,341	376.67	15,900,828,813	0.62%	15,221,954,470	0.65%
2011	119,663,000	13,305,000	106,358,000	258,379	411.64	15,881,260,420	0.67%	15,125,408,200	0.70%
2010	118,383,000	13,480,000	104,903,000	254,001	413.00	15,746,453,582	0.67%	14,984,937,627	0.70%
2009	125,181,000	13,604,000	111,577,000	251,624	443.43	15,935,572,737	0.70%	15,222,189,222	0.73%
2008	128,581,000	12,962,000	115,619,000	248,744	464.81	15,653,926,490	0.74%	14,969,536,405	0.77%
2007	133,413,000	11,574,000	121,839,000	241,167	505.21	15,342,163,788	0.79%	14,638,856,501	0.83%
2006	99,347,000	9,733,000	89,614,000	239,213	374.62	13,583,250,295	0.66%	12,897,825,080	0.69%
2005	104,538,000	13,364,000	91,174,000	238,625	382.08	13,138,516,226	0.69%	12,421,799,720	0.73%

¹ Source: Lincoln/Lancaster Planning Department.

² Assessed valuation is 100% of actual

**REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

		Gross Revenue	Direct Operating Expenses	Net Available Revenue	Debt Service Requirements			Coverage
					Principal	Interest	Total	
Wastewater System								
2014	\$	27,049,162	13,337,986	13,711,176	4,053,916	3,077,999	7,131,915	1.92
2013		24,988,275	12,522,159	12,466,116	3,487,906	3,089,698	6,577,604	1.90
2012		24,763,975	12,378,673	12,385,302	3,137,858	3,655,156	6,793,014	1.82
2011		23,546,370	12,543,964	11,002,406	2,865,000	3,647,609	6,512,609	1.69
2010		22,472,095	11,664,593	10,807,502	2,695,000	3,731,444	6,426,444	1.68
2009		22,643,270	11,771,291	10,871,979	2,620,000	3,820,044	6,440,044	1.69
2008		22,347,867	11,393,624	10,954,243	2,415,000	4,030,454	6,445,454	1.70
2007		21,158,743	11,462,964	9,695,779	2,005,000	3,081,481	5,086,481	1.91
2006		19,827,194	11,125,819	8,701,375	2,065,000	3,043,500	5,108,500	1.70
2005		18,248,683	10,482,955	7,765,728	1,500,000	2,403,519	3,903,519	1.99
Water System								
2014	\$	34,933,647	16,308,059	18,625,588	3,923,000	2,044,417	5,967,417	3.12
2013		34,241,815	16,113,390	18,128,425	1,850,000	2,345,562	4,195,562	4.32
2012		35,984,891	15,636,494	20,348,397	5,380,000	2,955,202	8,335,202	2.44
2011		30,629,506	15,455,027	15,174,479	6,310,000	3,191,857	9,501,857	1.60
2010		26,515,467	14,091,292	12,424,175	6,050,000	3,458,097	9,508,097	1.31
2009		27,838,187	14,995,077	12,843,110	5,795,000	3,128,414	8,923,414	1.44
2008		27,257,184	14,425,521	12,831,663	5,555,000	3,376,201	8,931,201	1.44
2007		29,386,495	14,351,136	15,035,359	5,340,000	3,612,001	8,952,001	1.68
2006		29,014,999	13,808,214	15,206,785	5,130,000	3,834,301	8,964,301	1.70
2005		27,153,937	13,145,665	14,008,272	4,895,000	3,517,932	8,412,932	1.67
Parking Facilities ¹								
2014	\$	9,816,550	4,211,473	5,605,077	1,310,000	1,172,465	2,482,465	2.26
2013		8,444,055	3,919,678	4,524,377	1,270,000	1,091,614	2,361,614	1.92
2012		7,382,101	3,823,131	3,558,970	860,000	1,078,688	1,938,688	1.84
2011		7,698,018	3,606,008	4,092,010	580,000	689,717	1,269,717	3.22
2010		6,869,392	3,340,601	3,528,791	1,435,000	558,519	1,993,519	1.77
2009		7,014,250	2,874,768	4,139,482	1,360,000	624,394	1,984,394	2.09
2008		7,134,709	2,912,511	4,222,198	1,305,000	687,194	1,992,194	2.12
2007		6,645,013	2,781,952	3,863,061	1,240,000	746,374	1,986,374	1.94
2006		6,785,593	2,775,122	4,010,471	1,185,000	799,931	1,984,931	2.02
2005		6,219,935	2,972,709	3,247,226	1,140,000	850,501	1,990,501	1.63
Solid Waste Management								
2014	\$	9,132,756	7,319,215	1,813,541	550,000	198,128	748,128	2.42
2013		7,933,037	7,087,935	845,102	475,000	133,463	608,463	1.39
2012		7,745,565	6,376,120	1,369,445	220,000	124,025	344,025	3.98
2011		7,615,130	6,253,133	1,361,997	210,000	132,425	342,425	3.98
2010		7,377,385	5,768,077	1,609,308	200,000	140,425	340,425	4.73
2009		7,664,336	5,491,789	2,172,547	195,000	148,225	343,225	6.33

¹ Information in this table does not agree with information in the transmittal letter of the City's Comprehensive Annual Financial Report because that information is calculated in accordance with specific requirements of the bond covenants.

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

	<u>F.Y. 2014</u>	<u>F.Y. 2013</u>	<u>F.Y. 2012</u>	<u>F.Y. 2011</u>	<u>F.Y. 2010</u>	<u>F.Y. 2009</u>	<u>F.Y. 2008</u>	<u>F.Y. 2007</u>	<u>F.Y. 2006</u>	<u>F.Y. 2005</u>
Cash & Investment Balance - September 1 of Year Indicated	25,932,021	22,789,222	16,942,409	14,597,487	16,286,626	15,738,481	14,632,274	13,475,643	18,948,253	23,521,130
Receipts:										
Property Tax	37,428,736	34,599,257	33,574,992	31,449,267	31,486,553	33,783,984	32,181,660	31,454,763	28,366,526	26,727,618
City Sales & Use Tax	66,393,392	63,134,808	61,472,342	57,959,545	54,925,013	54,255,376	55,733,297	53,960,485	54,270,346	53,781,209
Other Income	<u>36,929,588</u>	<u>36,298,994</u>	<u>36,542,477</u>	<u>33,232,580</u>	<u>27,906,103</u>	<u>27,389,492</u>	<u>26,270,119</u>	<u>27,663,641</u>	<u>25,390,112</u>	<u>25,620,145</u>
Total Receipts	140,751,716	134,033,059	131,589,811	122,641,392	114,317,669	115,428,852	114,185,076	113,078,889	108,026,984	106,128,972
Less Disbursements	<u>134,211,871</u>	<u>130,890,260</u>	<u>125,742,998</u>	<u>120,296,470</u>	<u>116,006,808</u>	<u>114,880,707</u>	<u>113,078,869</u>	<u>111,922,258</u>	<u>113,499,594</u>	<u>110,701,849</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>32,471,866</u>	<u>25,932,021</u>	<u>22,789,222</u>	<u>16,942,409</u>	<u>14,597,487</u>	<u>16,286,626</u>	<u>15,738,481</u>	<u>14,632,274</u>	<u>13,475,643</u>	<u>18,948,253</u>

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

	<u>F.Y. 2014</u>	<u>F.Y. 2013</u>	<u>F.Y. 2012</u>	<u>F.Y. 2011</u>	<u>F.Y. 2010</u>	<u>F.Y. 2009</u>	<u>F.Y. 2008</u>	<u>F.Y. 2007</u>	<u>F.Y. 2006</u>	<u>F.Y. 2005</u>
Cash Balance - September 1 of Year Indicated	3,883,237	3,929,968	2,234,981	2,941,245	3,533,968	4,201,889	4,057,088	2,761,491	3,364,608	3,570,557
Receipts:										
Property Tax	5,558,081	5,594,005	5,773,392	5,337,610	5,517,878	5,689,007	5,709,454	5,460,690	2,973,410	5,607,615
Interest Income	10,126	8,507	13,723	28,331	60,063	131,475	153,977	84,935	86,812	83,286
Bond Proceeds			8,369,497	20,236,484						6,597,635
Other Income	<u>98,027</u>	<u>104,162</u>	<u>110,962</u>	<u>116,758</u>	<u>124,279</u>	<u>173,446</u>	<u>1,003,173</u>	<u>1,927,112</u>	<u>2,935,603</u>	<u>149,038</u>
Total Receipts	<u>5,666,234</u>	<u>5,706,674</u>	<u>14,267,574</u>	<u>25,719,183</u>	<u>5,702,220</u>	<u>5,993,928</u>	<u>6,866,604</u>	<u>7,472,737</u>	<u>5,995,825</u>	<u>12,437,574</u>
Disbursements:										
Bonds Paid	4,240,000	4,225,000	2,390,000	2,720,000	4,110,000	4,320,000	4,260,000	3,950,000	4,250,000	3,850,000
Bonds Defeased										
Interest Paid	1,745,495	1,521,904	1,822,197	1,753,957	2,178,545	2,335,411	2,456,373	2,217,610	2,342,582	2,197,207
Transfer to Trustee			8,242,367	21,746,822						6,504,876
Other Disbursements	<u>2,274</u>	<u>6,501</u>	<u>118,023</u>	<u>204,668</u>	<u>6,398</u>	<u>6,438</u>	<u>5,430</u>	<u>9,530</u>	<u>6,360</u>	<u>91,440</u>
Total Disbursements	<u>5,987,769</u>	<u>5,753,405</u>	<u>12,572,587</u>	<u>26,425,447</u>	<u>6,294,943</u>	<u>6,661,849</u>	<u>6,721,803</u>	<u>6,177,140</u>	<u>6,598,942</u>	<u>12,643,523</u>
Equity Transfer										
Cash Balance - August 31 of Year Indicated	<u><u>3,561,702</u></u>	<u><u>3,883,237</u></u>	<u><u>3,929,968</u></u>	<u><u>2,234,981</u></u>	<u><u>2,941,245</u></u>	<u><u>3,533,968</u></u>	<u><u>4,201,889</u></u>	<u><u>4,057,088</u></u>	<u><u>2,761,491</u></u>	<u><u>3,364,608</u></u>

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

	<u>F.Y. 2014</u>	<u>F.Y. 2013</u>	<u>F.Y. 2012</u>	<u>F.Y. 2011</u>	<u>F.Y. 2010</u>	<u>F.Y. 2009</u>	<u>F.Y. 2008</u>	<u>F.Y. 2007</u>	<u>F.Y. 2006</u>	<u>F.Y. 2005</u>
Cash & Investment Balance - September 1 of Year Indicated	2,509,487	2,348,773	759,180	4,302,257	4,161,711	11,148,146	9,991,053	8,846,000	7,583,251	7,830,502
Receipts:										
Special Assessment Collections	1,521,959	941,365	1,049,570	996,209	984,301	954,672	1,235,621	1,257,112	1,476,284	1,208,686
Interest on Special Assessments	53,761	78,642	98,844	106,379	148,383	112,749	179,258	188,349	189,927	204,108
City's Share of Costs	783,436	1,205,443	621,898	233,615	292,420	34,802		187,957	723,038	578,992
Developers' Share of Costs										
Bond Proceeds			3,036,003	1,200,000						
Interest on Investments	40,673	41,212	47,349	60,248	135,149	335,273	453,282	340,274	254,809	217,996
Miscellaneous	733			38,456			33,964	49,403	74,657	30,687
Total Receipts	<u>2,400,562</u>	<u>2,266,662</u>	<u>4,853,664</u>	<u>2,634,907</u>	<u>1,560,253</u>	<u>1,437,496</u>	<u>1,902,125</u>	<u>2,023,095</u>	<u>2,718,715</u>	<u>2,240,469</u>
Disbursements:										
Construction Costs	1,213,770	901,811	2,359,096	2,081,765	1,113,691	861,203	742,698	766,768	1,066,513	1,796,239
Bonds Paid	175,000	170,000	190,000					55,000		100,000
Equity Transfer						7,554,009				
Interest Paid on Bonds & Notes	112,023	114,722	94,911	3,758,342				37,581		3,425
Other Refunds & Expenses	789,536	919,415	620,064	337,877	306,016	8,719	2,334	18,693	389,453	588,056
Total Disbursements	<u>2,290,329</u>	<u>2,105,948</u>	<u>3,264,071</u>	<u>6,177,984</u>	<u>1,419,707</u>	<u>8,423,931</u>	<u>745,032</u>	<u>878,042</u>	<u>1,455,966</u>	<u>2,487,720</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>2,619,720</u>	<u>2,509,487</u>	<u>2,348,773</u>	<u>759,180</u>	<u>4,302,257</u>	<u>4,161,711</u>	<u>11,148,146</u>	<u>9,991,053</u>	<u>8,846,000</u>	<u>7,583,251</u>

APPENDIX B

FINANCIAL STATEMENTS

(THIS PAGE INTENTIONALLY LEFT BLANK)

*Rebar structure to form
the lift station wet well.*



LINCOLN WASTEWATER SYSTEM

**Financial
Statements
& Schedules
Fiscal Year Ended
August 31, 2014**

ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS & UTILITIES

CITY OFFICIALS

Chris Beutler Mayor

COUNCIL MEMBERS

Doug Emery Chair

Trent Fellers Vice-Chair

Jon Camp

Roy Christensen

Jonathan Cook

Carl Eskridge

Leirion Gaylor Baird

WASTEWATER SYSTEM

Miki Esposito Director of Public Works & Utilities

Donna Garden Assistant Director of Public Works & Utilities

Lincoln Wastewater System

August 31, 2014 and 2013

Contents

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements	
Balance Sheets	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12
Supplementary Information	
Summary of Long-Term Debt	28
Debt Coverage Ratio	29
Operating Expenses	30
Utility Plant in Service	33
General Statistics (unaudited)	34
Top Ten Customers (unaudited)	35
Summary of Insurance Coverage (unaudited)	36
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of Lincoln Wastewater System, which are comprised of balance sheets as of August 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Wastewater System as of August 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of Lincoln Wastewater System are intended to present the financial position, the changes in financial position and cash flows of only that portion of the City of Lincoln, Nebraska, that is attributable to the transactions of Lincoln Wastewater System. They do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information, except for that portion marked "Unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, except for that portion marked "Unaudited", on which we express no opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014, on our consideration of Lincoln Wastewater System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln Wastewater System's internal control over financial reporting and compliance.

BKD, LLP

Lincoln, Nebraska
December 8, 2014

LINCOLN WASTEWATER SYSTEM

Management's Discussion and Analysis

This Management's Discussion and Analysis of the Lincoln Wastewater System's (the "System") financial performance provides an overview of the financial activities for the years ended August 31, 2014 and 2013. Please read this information in conjunction with the accompanying basic financial statements and notes to the financial statements.

Using This Annual Report

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

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

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

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

The Statement of Cash Flows

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

The System's Net Position

The System's net position is the difference between its assets plus deferred outflows of resources and liabilities reported in the Balance Sheet. The System's net position increased by \$4,444,669 in 2014 over 2013 as shown in Table 1.

Financial Analysis

The following comparative condensed financial statements summarize Lincoln Wastewater System's financial position and operating results for the years ended August 31, 2014, 2013, and 2012.

Table 1

Condensed Balance Sheets

	August 31		Change	
	2014	2013	Dollars	Percent
Current assets	\$ 19,976,997	\$ 17,202,885	\$2,774,112	16.13%
Capital assets	262,080,723	258,139,066	3,941,657	1.53%
Noncurrent assets	16,276,222	15,824,887	451,335	2.85%
Deferred outflows of resources	860,147	922,514	(62,367)	(6.76%)
Total assets and deferred outflows of resources	299,194,089	292,089,352	7,104,737	2.43%
Current liabilities	9,714,904	6,958,058	2,756,846	39.62%
Long-term liabilities	86,217,219	86,313,997	(96,778)	(0.11%)
Total liabilities	95,932,123	93,272,055	2,660,068	2.85%
Net position				
Net investment in capital assets	175,574,409	174,029,586	1,544,823	0.89%
Restricted for debt service	893,268	753,613	139,655	18.53%
Restricted for capital acquisition	620,596	274,406	346,190	126.16%
Unrestricted	26,173,693	23,759,692	2,414,001	10.16%
Total net position	203,261,966	198,817,297	4,444,669	2.24%
Total liabilities and net position	\$299,194,089	\$292,089,352	\$7,104,737	2.43%

Financial Highlights – Fiscal Year 2014

- Current assets increased primarily due to increases in cash and investment balances and an accounts receivable from the Nebraska Department of Environmental Quality (NDEQ).
- Capital assets increased as several projects were completed during the year.
- Current liabilities increased primarily due to timing of payments made to contractors on several construction projects.

Table 2**Condensed Balance Sheets**

	August 31		Change	
	2013	2012	Dollars	Percent
Current assets	\$ 17,202,885	\$ 15,815,478	\$1,387,407	8.77%
Capital assets	258,139,066	256,865,473	1,273,593	0.50%
Noncurrent assets	15,824,887	15,373,854	451,033	2.93%
Deferred outflows of resources	922,514	984,882	(62,368)	(6.33%)
Total assets and deferred outflows of resources	292,089,352	289,039,687	3,049,665	1.06%
Current liabilities	6,958,058	8,584,491	(1,626,433)	(18.95%)
Long-term liabilities	86,313,997	85,599,171	714,826	0.84%
Total liabilities	93,272,055	94,183,662	(911,607)	(0.97%)
Net position				
Net investment in capital assets	174,029,586	171,553,512	2,476,074	1.44%
Restricted for debt service	753,613	703,650	49,963	7.10%
Restricted for capital acquisition	274,406	364,711	(90,305)	(24.76%)
Unrestricted	23,759,692	22,234,152	1,525,540	6.86%
Total net position	198,817,297	194,856,025	3,961,272	2.03%
Total liabilities and net position	\$292,089,352	\$289,039,687	\$3,049,665	1.06%

Financial Highlights – Fiscal Year 2013

- Current assets increased primarily due to an increase in cash and investment balances.
- Deferred outflows of resources consists of the deferred loss on refunded debt. In 2012, the Lincoln Wastewater System refunded \$40,345,000 of Wastewater Revenue Bonds, Series 2003 resulting in a deferred loss.
- Current liabilities decreased due to the completion of several construction projects during the year.

Table 3**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	August 31		Change	
	2014	2013	Dollars	Percent
Operating revenues	\$25,860,215	\$24,577,769	\$1,282,446	5.22%
Operating expenses				
Plant, pumping and treatment	11,241,542	10,588,163	653,379	6.17%
Operation and maintenance of wastewater lines	6,028,135	5,895,677	132,458	2.25%
Sanitary engineering services	2,154,526	2,112,338	42,188	2.00%
Accounting and collecting	774,832	758,989	15,843	2.09%
Administrative and general	924,060	945,682	(21,622)	(2.29%)
Total operating expenses	21,123,095	20,300,849	822,246	4.05%
Operating income	4,737,120	4,276,920	460,200	10.76%
Net nonoperating expenses	(2,161,699)	(3,104,999)	943,300	(30.38%)
Capital contributions	1,869,248	2,801,073	(931,825)	(33.27%)
Transfers out	—	(11,722)	11,722	100.00%
Change in net position	\$ 4,444,669	\$ 3,961,272	\$483,397	12.20%

Financial Highlights – Fiscal Year 2014

- Wastewater revenue increased primarily due to a 5% revenue increase implemented November 2013 and applied solely to the service charge.
- Total operating expenses increased primarily due to increases in personnel costs and increases in other operating costs – primarily gas, electric, and water costs.

Table 4**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	August 31		Change	
	2013	2012	Dollars	Percent
Operating revenues	\$24,577,769	\$24,097,998	\$479,771	1.99%
Operating expenses				
Plant, pumping and treatment	10,588,163	10,534,367	53,796	0.51%
Operation and maintenance of wastewater lines	5,895,677	5,417,882	477,795	8.82%
Sanitary engineering services	2,112,338	2,162,132	(49,794)	(2.30%)
Accounting and collecting	758,989	569,185	189,804	33.35%
Administrative and general	945,682	1,009,557	(63,875)	(6.33%)
Total operating expenses	20,300,849	19,693,123	607,726	3.09%
Operating income	4,276,920	4,404,875	(127,955)	(2.90%)
Net nonoperating expenses	(3,104,999)	(2,983,959)	(121,040)	(4.06%)
Capital contributions	2,801,073	2,143,397	657,676	30.68%
Transfers in (out)	(11,722)	3,660	(15,382)	100.00%
Change in net position	\$ 3,961,272	\$ 3,567,973	\$393,299	11.02%

Financial Highlights – Fiscal Year 2013

- Total operating expenses increased primarily due to increases in personnel costs and depreciation expense.
- Capital contributions increased in 2013 because of increased development activity during the year.

Debt Activity

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

System Credit and Bond Ratings

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

Commitments and Contingencies

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$9,900,000 at August 31, 2014.

Forward-Looking Information

The approved Capital Improvement Program for Fiscal Year 2014/15 - 2019/20 identifies the need for \$67,695,000 to fund capital improvements for the Wastewater System. Approximately \$38,050,000 of that total is projected to be funded by revenue bonds. Future user fee increases will be necessary to make the needed improvements possible.

In August 2014, the Lincoln City Council approved the budget allowing for revenue increases for the next two years, which will be attained through increases in the various service charges. (See Note 1)

Contact Information

This financial report is intended to provide users a general overview of the System's financial performance for 2014 and 2013. If you have questions about this report or need additional financial information, please contact the Business Office of the Public Works & Utilities Department at 555 South 10th Street, Lincoln, NE 68508.

LINCOLN WASTEWATER SYSTEM

Balance Sheets

August 31, 2014 and 2013

Assets and Deferred Outflows of Resources	2014	2013
Current assets:		
Equity in pooled cash and investments	\$ 12,144,838	11,065,176
Receivables:		
Accounts receivable	2,168,903	1,983,095
Unbilled revenues	2,632,016	2,509,069
Due from other governments	2,249,364	1,136,734
Due from other funds	69,765	174,043
Impact fees	620,596	274,406
Total receivables	7,740,644	6,077,347
Inventories	91,515	60,362
Total current assets	19,976,997	17,202,885
Noncurrent assets:		
Equity in pooled cash and investments	8,080,552	8,096,955
Restricted assets:		
Equity in pooled cash and investments	1,731,814	1,401,989
Investments	5,840,298	5,660,664
Total restricted assets	7,572,112	7,062,653
Utility plant	382,102,738	370,483,507
Less accumulated depreciation	120,022,015	112,344,441
Net utility plant	262,080,723	258,139,066
Costs recoverable from future billings	623,558	665,279
Total noncurrent assets	278,356,945	273,963,953
Total assets	298,333,942	291,166,838
Deferred outflows of resources:		
Deferred loss on refunding	860,147	922,514
Total assets and deferred outflows of resources	\$ 299,194,089	292,089,352
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 548,048	295,253
Accrued liabilities	550,628	522,027
Deposits liability	16,650	11,250
Accrued compensated absences	383,552	368,437
Construction contracts	3,255,461	1,529,232
Current maturities of long-term debt	4,342,719	3,618,916
Accrued interest	617,846	612,943
Total current liabilities	9,714,904	6,958,058
Long-term liabilities:		
Accrued liabilities	229,704	221,468
Accrued compensated absences	283,481	283,985
Construction contracts	117,455	117,454
Long-term debt, excluding current maturities	85,586,579	85,691,090
Total long-term liabilities	86,217,219	86,313,997
Total liabilities	95,932,123	93,272,055
Net position:		
Net investment in capital assets	175,574,409	174,029,586
Restricted for debt service	893,268	753,613
Restricted for capital acquisition	620,596	274,406
Unrestricted	26,173,693	23,759,692
Total net position	203,261,966	198,817,297
Total liabilities and net position	\$ 299,194,089	292,089,352

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Position

Years ended August 31, 2014 and 2013

	2014	2013
Operating revenues	\$ 25,860,215	24,577,769
Operating expenses:		
Plant, pumping and treatment	11,241,542	10,588,163
Operation and maintenance of wastewater lines	6,028,135	5,895,677
Sanitary engineering services	2,154,526	2,112,338
Accounting and collecting	774,832	758,989
Administrative and general	924,060	945,682
Total operating expenses	21,123,095	20,300,849
Operating income	4,737,120	4,276,920
Nonoperating revenues (expenses):		
Investment income (loss)	600,438	(289,792)
Interest expense	(2,699,875)	(2,773,486)
Net costs recoverable	(41,721)	(41,721)
Miscellaneous expense	(20,541)	-
Net nonoperating expenses	(2,161,699)	(3,104,999)
Increase in net position before capital contributions	2,575,421	1,171,921
Capital contributions from:		
Developers	1,280,739	1,692,563
Tap fees	31,811	32,125
Impact Fees	556,698	668,174
Federal grant revenues	-	408,211
Total capital contributions	1,869,248	2,801,073
Transfers Out	-	(11,722)
Increase in net position	4,444,669	3,961,272
Total net position - beginning	198,817,297	194,856,025
Total net position - ending	\$ 203,261,966	198,817,297

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2014 and 2013

	2014	2013
Operating activities:		
Receipts from customers and users	\$ 26,347,403	25,603,869
Payments to suppliers	(5,661,540)	(5,062,539)
Payments to employees	(7,403,354)	(7,218,597)
Net cash provided by operating activities	13,282,509	13,322,733
Noncapital financing activities:		
Repayment from other funds, net	104,278	173,295
Net cash provided by noncapital financing activities	104,278	173,295
Capital and related financing activities:		
Acquisition and construction of capital assets	(7,937,802)	(8,401,811)
Principal paid on revenue bonds	(3,245,000)	(3,120,000)
Federal grant proceeds	-	526,828
Proceeds from NDEQ loan	2,675,751	3,316,985
Interest paid on long term debt	(3,077,999)	(3,089,697)
Repayments on NDEQ loan	(808,916)	(367,907)
Other	(20,541)	-
Net cash used in capital and related financing activities	(12,414,507)	(11,135,602)
Investing activities:		
Purchases of investments	(17,231,183)	(21,402,142)
Proceeds from investment maturities	15,331,339	19,993,774
Interest on investments	278,191	175,282
Net cash used in investing activities	(1,621,653)	(1,233,086)
Net increase (decrease) in cash and cash equivalents	(649,373)	1,127,340
Cash and cash equivalents at beginning of year	2,224,768	1,097,428
Cash and cash equivalents at end of year	\$ 1,575,395	\$ 2,224,768
Composition of equity in pooled cash and investments (current)		
Cash and cash equivalents	\$ 1,575,395	2,224,768
Investments	10,569,443	8,840,408
Total equity in pooled cash and investments (current)	12,144,838	11,065,176
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 4,737,120	\$ 4,276,920
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,785,109	7,778,689
Changes in operating assets and liabilities:		
Accounts receivable	481,789	1,021,350
Inventories	(31,153)	13,944
Accounts payable	252,796	83,410
Accrued liabilities and deposit liability	42,237	61,904
Accrued compensated absences	14,611	86,516
Total adjustments	8,545,389	9,045,813
Net cash provided by operating activities	\$ 13,282,509	13,322,733

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$1,280,739 and \$1,692,563 were added to utility plant in 2014 and 2013 respectively.

Accounts payable incurred for utility plant purchases were \$3,372,916 and \$1,646,687 in 2014 and 2013, respectively.

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(1) Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations

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

Measurement Focus and Basis of Accounting

The financial statements of Lincoln Wastewater System are prepared on the accrual basis of accounting using the economic resources measurement focus. Lincoln Wastewater System follows the uniform system of accounts as prescribed by the National Association of Regulatory Utility Commissioners. In reporting financial activity, Lincoln Wastewater System applies all applicable Government Accounting Standards Board (GASB) pronouncements including the regulated operations provisions of GASB Statement No. 62, which permits an entity with cost based rates to defer certain costs or income that would be otherwise recognized when incurred to the extent the rate-regulated entity is recovering or expecting to recover such amounts in rates charged to its customers.

The financial statements referred to above present only the Lincoln Wastewater System and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Operating Revenues and Expenses

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

Accounts Receivable and Unbilled Revenues

Wastewater revenues are recorded based on the related period of customer usage. Billings for wastewater revenues are rendered on a cycle basis bi-monthly. Unbilled revenues, representing estimated consumer usage for the period between the last billing date and the end of the period, are accrued in the period of consumption. Management does not believe an allowance for doubtful accounts is necessary at August 31, 2014 or 2013.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(1) Organization and Summary of Significant Accounting Policies, (continued)

Utility Plant (Capital Assets)

Cost of additions and replacements to utility plant are capitalized. Cost includes labor, materials, payments to contractors, equipment use, and indirect costs. Long-term construction contracts that are entered into with developers to expand the distribution system and structure are capitalized at cost over the term of construction, with the related liability classified between current and long-term based upon the anticipated expenditure appropriation or collection of directed impact fees. Interest expense, net of interest earned on unspent bond proceeds, is capitalized in connection with the construction of major assets. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Contributed assets are capitalized at their fair value at the date of contribution. The cost of property retired, together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is removed from service, except for land, on which gain or loss is recognized upon disposition. Expenditures for maintenance and repairs are charged to current expenses.

Depreciation expense is calculated on the straight-line method over the estimated useful lives of the assets. The following estimated useful lives are being used by the System:

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

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(1) Organization and Summary of Significant Accounting Policies, (continued)

Deposits and Investments

The City Treasurer is responsible for the safekeeping of cash and invested funds of Lincoln Wastewater System. The City is authorized to invest in certificates of deposit, time deposits, and any securities in which the State investment officer is authorized to invest pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council in effect on the date the investment is made. Cash balances in excess of current requirements are invested along with funds from other governmental bodies, and the interest earned on these investments is allocated monthly to the various governmental bodies by the City Treasurer on a pro rata basis of aggregate monthly balances.

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

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

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

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

U.S. agency obligations are carried at fair value as determined based upon quoted market prices. Investment agreements are carried at contract value.

Capital Contributions

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

Unamortized Premium on Revenue Bonds

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

Inventories

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

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(1) Organization and Summary of Significant Accounting Policies, (continued)

Revenue

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

The City Council sets the rate schedule for the Lincoln Wastewater System. The billings for residential customers are based on water usage during a winter billing cycle, whereas the billings for nonresidential customers are based on water used each cycle. The following rates were in effect as of August 31, 2014 and 2013, respectively:

	<u>August 31, 2014</u>	<u>August 31, 2013</u>
<u>Water Usage</u>	\$1.859	\$1.859
<u>Service Charge</u>		
5/8 inch	\$ 1.65	\$ 1.55
3/4 inch	3.20	2.30
1 inch	5.70	3.85
1 ½ inch	11.30	7.65
2 inch	18.10	12.25
3 inch	34.00	23.00
4 inch	56.70	38.35
6 inch	113.30	76.65
8 inch	181.30	122.65
10 inch	260.70	176.35

In August 2014, the Lincoln City Council approved rate increases for the next two years. The first rate increase of 3% is effective in November 2014 and the second increase of 3% is effective in November 2015.

Costs Recoverable from Future Billings

Certain income and expense items which would be recognized during the current period are deferred and not included in the determination of the change in net position until such costs are expected to be recovered through rates, in accordance with the regulated operations provisions of GASB Statement No. 62. Costs recoverable from future billings are comprised of charges incurred in relation to the System's bond issuances.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(1) Organization and Summary of Significant Accounting Policies, (continued)

Net Position Classification

Net position is required to be classified into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets - consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

Restricted - consists of restricted assets, reduced by liabilities related to those assets, with constraints placed on their use either by a) external groups such as creditors (such as through debt covenants), contributors, or laws or regulations of other governments or b) law through constitutional provisions or enabling legislation.

Unrestricted - consists of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the net investment in capital assets or restricted component of net position.

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

Compensated Absences

Employees earn vacation days at varying rates dependent on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation which is in no case longer than 36.25 days. Employees earn sick leave at the rate of approximately one day per month. Upon retirement, death, or reduction in force, an employee or their beneficiary is reimbursed up to 65% of accumulated sick leave, which may in some cases be placed directly in a medical spending account instead of reimbursing the employee directly. The Lincoln Wastewater System accrues for vacation, sick leave and other compensated absences with similar characteristics.

Compensated absences of the Lincoln Wastewater System at August 31, 2014 and 2013 are summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
August 31, 2014	\$652,422	383,048	368,437	667,033	383,552
August 31, 2013	\$565,906	440,900	354,384	652,422	368,437

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(1) Organization and Summary of Significant Accounting Policies, (continued)

Other Post-Employment Benefits

The Wastewater System recorded a liability for the annual required contribution (ARC) of approximately \$230,000 and \$221,000 as of August 31, 2014 and 2013, respectively, in connection with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The complete disclosures required by GASB 45 are included in the City of Lincoln Comprehensive Annual Financial Report (CAFR).

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net position.

(2) Deposits, Investments, and Investment Return

Deposits

State statutes require banks either to give bond, provide a Federal Home Loan Bank letter of credit, or to pledge government securities to the City Treasurer in the amount of the City's deposits. The System has been allocated a portion of the City's pooled cash and investments. The City's cash deposits, including certificates of deposit, are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits are covered by collateral held in a Federal Reserve Bank pledge account or by an agent for the City, or a letter of credit issued by a Federal Reserve Bank and thus no custodial risk exists. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Investments

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. Lincoln Wastewater System's investments in U.S. Government Sponsored agency obligations are held in a book entry system in an account designated as a customer account at the Federal Reserve Bank and the custodian's internal records identify the City as owner. Collateral held for the investment agreement is held by an agent who is not the counterparty to the investment transaction.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

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

At August 31, 2014 and 2013, the Lincoln Wastewater System had the following investments and maturities:

Type	Carrying Value	August 31, 2014			
		Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Government Sponsored Agency Collateralized Investment Agreement	\$4,610,317	-	1,370,812	3,239,505	-
	<u>1,229,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,229,981</u>
	<u>\$5,840,298</u>	<u>-</u>	<u>1,370,812</u>	<u>3,239,505</u>	<u>1,229,981</u>

Type	Carrying Value	August 31, 2013			
		Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Government Sponsored Agency Collateralized Investment Agreement	\$4,430,683	-	1,374,647	3,056,036	-
	<u>1,229,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,229,981</u>
	<u>\$5,660,664</u>	<u>-</u>	<u>1,374,647</u>	<u>3,056,036</u>	<u>1,229,981</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

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

Interest Rate Risk:

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

Credit Risk:

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy allows collateralized investment agreements with an initial rating at least AA- by Standard & Poor's (S & P) and Aa3 by Moody's Investors Service (Moody's) with provisions that if the provider is downgraded below AA- by S & P or Aa3 by Moody's the provider must deliver collateral of United States Government Agencies obligations at a margin of 104%, and if the provider is further downgraded below A- by S & P or A3 by Moody's, the issuer will have the right to terminate the agreement and receive all invested amounts plus accrued but unpaid interest without penalty. As of August 31, 2014 and 2013, the Lincoln Wastewater System investments in United States Government sponsored agencies not directly guaranteed by the United States government were rated AA+ by S & P and Aaa by Moody's. The provider of the collateralized investment agreement was rated AA- by S & P and Aa3 by Moody's as of August 31, 2014 and 2013. The collateralized investment agreement was adequately collateralized as of August 31, 2014 and 2013.

Concentration of Credit Risk:

The City's investment policy places various limits on the amount that may be invested in any one issuer or security type. Per the policy, allocation limits do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument. As of August 31, 2014 and 2013, the Lincoln Wastewater System investments in Federal Home Loan Bank (FHLB) securities constituted 11.7% of its total funds available for investing. The above mentioned investments were made with funds from the bond debt reserve funds established.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

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

The carrying amount of equity interests in pooled cash and investments at August 31, 2014 and 2013, are:

	<u>2014</u>	<u>2013</u>
Equity in pooled cash and investments	<u>\$21,957,204</u>	<u>20,564,120</u>

Investment Income

Investment income (loss) for the years ended August 31, 2014 and 2013, consisted of:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$282,305	179,585
Net change in fair value of investments	<u>318,133</u>	<u>(469,377)</u>
	<u>\$600,438</u>	<u>(289,792)</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(3) Utility Plant

Utility plant is summarized by major classification at August 31, 2014 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2013	Increases	Decreases	August 31, 2014	August 31, 2013	Increases	Decreases	August 31, 2014	August 31, 2014
Structures and improvements	\$ 79,914,073	94,954	(18,950)	79,990,077	(26,981,563)	(1,874,085)	18,950	(28,836,698)	51,153,379
Line equipment	121,860	38,613	-	160,473	(43,091)	(26,407)	-	(69,498)	90,975
Treatment equipment	58,812,607	1,920,819	-	60,733,426	(24,833,992)	(2,239,107)	-	(27,073,099)	33,660,327
Collection system	208,133,880	4,520,114	-	212,653,994	(52,976,742)	(3,013,628)	-	(55,990,370)	156,663,624
Lift stations/force mains	1,207,441	-	-	1,207,441	(524,995)	(56,278)	-	(581,273)	626,168
Environmental equipment	376,508	-	-	376,508	(338,457)	(5,768)	-	(344,225)	32,283
Office furniture and equipment	498,889	-	-	498,889	(424,460)	(14,854)	-	(439,314)	59,575
Shop equipment	306,968	-	(35,017)	271,951	(242,661)	(10,219)	35,017	(217,863)	54,088
Communications system	511,621	-	-	511,621	(291,274)	(46,857)	-	(338,131)	173,490
Laboratory equipment	596,548	65,681	-	662,229	(490,126)	(31,952)	-	(522,078)	140,151
Injection system	658,907	-	-	658,907	(421,620)	(13,364)	-	(434,984)	223,923
Pond and liner	520,132	-	-	520,132	(476,730)	(14,467)	-	(491,197)	28,935
Sludge injection equipment	79,663	-	-	79,663	(54,429)	(6,034)	-	(60,463)	19,200
Transmission/work equipment	1,125,400	-	-	1,125,400	(261,057)	(51,336)	-	(312,393)	813,007
Meters	4,104,327	271,775	-	4,376,102	(2,295,001)	(218,982)	-	(2,513,983)	1,862,119
Vehicles	2,577,308	339,529	(75,828)	2,841,009	(1,688,243)	(161,771)	53,568	(1,796,446)	1,044,563
Total depreciable assets	359,546,132	7,251,485	(129,795)	366,667,822	(112,344,441)	(7,785,109)	107,535	(120,022,015)	246,645,807
Land and land rights	6,001,129	204,827	-	6,205,956	-	-	-	-	6,205,956
Construction in progress	4,936,246	9,731,736	(5,439,022)	9,228,960	-	-	-	-	9,228,960
Total nondepreciable assets	10,937,375	9,936,563	(5,439,022)	15,434,916	-	-	-	-	15,434,916
Total capital assets	\$ 370,483,507	17,188,048	(5,568,817)	382,102,738	(112,344,441)	(7,785,109)	107,535	(120,022,015)	262,080,723

During 2014, Lincoln Wastewater System incurred \$3,082,903 of interest cost. Interest capitalized into construction in progress during 2014 was \$193,487. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 2.12% in 2014.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(3) Utility Plant

Utility plant is summarized by major classification at August 31, 2013 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2012	Increases	Decreases	August 31, 2013	August 31, 2012	Increases	Decreases	August 31, 2013	August 31, 2013
Structures and improvements	\$ 79,839,389	74,684	-	79,914,073	(25,086,939)	(1,894,624)	-	(26,981,563)	52,932,510
Line equipment	75,490	46,370	-	121,860	(22,511)	(20,580)	-	(43,091)	78,769
Treatment equipment	58,284,153	528,454	-	58,812,607	(22,590,050)	(2,243,942)	-	(24,833,992)	33,978,615
Collection system	203,221,960	4,911,920	-	208,133,880	(50,041,177)	(2,935,565)	-	(52,976,742)	155,157,138
Lift stations/force mains	1,207,441	-	-	1,207,441	(468,716)	(56,279)	-	(524,995)	682,446
Environmental equipment	339,148	37,360	-	376,508	(331,701)	(6,756)	-	(338,457)	38,051
Office furniture and equipment	481,861	17,028	-	498,889	(323,754)	(100,706)	-	(424,460)	74,429
Shop equipment	306,968	-	-	306,968	(229,275)	(13,386)	-	(242,661)	64,307
Communications system	496,582	15,039	-	511,621	(246,207)	(45,067)	-	(291,274)	220,347
Laboratory equipment	537,805	58,743	-	596,548	(469,461)	(20,665)	-	(490,126)	106,422
Injection system	658,907	-	-	658,907	(408,256)	(13,364)	-	(421,620)	237,287
Pond and liner	520,132	-	-	520,132	(462,262)	(14,468)	-	(476,730)	43,402
Sludge injection equipment	79,663	-	-	79,663	(48,395)	(6,034)	-	(54,429)	25,234
Transmission/work equipment	1,100,106	25,294	-	1,125,400	(209,721)	(51,336)	-	(261,057)	864,343
Meters	4,034,424	69,903	-	4,104,327	(2,087,084)	(207,917)	-	(2,295,001)	1,809,326
Vehicles	2,597,194	109,108	(128,994)	2,577,308	(1,654,226)	(148,001)	113,984	(1,688,243)	889,065
Total depreciable assets	353,781,223	5,893,903	(128,994)	359,546,132	(104,679,735)	(7,778,690)	113,984	(112,344,441)	247,201,691
Land and land rights	5,996,823	4,306	-	6,001,129	-	-	-	-	6,001,129
Construction in progress	1,767,162	6,977,258	(3,808,174)	4,936,246	-	-	-	-	4,936,246
Total nondepreciable assets	7,763,985	6,981,564	(3,808,174)	10,937,375	-	-	-	-	10,937,375
Total capital assets	\$ 361,545,208	12,875,467	(3,937,168)	370,483,507	(104,679,735)	(7,778,690)	113,984	(112,344,441)	258,139,066

During 2013, Lincoln Wastewater System incurred \$3,036,393 of interest cost. Interest capitalized into construction in progress during 2013 was \$73,366. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 2.16% in 2013.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(4) Long-term Liabilities

Long-term debt of Lincoln Wastewater System at August 31, 2014 and 2013 is summarized below:

2014

Type of Debt	August 31, 2013	Additions	Reductions	August 31, 2014	Due Within One Year
4.0% - 5.0% Wastewater Revenue Bonds Series 2005. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2030. Redeemable at par on or after June 15, 2015.	\$13,900,000	—	580,000	13,320,000	605,000
4.0% - 4.5% Wastewater Revenue Bonds Series 2007. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2032. Redeemable at par on or after June 15, 2017.	17,345,000	—	615,000	16,730,000	640,000
0.0% - 2.0% Nebraska Department of Environmental Quality (NDEQ) 2009 project loan payable. Principal and interest payments due semi-annually on June 15 and December 15, with final payment in 2031.	3,161,012	—	162,004	2,999,008	164,113
2.0% Nebraska Department of Environmental Quality (NDEQ) 2009 project loan payable. Principal and interest payments due semi-annually on June 15 and December 15, with final payment in 2032.	4,692,016	—	211,912	4,480,104	216,171
3.25% Nebraska Department of Environmental Quality (NDEQ) 2011 project loan payable. Principal and interest payments due semi-annually on June 15 and December 15.	10,136,822	4,925,115	435,000	14,626,937	647,435
1.0% to 5.0% Wastewater Revenue Refunding Bonds, Series 2012. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2028. Redeemable at par on or after June 15, 2022.	36,325,000	—	2,050,000	34,275,000	2,070,000
Unamortized premium on bonds	<u>3,750,156</u>	<u>—</u>	<u>251,907</u>	<u>3,498,249</u>	<u>—</u>
	<u>\$89,310,006</u>	<u>4,925,115</u>	<u>4,305,823</u>	<u>89,929,298</u>	<u>4,342,719</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(4) Long-term Liabilities (continued)

2013

Type of Debt	August 31, 2012	Additions	Reductions	August 31, 2013	Due Within One Year
4.0% - 5.0% Wastewater Revenue Bonds Series 2005. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2030. Redeemable at par on or after June 15, 2015.	\$14,460,000	—	560,000	13,900,000	580,000
4.0% - 4.5% Wastewater Revenue Bonds Series 2007. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2032. Redeemable at par on or after June 15, 2017.	17,940,000	—	595,000	17,345,000	615,000
0.0% - 2.0% Nebraska Department of Environmental Quality (NDEQ) 2009 project loan payable. Principal and interest payments due semi-annually on June 15 and December 15, with final payment in 2031.	3,320,934	—	159,922	3,161,012	162,004
2.0% Nebraska Department of Environmental Quality (NDEQ) 2009 project loan payable. Principal and interest payments due semi-annually on June 15 and December 15, with final payment in 2032.	4,900,000	—	207,984	4,692,016	211,912
3.25% Nebraska Department of Environmental Quality (NDEQ) 2011 project loan payable. Principal and interest payments due semi-annually on June 15 and December 15, after construction is complete.	5,683,103	4,453,719	—	10,136,822	—
1.0% to 5.0% Wastewater Revenue Refunding Bonds, Series 2012. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2028. Redeemable at par on or after June 15, 2022.	38,290,000	—	1,965,000	36,325,000	2,050,000
Unamortized premium on bonds	<u>4,002,064</u>	<u>—</u>	<u>251,908</u>	<u>3,750,156</u>	<u>—</u>
	<u>\$88,596,101</u>	<u>4,453,719</u>	<u>3,739,814</u>	<u>89,310,006</u>	<u>3,618,916</u>

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

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(4) Long-term Liabilities (continued)

Maturities and sinking fund requirements on long-term debt at August 31, 2014, are shown below.

Years ending August 31	Principal	Interest	Total
2015	\$ 4,342,719	3,145,231	7,487,950
2016	4,372,188	2,961,981	7,334,169
2017	4,536,775	2,778,291	7,315,066
2018	4,627,077	2,665,667	7,292,744
2019	4,723,108	2,542,770	7,265,878
2020 - 2024	25,963,280	10,238,410	36,201,690
2025 - 2029	27,477,743	4,896,013	32,373,756
2030 - 2034	10,388,159	832,941	11,221,100
Total	\$86,431,049	30,061,304	116,492,353

Lincoln Wastewater System has entered into a loan agreement with NDEQ consisting of two separate contracts. Under Contract 317247, the Lincoln Wastewater System has borrowed \$4,808,792 to fund certain sewer system extension and sewer repairs. The terms of the project loan payable are reflected in the summary of long-term debt. The Lincoln Wastewater System has also borrowed \$5,000,000 under Contract 317078 to fund certain projects at the Theresa Street and Northeast Wastewater Treatment Facilities. The interest rate throughout the term of the loan is 2.0%. The terms of the project loan payable are reflected in the summary of long-term debt.

Lincoln Wastewater System has entered into a \$17,000,000 loan agreement with NDEQ. This funding is available to fund certain wastewater solids handling, trunk sewer, and selected facility replacement improvements. The interest rate during the period of construction is 2%. After the date of initiation of operation, the interest rate will increase to 2.25%. In addition, an administrative fee of 1% will be incurred on the loan. During the year ended August 31, 2014, Lincoln Wastewater System incurred project costs totaling \$7,272,120 resulting in a recognition of a project payable of \$14,626,937, which is shown net of \$435,000 of principal repayments. The terms of the loan payable are reflected in the summary of long-term debt. The remaining available funds totaling \$1,938,063 are not reflected in the summary of long-term debt.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(4) Long-term Liabilities (continued)

The City has pledged future revenues derived from the operation of the Lincoln Wastewater System, net of operating and maintenance expenses, to repay all outstanding wastewater revenue bonds. Proceeds from the bonds and loans provided financing for improvements to the sanitary sewer system. The bonds and loans are payable solely from the net earnings of the Wastewater System and are payable through 2034. The total principal and interest remaining to be paid on the bonds and loans is \$116,492,353 with annual payments expected to require 52% of net revenues. Principal and interest paid for the current year and net system revenues were \$7,131,915 and \$13,711,176, respectively.

Construction contracts of the Lincoln Wastewater System at August 31, 2014 and 2013 are summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
August 31, 2014	\$1,646,686	3,255,462	1,529,232	3,372,916	3,255,461
August 31, 2013	\$3,450,723	1,529,232	3,333,269	1,646,686	1,529,232

(5) Commitments and Contingencies

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$9,900,000 at August 31, 2014.

(6) Related Party Transactions

The City billed the Wastewater System approximately \$482,000 and \$475,000 for administrative services during 2014 and 2013, respectively. The Wastewater System also makes payments to Lincoln Electric System (LES), an enterprise fund of the City of Lincoln, for electricity used at the System's operating locations. Payments to LES totaled approximately \$991,000 and \$889,000 during 2014 and 2013, respectively. Approximately \$75,000 and \$60,000 are included in accounts payable for amounts owed to LES at August 31, 2014 and 2013.

A special revenue fund of the City collects and holds impact fees until they are distributed in accordance with City ordinance. The Lincoln Wastewater System was due impact fees of \$620,596 and \$274,406 as of August 31, 2014 and 2013, respectively.

The City of Lincoln general fund borrowed monies from the pooled cash and investment account. The Wastewater System's allocated share of the borrowing was \$69,765 and \$174,043 as of August 31, 2014 and 2013, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the balance sheets.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(7) Risk Management

Lincoln Wastewater System participates in the City's self-insurance program administered by the City's Risk Management Division (the Division). The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On behalf of the City, the Division purchases insurance and administers funds for its self-insured program. The Division maintains a workers' compensation fund and a self-insured loss fund. The Division provides first dollar coverage for all liability and workers' compensation exposure with insurance acting as an umbrella for excess coverage. The maximum exposure would be the deductible amounts for property and auto physical damage, as well as losses not covered by insurance. Lincoln Wastewater System had no claims or judgments exceeding the policy limits during each of the last three prior years. Budgeted premium amounts charged to Lincoln Wastewater System are placed in the appropriate fund maintained by the Division. Premium expense was approximately \$420,000 and \$415,000 in 2014 and 2013, respectively.

(8) Pension Plan

Employees of Lincoln Wastewater System are participants in the City of Lincoln Employees' Retirement Plan. Plan participation is required if the employee has completed five years of continuous service and attained the age of 40. An employee may voluntarily enter the plan upon attaining age 19 and after completing six months of service. The plan is a defined contribution plan requiring employees to contribute to the plan depending on employee class and date of hire. Lincoln Wastewater System contributes between \$1.29 and \$2.00 for every \$1.00 contributed by employees. Plan participants vest in the City's contributions in year three of participation at 20% up to 100% vested in year seven. Contributions made by the System were approximately \$525,000 and \$517,000 for 2014 and 2013, respectively. Contributions made by the plan members were approximately \$298,000 and \$288,000 for 2014 and 2013, respectively.

SUPPLEMENTARY
INFORMATION

LINCOLN WASTEWATER SYSTEM

Summary of Long-Term Debt

August 31, 2014

Due years ending August 31	Series 2005		Series 2007		NDEQ Loan (C317247) 2009		NDEQ Loan (C317078) 2009		NDEQ Loan (C317830) 2011		Series 2012		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2015	\$ 605,000	586,362	640,000	719,288	164,113	38,382	216,171	88,527	647,435	474,322	2,070,000	1,238,350	4,342,719	3,145,231	7,487,950
2016	625,000	556,112	665,000	693,688	166,249	36,245	220,516	84,182	545,423	456,904	2,150,000	1,134,850	4,372,188	2,961,981	7,334,169
2017	650,000	531,112	695,000	667,088	168,413	34,081	224,948	79,749	563,414	438,911	2,235,000	1,027,350	4,536,775	2,778,291	7,315,066
2018	675,000	505,112	720,000	639,288	170,606	31,889	229,470	75,228	582,001	420,325	2,250,000	993,825	4,627,077	2,665,667	7,292,744
2019	700,000	476,424	750,000	610,488	172,826	29,668	234,082	70,615	601,200	401,125	2,265,000	954,450	4,723,108	2,542,770	7,265,878
2020-2024	3,980,000	1,897,772	4,250,000	2,562,580	898,468	114,003	1,242,907	280,581	3,316,905	1,694,724	12,275,000	3,688,750	25,963,280	10,238,410	36,201,690
2025-2029	4,955,000	940,714	5,260,000	1,549,452	958,490	53,985	1,372,943	150,545	3,901,310	1,110,317	11,030,000	1,091,000	27,477,743	4,896,013	32,373,756
2030-2034	1,130,000	50,850	3,750,000	332,934	299,843	3,899	739,067	22,312	4,469,249	422,946	-	-	10,388,159	832,941	11,221,100
	\$ 13,320,000	5,544,458	16,730,000	7,774,806	2,999,008	342,152	4,480,104	851,739	14,626,937	5,419,574	34,275,000	10,128,575	86,431,049	30,061,304	116,492,353

LINCOLN WASTEWATER SYSTEM

Schedule 2

Debt Coverage Ratio

Last ten fiscal years

Fiscal Year Ending	Gross Revenue	Direct Operating Expenses	Net Available Balance	Debt Service Requirement on Revenue Bonds				Debt Service Requirement for all Debt			
				Principal	Interest	Total	Coverage	Principal	Interest	Total	Coverage
2005	18,248,683	10,482,955	7,765,728	1,500,000	2,404,824	3,904,824	1.99	1,500,000	2,404,824	3,904,824	1.99
2006	19,827,194	11,125,819	8,701,375	2,065,000	3,044,805	5,109,805	1.70	2,065,000	3,044,805	5,109,805	1.70
2007	21,158,743	11,462,964	9,695,779	2,005,000	3,082,787	5,087,787	1.91	2,005,000	3,082,787	5,087,787	1.91
2008	22,347,867	11,393,624	10,954,243	2,415,000	4,030,454	6,445,454	1.70	2,415,000	4,030,454	6,445,454	1.70
2009	22,643,270	11,771,291	10,871,979	2,620,000	3,820,044	6,440,044	1.69	2,620,000	3,820,044	6,440,044	1.69
2010	22,472,096	11,664,594	10,807,502	2,695,000	3,731,444	6,426,444	1.68	2,695,000	3,731,444	6,426,444	1.68
2011	23,546,370	12,543,964	11,002,406	2,785,000	3,607,044	6,392,044	1.72	2,865,000	3,647,609	6,512,609	1.69
2012	24,763,975	12,378,673	12,385,302	2,880,000	3,504,194	6,384,194	1.94	3,137,858	3,655,156	6,793,014	1.82
2013	24,988,276	12,522,160	12,466,116	3,120,000	2,785,825	5,905,825	2.11	3,487,906	3,089,698	6,577,604	1.90
2014	27,049,162	13,337,986	13,711,176	3,245,000	2,638,600	5,883,600	2.33	4,053,916	3,077,999	7,131,915	1.92

Operating Expenses

Years ended August 31, 2014 and 2013

	2014	2013
Plant, pumping and treatment:		
Theresa Street Treatment Plant:		
Supervision and management	\$ 201,630	205,417
Administrative and support staff	53,310	66,098
Training and education	24,762	30,851
Data management	228,985	207,153
General operations	1,507,590	1,109,309
Treatment and process control	797,896	808,797
Solids processing	1,075,845	1,081,954
Structures maintenance	242,602	161,418
Process equipment maintenance	677,155	511,867
Control system maintenance	206,362	192,551
Electrical maintenance	111,704	76,284
Grounds maintenance	42,083	53,988
Depreciation of structure and improvement	1,418,988	1,425,000
Depreciation of treatment equipment	1,602,345	1,605,796
Depreciation of shop and lab equipment	335	335
Depreciation of office/communications equipment	44,709	44,709
Total Theresa Street Treatment Plant	\$ 8,236,301	7,581,527
Northeast Treatment Plant:		
Supervision and management	\$ 80,756	82,613
Administrative and support staff	13,096	19,067
Training and education	7,443	10,926
Data management	69,459	65,767
General operations	548,180	512,394
Treatment and process control	158,631	147,420
Solids processing	264,791	339,692
Structures maintenance	67,450	67,601
Process equipment maintenance	262,944	211,199
Control system maintenance	83,203	97,494
Electrical maintenance	44,860	45,336
Grounds maintenance	56,455	58,057
Depreciation of structures and improvements	432,248	446,624
Depreciation of treatment system	613,587	614,799
Depreciation of injection system	44,035	44,035
Depreciation of shop and laboratory equipment	7,022	7,022
Depreciation of office/communications equipment	648	648
Total Northeast Treatment Plant	\$ 2,754,808	2,770,694

Operating Expenses, Continued

	2014	2013
Liftstations:		
General operations	\$ 88,308	84,541
Structures maintenance	32,503	19,313
Process equipment maintenance	45,707	42,673
Control system maintenance	15,397	18,570
Electrical maintenance	5,973	9,407
Grounds maintenance	1,372	-
Depreciation of liftstations	61,173	61,438
Total liftstations	250,433	235,942
Total plant, pumping and treatment	\$ 11,241,542	10,588,163
Operation and maintenance of wastewater lines:		
Supervision and management	\$ 298,799	338,576
Administrative and support staff	46,776	55,326
Training and education	56,135	63,888
Data management	87,717	146,774
General operations	324,554	245,228
Structures maintenance	24,015	12,904
Main repair/maintenance	215,695	287,246
Manhole repair/rehabilitation	80,935	48,161
Customer service	474,783	419,321
Cleaning maintenance	846,396	801,129
Field operations	248,686	248,353
Depreciation of structures and improvements	757	908
Depreciation of treatment equipment	85,275	80,019
Depreciation of meters	214,216	203,151
Depreciation of shop and lab equipment	4,894	4,517
Depreciation of collection system	3,018,502	2,940,176
Total operation and maintenance of wastewater lines	\$ 6,028,135	5,895,677
Sanitary engineering services:		
Supervision and management	\$ 496,305	544,991
Administrative and support staff	69,658	60,413
Training and education	16,897	13,889
Data management	251,529	208,561
General operations	82,374	39,944
Laboratory operations	651,994	645,364
Field operations	529,620	549,293
Depreciation of structures and improvements	16,083	16,083
Depreciation of treatment equipment	1,712	1,313
Depreciation of office/communications equipment	2,666	3,554
Depreciation of shop and laboratory equipment	35,688	28,933
Total sanitary engineering services	\$ 2,154,526	2,112,338

Operating Expenses, Continued

	2014	2013
Accounting and collecting:		
Supervision and management	\$ 196,825	187,496
Administrative and support staff	2,226	2,726
Meter reading	114,442	108,572
Billing and accounting	250,493	231,641
Collections	104,446	96,386
Customer services and billing	66,037	93,867
Customer contracts and orders	35,027	31,256
Depreciation of general plant	4,766	4,767
Depreciation of office/communications equipment	570	2,278
Total accounting and collecting	\$ 774,832	758,989
Administrative and general:		
Supervision and management	\$ 750,635	698,998
Administrative and support staff	130,859	122,932
Delivery service	29,447	29,168
Depreciation of office/communications equipment	13,119	94,584
Total administrative and general	\$ 924,060	945,682

LINCOLN WASTEWATER SYSTEM

Schedule 4

Utility Plant in Service

August 31, 2014 and 2013

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2013	Increases	Decreases	August 31, 2014	August 31, 2013	Increases	Decreases	August 31, 2014	August 31, 2014
Theresa Street Plant:									
Structures and improvements	\$ 60,595,616	80,935	(18,950)	60,657,601	(18,503,202)	(1,438,396)	18,950	(19,922,648)	40,734,953
Line equipment	121,860	38,613	-	160,473	(43,091)	(26,407)	-	(69,498)	90,975
Treatment equipment	37,539,883	1,920,819	-	39,460,702	(19,961,919)	(1,670,128)	-	(21,632,047)	17,828,655
Collection system	208,133,880	4,520,114	-	212,653,994	(52,976,742)	(3,013,628)	-	(55,990,370)	156,663,624
Lift stations/force mains	1,207,441	-	-	1,207,441	(526,680)	(56,278)	-	(582,958)	624,483
Environmental equipment	376,508	-	-	376,508	(338,457)	(5,768)	-	(344,225)	32,283
Office furniture and equipment	487,476	-	-	487,476	(416,925)	(14,206)	-	(431,131)	56,345
Shop equipment	156,666	-	(35,017)	121,649	(143,541)	(3,197)	35,017	(111,721)	9,928
Communications system	511,621	-	-	511,621	(291,274)	(46,857)	-	(338,131)	173,490
Laboratory equipment	596,548	65,681	-	662,229	(490,126)	(31,952)	-	(522,078)	140,151
Meters	4,104,327	271,775	-	4,376,102	(2,295,001)	(218,982)	-	(2,513,983)	1,862,119
Theresa Street depreciable assets	313,831,826	6,897,937	(53,967)	320,675,796	(95,986,958)	(6,525,799)	53,967	(102,458,790)	218,217,006
Land and land rights	3,940,087	204,827	-	4,144,914	-	-	-	-	4,144,914
Theresa Street nondepreciable assets	3,940,087	204,827	-	4,144,914	-	-	-	-	4,144,914
Total Theresa Street Plant	317,771,913	7,102,764	(53,967)	324,820,710	(95,986,958)	(6,525,799)	53,967	(102,458,790)	222,361,920
Northeast Plant:									
Structures and improvements	19,318,457	14,019	-	19,332,476	(8,478,361)	(435,689)	-	(8,914,050)	10,418,426
Treatment equipment	21,272,724	-	-	21,272,724	(4,872,073)	(568,979)	-	(5,441,052)	15,831,672
Office furniture and equipment	11,413	-	-	11,413	(7,535)	(648)	-	(8,183)	3,230
Shop and work equipment	150,302	-	-	150,302	(99,120)	(7,022)	-	(106,142)	44,160
Injection system	658,907	-	-	658,907	(421,620)	(13,364)	-	(434,984)	223,923
Pond and liner	520,132	-	-	520,132	(476,730)	(14,467)	-	(491,197)	28,935
Sludge injection equipment	79,663	-	-	79,663	(54,429)	(6,034)	-	(60,463)	19,200,000
Lift stations/force mains	-	-	-	-	1,685	-	-	1,685	1,685
Transmission/work equipment	1,125,400	-	-	1,125,400	(261,057)	(51,336)	-	(312,393)	813,007
Northeast depreciable assets	43,136,998	14,019	-	43,151,017	(14,669,240)	(1,097,539)	-	(15,766,779)	27,384,238
Land and land rights	2,061,042	-	-	2,061,042	-	-	-	-	2,061,042
Northeast nondepreciable assets	2,061,042	-	-	2,061,042	-	-	-	-	2,061,042
Total Northeast Plant	45,198,040	14,019	-	45,212,059	(14,669,240)	(1,097,539)	-	(15,766,779)	29,445,280
Vehicles and work equipment (all locations)	2,577,308	339,529	(75,828)	2,841,009	(1,688,243)	(161,771)	53,568	(1,796,446)	1,044,563
Utility plant in service	\$ 365,547,261	7,456,312	(129,795)	372,873,778	(112,344,441)	(7,785,109)	107,535	(120,022,015)	252,851,763
Construction in progress	4,936,246	9,731,736	(5,439,022)	9,228,960	-	-	-	-	9,228,960
Total capital assets	\$ 370,483,507	17,188,048	(5,568,817)	382,102,738	(112,344,441)	(7,785,109)	107,535	(120,022,015)	262,080,723

LINCOLN WASTEWATER SYSTEM**GENERAL STATISTICS****Year Ended August 31, 2014**

(Unaudited)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	92.82 Square Miles
Population	272,592 Estimate
Total Miles of Wastewater Mains & Collector Lines In Use:	
Miles in use September 1, 2013	1,024.0
Estimated Added During Year	8.7
Estimated Removed During Year	—
Total as of August 31, 2014	1,032.7 Miles
Number of Wastewater Lift (Pumping) Stations:	14
Number of Stormwater Pumping Stations:	4
Plant Capacity:	
Theresa Street Treatment Facility	27.4 million gallons per day
Northeast Treatment Facility	10.0 million gallons per day
Average Daily Flow:	
Theresa Street Treatment Facility	23.3 million gallons per day
Northeast Treatment Facility	2.2 million gallons per day
Total Number of Active Residential Wastewater Customers	
End of Fiscal Year	76,523
Total Number of Active Non-Residential Wastewater Customers	
End of Fiscal Year	4,328
Total Debt of Lincoln Wastewater System as of August 31, 2014	\$86,431,049

LINCOLN WASTEWATER SYSTEM**TOP TEN CUSTOMERS**

Year Ended August 31, 2014

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	350,742	\$709,097
2. State of Nebraska	282,751	551,008
3. Archer-Daniels Midland Company	158,125	317,710
4. University of Nebraska Foundation	121,171	241,587
5. Bryan Health	106,415	214,195
6. Lincoln Industries	102,948	207,891
7. Lincoln Housing Authority	87,307	203,716
8. Lincoln Public Schools	82,463	189,798
9. City of Lincoln	75,592	167,760
10. Zoetis	61,963	128,535
Top Ten User Totals	1,429,477	\$2,931,297

Lincoln Wastewater System

Summary of Insurance Coverage

August 31, 2014

(Unaudited)

Type of policy	Insurance coverage	Policy limits	Self-insured retention deductible	Self-insurance deductible	Insurance carrier	Policy number
Automobile Fleet Liability	Self-Insured Excess Coverage Excess Coverage	0 - 250,000 250,000 - 1,000,000 1,000,000 - 6,000,000	250,000		States	SEL3017306
Automobile Fleet Physical Damage**	Self-Insured	Actual cash value	2,500	2,500	None	
Building and Contents (includes Boiler & Machinery)	Blanket policy - buildings and contents	Replacement cost	50,000	2,500	FM Global	FM969
Money and Securities	Inside/outside premises	50,000	500	0	Fidelity & Deposit	CCP003059514
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FM969
Equipment Floater (NON-LIC)	Non-licensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM969
Equipment Floater (Sanitary)	Inspection scheduled equipment	Replacement cost	50,000	2,500	FM Global	FM969
General Liability ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017306
Public Employee Blanket Bond	Employees blanket bond coverage	2,000,000	25,000	10,000	Fidelity & Deposit	CCP 003 059514
Public Officials Liability***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017306
Workers' Compensation Excess	Statutory	Statutory	800,000	0	Midwest Employers Casualty (MECC)	EWC007744

** Self-insured for both comp & collision.

*** Public Entity Policy

LINCOLN WASTEWATER SYSTEM

Summary of Insurance Coverage

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

AUTOMOBILE INSURANCE

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

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

PROPERTY INSURANCE

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

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

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

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

GENERAL LIABILITY

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

PUBLIC EMPLOYEES BLANKET BOND

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

PUBLIC OFFICIALS LIABILITY (Claims-made)

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

WORKERS' COMPENSATION

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

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Lincoln Wastewater System, which comprise the balance sheet as of August 31, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2014, which contained an emphasis of matter paragraph indicating that the financial statements do not purport to, and do not, present fairly the financial position and changes in financial position of the City of Lincoln, Nebraska as a whole.

Internal Control Over Financial Reporting

Management of Lincoln Wastewater System is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered Lincoln Wastewater System's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lincoln Wastewater System's internal control. Accordingly, we do not express an opinion on the effectiveness of Lincoln Wastewater System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Lincoln Wastewater System's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln Wastewater System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln Wastewater System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Lincoln, Nebraska
December 8, 2014

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

(THIS PAGE INTENTIONALLY LEFT BLANK)

SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

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

Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Debt Service” for any period means, as of any date of calculation and with respect to any Series of Bonds, an amount equal to the sum of (a) interest accruing during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits in the Bond Fund made from the proceeds of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City (including amounts, if any, transferred thereto from the Construction Fund) and (b) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for Bonds of such Series (or, if (1) there shall be no such preceding Principal Installment due date or (2) such preceding Principal Installment due date is more than one year prior to the due date of such Principal Installment, then, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever date is later). Such interest and Principal Installments for Bonds of such Series shall be calculated on the assumption that (x) no Bonds (except for Option Bonds actually tendered for payment prior to the stated maturity thereof) of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof, and (y) the principal amount of Option Bonds tendered for payment before the stated maturity thereof shall be deemed to accrue on the date required to be paid pursuant to such tender.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Rebate Fund” means the Rebate Fund established the City pursuant to the Ordinance.

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

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

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

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

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

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

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

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

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

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

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

Pledge

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

Application of Revenues

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

Funds

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

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

- (c) Reserve Fund, in which there shall be established an account for each Series of Bonds issued pursuant to the Ordinance;
- (d) Capital Improvement Fund;
- (e) Rebate Fund;
- (f) Surplus Fund; and
- (g) Construction Fund

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

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

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

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

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

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

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

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

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

Bond Fund.

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

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

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

Reserve Fund.

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

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

(b) If any withdrawal from any Account in the Reserve Fund is made for the purpose of Subsection (c)(1) below, the amount of such withdrawal shall be restored by the City in no more than 12 substantially equal, consecutive, monthly installments, each payable on the last Business Day of the month, commencing with the month in which the withdrawal is made; provided that, if any withdrawal is made and if, prior to the restoration of the amount withdrawn, an additional withdrawal is made, such additional withdrawal shall be restored in equal monthly installments over the remainder of the restoration period for the initial withdrawal.

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

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

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

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

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

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

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

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

Upon such substitution, funds on deposit in any Account in the Reserve Fund which, when added to the face amount of the credit facility, exceed the Reserve Requirement on the Bonds for which such Account was established, shall be applied as provided in Subsection (c)(2) above (subject to yield restriction, if any, as determined by Bond Counsel). Thereafter, the credit facility shall be considered a part of such Account in the Reserve Fund and the amount available thereunder shall be included in any calculations of the amount required to be retained in such Account; provided that, (A) if the sum of the amount available under the credit facility and the amount of moneys on deposit in such Account in the Reserve Fund exceed the amount required to be on deposit pursuant to subsection (a) above, the City shall be permitted (i) to cause the amount available under the credit facility to be reduced by an amount equal to such excess, or (ii) to direct that the excess money be applied as permitted under subsection (d)(2) above, and (B) if the credit facility is not extended, renewed or replaced at least six months prior to its scheduled expiration or termination date, the City shall be obligated to restore the difference between the Reserve Requirement and the value of such Account in the Reserve Fund computed without regard to the credit facility prior to the expiration or termination date of such credit facility.

Capital Improvement Fund.

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

Rebate Fund.

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

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

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

Surplus Fund.

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

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

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

Construction Fund.

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

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

Subordinated Indebtedness.

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

Investment of Funds.

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

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

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

Covenant as to Rates, Fees and Charges.

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

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

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

Refunding Bonds.

Refunding Bonds maybe authorized and issued by the City in an aggregate principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of any or all of the following:

- (1) The principal or Redemption Price of the Outstanding Bonds to be refunded;
- (2) All expenses incident to the calling, retiring or paying of such Outstanding Bonds and the costs of issuance of such Refunding Bonds;
- (3) Interest on all Outstanding Bonds to be refunded to the date such Bonds will be called for redemption or paid at maturity; and
- (4) Interest on the Refunding Bonds from the date thereof to the payment or redemption of the Bonds to be refunded.

A Series of Refunding Bonds may be executed by the City for the issuance under the Ordinance and delivered to the Registrar and thereupon authenticated by the Registrar and delivered to the City or upon its order, but only upon receipt by the Registrar of the documents required by the Ordinance and, if any of the Bonds are to be refunded or are to be redeemed or prepaid prior to their stated maturity dates, in the case of Bonds, irrevocable instructions from the City to give the applicable notice of redemption or a waiver of the notice of redemption signed by the Owners of all or the portion of such Bonds to be redeemed, or proof that such notice has been given by the City.

Additional Bonds.

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

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

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

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

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

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

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

Certain Other Covenants.

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

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

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

(c) lease, (1) as lessor, any real or personal property which is unused or unimproved, or which has become obsolete, nonproductive or otherwise unusable to the advantage of the City, or which is being acquired as a part of a lease/purchase financing for the acquisition and/or improvement of such property; and/or (2) as lessee, with an option of the City to purchase, any

real or personal property for the extension and improvement of the System. Property being leased as lessor and/or lessee pursuant to this subparagraph (c) shall not be treated as part of the System for purposes of this Section 7.05 and may be mortgaged, pledged or otherwise encumbered.

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

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

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

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

account, will be sufficient to make the repairs or replacements to the property damaged or destroyed that resulted in such insurance proceeds or make other improvements to the System.

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

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

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

(d) For so long as Rule 15c2-12(b) of the Securities and Exchange Commission (the "Rule") is applicable, the City covenants and agrees that it will comply with and carry out all of the provisions of each undertaking entered into by it to satisfy the requirements of the Rule with respect to each Series of Bonds issued pursuant to the Ordinance. Notwithstanding any other provision of the Ordinance, failure of the City to comply with such undertaking shall not be considered an Event of Default; however, the Owner or Beneficial Owner of any Bond may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this subsection. For purposes of this subsection, "Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

Amendment of Ordinance.

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

(2) No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of Bond Obligation thereof, or extend the time of payment or reduce the amount of any Sinking Fund Installment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, (2) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is

required to effect any such modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under the Ordinance prior to or on a parity with the lien created by the Ordinance, or deprive the Owners of the Bonds of the lien created by the Ordinance on such Net Revenues and other assets (in each case, except as expressly provided in the Ordinance), without the consent of the Owners of all of the Bonds then Outstanding, or (3) modify any rights or duties of any Fiduciary without its consent.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Defeasance.

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

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

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

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

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

Whenever in the Ordinance it is provided or permitted that there be deposited with or held in trust by the Paying Agent, an escrow agent or other fiduciary, money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Paying Agent in the funds and accounts established pursuant to the Ordinance and shall be one or more of the following:

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

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

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

Events of Default; Remedies.

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

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

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

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

(d) (1) Failure of the City generally to pay its debts as the same become due, (2) commencement by the City of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by the City to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for the City, the System or any substantial part of the City’s property, or to the taking possession by any such official of the System or any substantial part of the City’s property, (4) making by the City of any assignment for the benefit of creditors, or (5) taking of corporate action by the City in furtherance of any of the foregoing;

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

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

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

settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties.

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

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

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

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

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

and that the Receiver shall have the right to decline to follow any such direction which in the opinion of the Receiver would be unjustly prejudicial to Owners not parties to such direction.

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

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

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

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

Restrictions on Actions by Individual Owners. No Owner shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Ordinance or for any other remedy thereunder unless such Owner previously shall have given to the Receiver written notice of the event of default on account of which such suit, action or proceeding is to be taken, and unless the Owner of not less than twenty-five percent (25%) of the Bond Obligation shall have made written request of the Receiver after the right to exercise such powers or right of action, as the case may be, shall have accrued and shall have afforded the Receiver a reasonable opportunity either to proceed to exercise the

powers granted in the Ordinance or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Receiver reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, including the reasonable fees of its attorneys (including fees on appeal), and the Receiver shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Receiver, to be conditions precedent to the execution of the powers and trusts of the Ordinance or for any other remedy under the Ordinance. It is understood and intended that no one or more Owners of the Bonds secured by the Ordinance shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Ordinance, or to enforce any right thereunder, except in the manner provided in the Ordinance, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all Owners, and that any individual rights of action or any other right given to one or more of such Owners by law are restricted by the Ordinance to the rights and remedies provided in the Ordinance.

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

EXHIBIT D

BOOK-ENTRY SYSTEM

(THIS PAGE INTENTIONALLY LEFT BLANK)

BOOK-ENTRY SYSTEM

The Depository Trust Company, New York, NY, will act as securities depository for the Series 2015 Bonds. The Series 2015 Bonds will be issued as fully registered bonds 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 Series 2015 Bond will be issued for each maturity of the Series 2015 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities 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 Bonds Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. Bonds 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor's rating of AA+. 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 and www.dtc.org.

Purchases of Series 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2015 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2015 Bond ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2015 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 Series 2015 Bonds, except in the event that use of the book-entry system for the Series 2015 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2015 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2015 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2015 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. Beneficial Owners of Series 2015 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2015 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Series 2015 Bonds may wish to ascertain that the nominee holding the Series 2015 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2015 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2015 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2015 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City, or the Bond Fund Trustee, 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 Series 2015 Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the City, subject to any statutory or regulatory requirements as may be in effect from time to time.

Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Bond Fund Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2015 Bonds at any time by giving reasonable notice to the City or the Registrar and Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and neither the City nor the Underwriter takes responsibility for the accuracy thereof, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

EXHIBIT E

FORM OF BOND COUNSEL OPINION

(THIS PAGE INTENTIONALLY LEFT BLANK)

[Closing Date]

Mayor and City Council
Lincoln, Nebraska

Ameritas Investment Corp.
Lincoln, Nebraska

Re: \$12,220,000 The City of Lincoln, Nebraska Sanitary Sewer Revenue Refunding Bonds,
Series 2015

Ladies and Gentlemen:

We have acted as bond counsel to The City of Lincoln, Nebraska (the “Issuer”), in connection with the issuance of the above-captioned bonds (the “Bonds”). In this capacity, we have examined the law and the certified proceedings, certifications and other documents that we deem necessary to render this opinion.

The Bonds are issued pursuant to Ordinance No. 18171 adopted by the Issuer on May 5, 2003, as amended and supplemented by Ordinance No. 20162 adopted by the Issuer on March 5, 2015 (collectively, the “Ordinance”). Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Ordinance.

Regarding questions of fact material to our opinion, we have relied on the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify them by independent investigation.

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

1. The Issuer is validly existing as a political subdivision of the State of Nebraska (the “State”) with the power to adopt the Ordinance, perform the agreements on its part contained therein, and issue the Bonds.

2. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and legally binding special obligations of the Issuer.

3. The Bonds are payable solely from the net income and revenues derived by the Issuer from the operation of the Issuer’s sanitary sewer system, after providing for the costs of operation and maintenance thereof. The Bonds do not constitute general obligations of the Issuer and they do not

constitute an indebtedness of the Issuer within the meaning of any constitutional or statutory provision, limitation or restriction. The taxing power of the Issuer is not pledged to the payment of the Bonds.

4. The Ordinance has been duly adopted by the Issuer and constitutes a valid and legally binding obligation of the Issuer enforceable against the Issuer. The Ordinance creates a valid lien on the revenues and other funds pledged by the Ordinance for the security of the Bonds on a parity with all other sanitary sewer revenue bonds issued or to be issued on a parity with the Bonds as provided in the Ordinance.

5. The interest on the Bonds (a) is excludable from gross income for federal income tax purposes, (b) is exempt from income taxation by the State of Nebraska, and (c) is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinions set forth in this paragraph are subject to the condition that the Issuer complies with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Issuer has covenanted to comply with all of these requirements. Failure to comply with certain of these requirements may cause the interest on the Bonds to be included in gross income for federal and Nebraska income tax purposes retroactive to the date of issuance of the Bonds. The Bonds have not been designated as “qualified tax-exempt obligations” for purposes of Section 265(b) of the Code.

We express no opinion regarding the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds. Further, we express no opinion regarding the perfection or priority of the lien on revenues or other funds pledged under the Ordinance or tax consequences arising with respect to the Bonds other than as expressly set forth in this opinion.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Ordinance may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights generally and by equitable principles, whether considered at law or in equity.

This opinion is given as of its date, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may come to our attention or any changes in law that may occur after the date of this opinion.

Very truly yours,