

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

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

**RATINGS: Moody's: "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 2013 Bonds 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
\$28,595,000
THE CITY OF LINCOLN, NEBRASKA
WATER REVENUE REFUNDING BONDS
SERIES 2013

Dated: date of delivery

Due: August 15, as shown on inside cover

The Series 2013 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 2013 Bonds. Purchases of the Series 2013 Bonds will be originally made in book-entry form only, in the denomination of \$5,000 or any integral multiple thereof, through brokers and dealers who are, or who act through, DTC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 2013 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 2013 Bonds. So long as DTC or its nominee is the registered owner of the Series 2013 Bonds, payments of the principal or redemption price of and interest on the Series 2013 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 February 15 and August 15 of each year, beginning August 15, 2013. BOKF, National Association is bond registrar and paying agent for the Series 2013 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 2013 BONDS - Book-Entry System.**"

The Series 2013 Bonds maturing on or after August 15, 2024 are subject to optional redemption prior to maturity at any time on or after August 15, 2023 as set forth herein. See "**THE SERIES 2013 BONDS - Optional Redemption.**"

The Series 2013 Bonds are being issued for the purpose of (a) providing for the payment of the principal of and interest of \$31,210,000 outstanding principal amount of the City's Water Revenue Bonds, Series 2004, dated December 1, 2004 (the "**Refunded Bonds**"), through and including August 15, 2014 (the "**Redemption Date**") and redeeming on the Redemption Date all of the then outstanding Refunded Bonds, and (b) paying expenses incident to the issuance of the Series 2013 Bonds. The Series 2013 Bonds, together with (a) \$15,420,000 outstanding principal amount of the City's Water Revenue Bonds, Series 2009, dated August 18, 2009 (the "**Series 2009 Bonds**"), (b) \$10,895,000 outstanding principal amount of the City's Water Revenue Refunding Bonds Series 2012, dated June 21, 2012 (the "**Series 2012 Bonds**") and (c) all other bonds hereafter issued (collectively, the "**Bonds**") pursuant to Ordinance No. 18088 of the City (as amended and supplemented from time to time, the "**Bond Ordinance**"), are payable solely from and are secured by a pledge of (1) the net earnings (gross revenues less operating and maintenance expenses) of the City's water supply system, and (2) money, if any, from time to time on deposit in certain funds and accounts created by the Bond Ordinance. See "**INTRODUCTION,**" "**SECURITY,**" and "**APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE.**"

THE SERIES 2013 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 2013 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 2013 BONDS DO NOT CONSTITUTE A DEBT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION UNDER THE LAWS OF THE STATE. THE SERIES 2013 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 2013 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 2013 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 Rodney C. Confer, City Attorney. It is expected that the Series 2013 Bonds will be available for delivery through DTC on or about June 6, 2013.

AMERITAS INVESTMENT CORP.

The date of this Official Statement is May; 23, 2013

MATURITY SCHEDULE

\$28,595,000
THE CITY OF LINCOLN, NEBRASKA
WATER REVENUE REFUNDING BONDS
SERIES 2013

<u>Maturity</u> <u>(August 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Rate of</u> <u>Interest</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <u>Number</u>
2013	\$ 375,000	0.15%	0.15%	100.000%	534357 LK2
2014	2,185,000	1.00	0.36	100.760	534357 LL0
2015	2,180,000	1.50	0.51	102.154	534357 LM8
2016	2,185,000	1.50	0.67	102.616	534357 LN6
2017	2,195,000	3.00	0.90	108.618	534357 LP1
2018	2,235,000	3.00	1.10	109.561	534357 LQ9
2019	2,280,000	4.00	1.36	115.624	534357 LR7
2020	2,350,000	5.00	1.63	122.779	534357 LS5
2021	2,460,000	3.00	1.88	108.464	534357 LT3
2022	2,540,000	3.00	2.06	107.833	534357 LU0
2023	2,620,000	3.00	2.21	107.171	534357 LV8
2024	2,705,000	4.00	2.35*	114.874	534357 LW6
2025	2,285,000	4.00	2.50*	113.418	534357 LX4

*Yield to date of first optional redemption

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

Christopher J. Beutler, Mayor

City Council Members

Carl Eskridge (Chair)

Leirion Gaylor Baird⁽²⁾
Jon Camp
Eugene Carroll⁽¹⁾
Jonathan Cook
Roy Christensen⁽²⁾

Doug Emery
Trent Fellers⁽²⁾
Lloyd Hinkley⁽¹⁾
DiAnna Schimek⁽¹⁾

⁽¹⁾ Term expires May 20, 2013

⁽²⁾ Term begins May 20, 2013

City Department Heads

Steve Hubka Interim Finance Director
Marvin Krout.....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 Health Director
Douglas J. McDaniel..... Personnel Director
Fred Hoke..... Building and Safety Director
Jim Peschong..... Police Chief
John Huff..... Fire Chief
Rodney C. Confer City Attorney

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

AUTHORIZED INFORMATION AND REPRESENTATIONS

No dealer, broker, sales representative or other person has been authorized by The City of Lincoln, Nebraska (the “City”) or Ameritas Investment Corp. (the “Underwriter”) to give any information or to make any representations other than those contained in this official statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This official statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2013 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the City and other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter. The Underwriter has provided the following sentence for inclusion in this official statement: “The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.” The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstance, create any implication that there has been no change in the affairs of the City since the date hereof.

The Underwriter intends to offer the Series 2013 Bonds initially at the offering prices set forth on the inside cover of this Official Statement, which may subsequently change without any requirement of prior notice.

REGISTRATION EXEMPTION

The Series 2013 Bonds have not been registered with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended (the “Securities Act”), in reliance upon an exemption contained in the Securities Act. In making an investment decision, investors must rely upon their own examination of the City and the terms of the offering, including the merits and risks involved. No federal or state securities commission or regulatory authority has recommended the Series 2013 Bonds. Moreover, none of the foregoing authorities has confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

FORWARD-LOOKING STATEMENTS

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

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THIS OFFICIAL STATEMENT IS NOT, AND MAY NOT BE CONSTRUED AS, A CONTRACT WITH THE PURCHASERS OF THE BONDS. STATEMENTS CONTAINED HEREIN WHICH INVOLVE ESTIMATES, FORECASTS, OR MATTERS OF OPINION, WHETHER OR NOT EXPRESSLY SO DESCRIBED HEREIN, ARE INTENDED SOLELY AS SUCH AND ARE NOT TO BE CONSTRUED AS A REPRESENTATION OF FACTS.

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OFFICIAL STATEMENT

\$28,595,000

THE CITY OF LINCOLN, NEBRASKA WATER REVENUE REFUNDING BONDS SERIES 2013

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 Water collection and treatment system (the “System”), and its \$28,595,000 Water Revenue Refunding Bonds, Series 2013 (the “Series 2013 Bonds”). The Series 2013 Bonds are being issued pursuant to Ordinance No. 18088, duly passed by the Council on November 18, 2002 and approved by the Mayor on November 19, 2002, as amended and supplemented from time to time including, but not limited to Ordinance No. 19881 passed by the Council on May 20, 2013 and approved by the Mayor on May 21, 2013 (collectively, the “Ordinance”). The Series 2013 Bonds, together with (a) \$15,420,000 outstanding principal amount of the City’s Water Revenue Bonds, Series 2009, dated August 18, 2009 (the “Series 2009 Bonds”), (b) \$10,895,000 outstanding principal amount of the City’s Water Revenue Refunding Bonds, Series 2012, dated June 21, 2012 (the “Series 2012 Bonds”), and (c) all additional water 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 2013 Bonds, together with other legally available funds of the City to (a) provide for the payment of the principal of and interest on \$31,210,000 outstanding principal amount of the City’s Water Revenue Bonds, Series 2004, dated December 1, 2004 (the “Refunded Bonds”), through and including August 15, 2014 (the “Redemption Date”) and redeeming on the Redemption Date all of the then outstanding Refunded Bonds, and (b) pay the costs of issuing the Series 2013 Bonds.

Descriptions of and references to the Series 2013 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 2013 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 Water revenue refunding bonds (the “Refunding Bonds”) and additional Water revenue bonds (the “Additional Bonds”) on a parity with the Series 2009 Bonds, the Series 2012 Bonds and the Series 2013 Bonds. See “APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE - Refunding Bonds” and “ - Additional Bonds.”

SECURITY

The Series 2009 Bonds, the Series 2012 Bonds and the Series 2013 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 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 Water rates and charges are promptly implemented and enacted in accordance with such consultant’s report.

The Ordinance establishes a 2013 Reserve Account for the Series 2013 Bonds and requires the deposit therein of an amount equal to the Reserve Requirement for the Series 2013 Bonds. The “**Reserve Requirement**” with respect to a Series (as defined in the Ordinance) of Bonds is defined to be the least of (a) 10% of the stated principal amount of such Series of Bonds, (b) the maximum annual principal and interest requirements on such Series of Bonds, and (c) 125% of the average annual principal and interest requirements on such Series of Bonds. If the aggregate initial offering price of such Series of Bonds to the public is less than 98% or more than 102% of par, such offering price shall be used in clause (a) in lieu of the stated principal amount. The Ordinance requires the creation of similar reserve accounts for Additional Bonds and Refunding Bonds hereafter issued pursuant to the Ordinance.

See “**APPENDIX C - SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE**” for a summary of other covenants of the City, including provisions as to rates and charges for Water 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 2013 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 June 6, 2013, 2013 (the “**Escrow Agreement**”), between the City and Wells Fargo Bank, National Association, Minneapolis, Minnesota (the “**Escrow Agent**”). Such deposit will be used to purchase on such date of issuance direct obligations of the United State of America (“**Government Securities**”) which will be held in the Escrow Account. The Government Securities will mature on such dates and in such amounts as shall provide funds which, together with other funds in the Escrow Account, 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 2013 Bonds and the deposit of the proceeds thereof and other moneys with the Escrow Agent pursuant to the Escrow Agreement, the Refunded Bonds will be payable from the maturing principal of the Escrowed Securities, together with the earnings thereon and other money held for such purpose by the Escrow Agent. Under the Escrow Agreement the Escrowed Securities and the moneys held by the Escrow Agent are irrevocably pledged to the payment of the Refunded Bonds and the interest thereon and may be applied only to such payment, and the Refunded Bonds will no longer be deemed outstanding for purposes of the Ordinance.

Verification of Mathematical Computations

Upon delivery of the Bonds, Chris D. Berens, CPA, P.C., a firm of independent certified public accountants, will deliver to the Underwriter a report verifying the mathematical accuracy of certain computations relating to (a) the adequacy of the maturing principal amount of the securities held in the Escrow Account, interest earned thereon and certain uninvested cash to pay the principal and redemption price of, and interest on, the Refunded Bonds as such principal and redemption price and interest become due and payable, and (b) the mathematical computations supporting the conclusion that the Bonds are not “arbitrage bonds” under Section 148 of the Code. Such verification of the accuracy of the computations will be based upon information supplied by the Underwriter and on interpretations of the Code provided by Bond Counsel.

ESTIMATED SOURCES AND USES OF FUNDS

SOURCES OF FUNDS:

Principal Amount of Series 2013 Bonds	\$28,595,000.00
Plus: Net Original Issue Premium	2,719,105.75
Refunded Bond Funds	<u>5,347,606.26</u>

TOTAL SOURCES: **\$36,661,712.01**

USES OF FUNDS:

Deposit to Escrow Fund	\$33,283,274.89
2013 Account in Reserve Fund	3,042,125.00
Costs of Issuance (including Underwriters’ Discount)	<u>336,312.12</u>

TOTAL USES: **\$36,661,712.01**

DEBT SERVICE REQUIREMENTS

The following table sets for the debt service requirements for the City's outstanding the Series 2009 Bonds, the Series 2012 Bonds and the Series 2013 Bonds for each of the fiscal years ending August 31:

<u>Year</u>	<u>Annual Debt Service⁽¹⁾</u>	<u>Series 2013 Bonds</u>			<u>Aggregate Debt Service</u>
		<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service</u>	
2013	\$4,916,035.95	\$ 375,000.00	\$164,390.10	\$ 539,390.10	\$5,455,426.05
2014	2,397,431.26	2,185,000.00	857,125.00	3,042,125.00	5,439,556.26
2015	2,402,556.26	2,180,000.00	835,275.00	3,015,275.00	5,417,831.26
2016	2,399,706.26	2,185,000.00	802,575.00	2,987,575.00	5,387,281.26
2017	2,411,381.26	2,195,000.00	769,800.00	2,964,800.00	5,376,181.26
2018	2,407,781.26	2,235,000.00	703,950.00	2,938,950.00	5,346,731.26
2019	2,407,131.26	2,280,000.00	636,900.00	2,916,900.00	5,324,031.26
2020	2,414,281.26	2,350,000.00	545,700.00	2,895,700.00	5,309,981.26
2021	2,412,393.76	2,460,000.00	428,200.00	2,888,200.00	5,300,593.76
2022	2,078,593.76	2,540,000.00	354,400.00	2,894,400.00	4,972,993.76
2023	1,075,193.76	2,620,000.00	278,200.00	2,898,200.00	3,973,393.76
2024	1,079,393.76	2,705,000.00	199,600.00	2,904,600.00	3,983,993.76
2025	1,082,393.76	2,285,000.00	91,400.00	2,376,400.00	3,458,793.76
2026	1,084,193.76	---	---	---	1,084,193.76
2027	1,089,793.76	---	---	---	1,089,793.76
2028	1,098,993.76	---	---	---	1,098,993.76
2029	1,100,581.26	---	---	---	1,100,581.26
2030	1,105,725.00	---	---	---	1,105,725.00
2031	1,110,900.00	---	---	---	1,110,900.00
2032	1,119,050.00	---	---	---	1,119,050.00
2033	1,124,950.00	---	---	---	1,124,950.00
2034	1,128,600.00	---	---	---	1,128,600.00
TOTAL:	<u>\$39,447,061.11</u>	<u>\$28,595,000.00</u>	<u>\$6,667,515.10</u>	<u>\$35,262,515.10</u>	<u>\$74,709,576.21</u>

⁽¹⁾Excluding the Series 2004 Bonds to be refunded

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**THE CITY OF LINCOLN, NEBRASKA
WATER SYSTEM**

Five-Year Statement of Historical Operating and Debt Service results

<u>Fiscal</u> <u>Year</u> <u>Ending</u> <u>Aug 31</u>	<u>Annual</u> <u>Consumption</u> <u>in H.C.F.⁽¹⁾</u>	<u>Revenue</u> <u>From</u> <u>Water</u> <u>Sales</u>	<u>Other</u> <u>Revenue⁽²⁾</u>	<u>Total</u> <u>Revenue</u>	<u>Net</u> <u>Operating</u> <u>Costs⁽³⁾</u>	<u>Net</u> <u>Operating</u> <u>Income</u>	<u>Debt</u> <u>Service</u> <u>Requirement⁽⁴⁾</u>	<u>Debt</u> <u>Coverage</u> <u>Ratio</u>
2008	14,698,082	\$23,506,747	\$3,750,437	\$27,257,184	\$14,425,524	\$12,831,660	\$8,931,201	1.44
2009	14,934,921	25,052,990	2,785,197	27,838,187	14,995,078	12,843,109	8,923,414	1.44
2010	14,327,979	24,620,901	1,894,565	26,515,466	14,091,292	12,424,174	9,508,096	1.31
2011	15,211,581	27,979,010	2,650,496	30,629,506	15,455,023	15,174,483	9,501,858	1.60
2012	17,482,179	33,527,885	2,457,006	35,984,891	15,636,494	20,348,397	8,333,765	2.44

(1) H.C.F. – Hundred Cubic Feet

(2) Other revenue includes impact fees, tap fees, interest income and sales of service and materials

(3) Depreciation not included

(4) Includes all debt service, including subordinated debt

For historical operating results see “**APPENDIX B – City of Lincoln, Nebraska Water System Financial Statements and Schedules**” to this Official Statement.

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Projected Operating Statement and Coverage

Fiscal Year Ending Aug 31	Annual Consumption in H.C.F. ⁽¹⁾	Revenue from Water Sales	Other Revenue	Total Revenue ⁽²⁾	Net Operating Costs	Net Operating Income	Debt Service Requirement ⁽³⁾	Debt Coverage Ratio
2013	15,244,985	\$30,660,934	\$2,230,507	\$32,891,441	\$17,659,513	\$15,231,928	\$6,208,938	2.45
2014	15,244,985	32,334,875	2,183,989	34,518,864	18,057,318	16,461,546	6,644,940	2.47
2015	15,244,985	33,619,126	2,266,971	35,886,097	18,381,380	17,504,717	7,330,065	2.38
2016	15,244,985	34,961,401	2,362,155	37,323,556	19,202,997	18,120,559	7,298,503	2.48
2017	15,244,985	36,161,406	2,389,041	38,550,447	20,064,834	18,485,613	7,287,228	2.53

⁽¹⁾ H.C.F. – Hundred Cubic Feet

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

⁽³⁾ Includes all debt service, including subordinated debt

The projections presented above were prepared by the business office of the City’s Public Works and Utilities Department. The projections are based on historical pumpage data with population growth of 1%, a historical inflationary increase in operation and maintenance costs of 3.5% annually, and a projected rate increase of 5% in Fiscal Year 2014 and 3.5% in Fiscal Years 2015/2017.

Water Rates and Charges

The City’s rates for the sale of water are fixed by its City Council (the “**Council**”). The Council has increased rates periodically to maintain the System on a sound financial basis. The most recent rate increase adopted by the Council was on August 8, 2012 and was effective with the November 2012 billings. The new service charges and user fees are as follows:

<u>Residential</u>	
First 800 cfm*	\$1.344 per 100 cf
Next 1,500 cfm*	1.911 per 100 cf
Amount over 2,300 cfm*	2.961 per 100 cf
 <u>Non-Residential</u>	
	(using less than 12,000,000 cf of the preceding year)
First 8,000 cfm*	\$1.344 per 100 cf
Amount over 8,000 cfm*	1.911 per 100 cf

*cfpm = cubic feet per month

Non-Residential (using more than 12,000,000 cf of the preceding year)

On a calendar year basis, a “base usage” of each high user customer will be determined. The base usage is an average of the water usage of each high user customer for the previous three (3) calendar years. The following fees would apply:

- \$ 1.276 per 100 cf for water usage less than base to 5% above base
- 1.323 per 100 cf for water usage 5% to 15% above base
- 1.365 per 100 cf for water usage 15% to 25% above base
- 1.407 per 100 cf for all water usage over 25% above base

The minimum monthly service charge is set forth below:

<u>Water Meter Size</u>	<u>Monthly Service Charge Per Water Meter</u>
5/8 inch	\$ 3.60
3/4 inch	4.55
1 inch	7.60
1½ inch	15.15
2 inch	24.25
3 inch	45.50
4 inch	75.85
6 inch	151.65
8 inch	242.65
10 inch	348.85

Section 17.22.060 of the Lincoln Municipal Code states that “the amounts charged for all water use, together with all other charges and penalties, shall be and are hereby declared to be a lien upon the property when the same is furnished from the time the same becomes due until paid.” Because of this provision, bad debts are negligible.

Number of Water Customers

<u>At End of Fiscal Year (August 31)</u>	<u>No. of Customers</u>
2005-06	75,919
2006-07	76,816
2007-08	77,532
2008-09	77,973
2009-10	78,740
2010-11	79,184
2011-12	79,698

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Largest Water Users

<u>User</u>	<u>Consumption for Fiscal Year Ended August 31, 2012 Hundred Cubic Feet</u>	<u>Revenue</u>	<u>Percentage of Total Revenue*</u>
University of Nebraska	518,243	\$943,878	2.62
City of Lincoln	378,752	739,653	2.06
Archer-Daniels Midland Company	329,621	417,871	1.16
State of Nebraska	314,821	609,482	1.69
Veyance Technologies, Inc.	199,677	258,226	0.72
University of Nebraska Foundation	183,436	232,448	0.65
Bryan LGH Medical Center	164,387	326,136	0.91
Lincoln Public Schools	138,545	277,230	0.77
Pfizer Animal Health	133,620	192,791	0.54
Lincoln Plating Company	111,902	214,597	0.60

* Total revenue includes

Water sales	\$33,527,885
Net Services & Materials	622,407
Interest Income	530,761
Impact Fees	921,837
Tap Fees	<u>382,001</u>
	\$35,984,891

Water Supply

The City's principal water supply source is derived from the underground flow in the Platte River Valley about twenty-five (25) miles northeast of the City. The Platte River water supply was initially developed in 1931 with a capacity of 13.5 million gallons per day. The present rated capacity of the Platte River well field is 110 million gallons per day. Additional well capacity is currently in design with approximately 17 million gallons per day becoming available in the Summer of 2014.

Water from the Platte River supply is pumped to one of two nearby treatment plants where the raw water is treated. One plant uses aeration, chlorination, detention and filtration. The other plant uses ozonation, chlorination and filtration. In both processes, ammonia is added to react with chlorine to form chloramines. Fluoride is also added in both plants.

Water from the treatment plants is pumped to the City through 36-inch, 48-inch and 54/60-inch transmission lines to storage reservoirs located within the City. The present delivery rate from the treatment plants to Lincoln is about 120 million gallons per day. The City's water system has the capacity of storing about 50 million gallons of water in 10 separate underground reservoirs. About 52.5 million gallons can be stored in 9 elevated facilities throughout the City, bringing the total storage capacity to about 102.5 million gallons.

The total transmission capacity, with the new 54/60-inch transmission main, is limited to 160 million gallons per day to the City. This water transmission main was completed in 2009 at a construction cost of \$22 million.

For the year ended August 31, 2012, the total water pumpage was 14,032 million gallons for an average daily pumpage of 38.4 million gallons. The 2012 maximum daily requirements were 80.0 million gallons per day. The area served is approximately 91.8 square miles with a total of 79,698 customers.

The City owns approximately 800 acres of undeveloped water supply land near the Platte River. When fully developed, the total well field is projected to supply a sustained yield of 210 million gallons of water per day.

Water Distribution

The City's water distribution system is divided into six (6) distinct pressure districts to serve differing elevations in the City. System pressures vary from about 35 psi to about 100 psi in each of the pressure districts.

Main sizes vary from 4-inch through 54-inch in diameter and are primarily constructed of cast iron, ductile iron, concrete, transite and PVC. The System includes approximately 12,000 fire hydrants and 26,000 valves.

New water mains are designed according to criteria that generally follow the standards of the American Water Works Association (the "AWWA") and the "Recommended Standards for Water 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 details follow the "City of Lincoln Standard Specification for Municipal Construction". Current minimum sizes installed are six-inch diameter pipes in residential areas, eight-inch diameter pipes in commercial areas and 12-inch diameter pipes in industrial areas. All new pipe installed through 16-inch diameter is ductile iron encased in polyethylene to protect the iron product from external corrosion or PVC pipe.

The City has established a feeder main network of larger mains on half-mile centers to ensure that an adequate supply of water is available where it is needed to meet all types of uses. Distribution mains with a minimum 16-inch diameter are installed on section lines (one mile increments) and 12-inch diameter mains are installed on half-mile centers.

On the average, System construction personnel repair approximately 150 water main breaks each year. Each fire hydrant is checked and operated once per year.

Service personnel currently replace, repair, and maintain approximately 82,000 water meters, all of which are the property of the System, and the System has the responsibility of maintaining, repairing and replacing all such meters. The System also conducts a cross connection control program in accordance to state regulations.

The System's average unaccounted-for water for the last three decades has been as follows:

<u>Decade</u>	<u>Percentage of Water Unaccounted For</u>
1980's	6.30%
1990's	6.14
2000's	6.00

In order to reduce unaccounted-for water, in 1997 the System undertook a meter replacement program in which all meters one-inch in size and smaller were replaced with new meters and radio reading devices.

The devices were installed to reduce the need to enter a residence to obtain meter readings. Additionally, a large meter-testing program began in 1980 whereby all large water meters were tested on a regular basis. When a meter is found to be out of acceptable accuracy limits, repairs are made to bring the accuracy to within the AWWA standard. In most instances, repairs can be made to bring accuracy to within 1.5% of actual water usage, the accuracy of a new meter. The System will begin a 20 year plan to replace the small meters in 2013.

Service personnel also maintain backflow prevention devices. Backflow prevention devices, mandated by the 1974 Safe Drinking Water Act and NDHHS Title 179, are installed on the customer's service line to prevent pollutants or contaminants from the customer's premises from entering the public water system. Currently, over 6,000 devices ranging in size from three-quarters of an inch to ten inches are installed on customer water services or within the internal plumbing system. These devices are the property of the owner of the premises who is also responsible for annual testing and repair of their device. LWS staff track testing frequency and notify customers when testing is required. Residential premise surveys are implemented every five years in accordance with NDHHS rules.

The System utilizes a computerized maintenance management system (CMMS) to maintain an inventory of valves, fire hydrants, water meters, backflow prevention devices and water service taps. Included in the inventory is a complete maintenance history of all checks, tests, repairs and replacements of these items. A GIS mapping system has recently been implemented, and has been linked to the CMMS.

To ensure that the System delivers water of high quality, the Safe Drinking Water Act requires that sampling and monitoring for bacteriological contamination be performed. Laboratory personnel collect and deliver water samples on a daily basis from throughout the distribution system to an independent laboratory for analysis. Over 2,500 samples are collected annually. No major contamination problems have been detected in the Water System.

Periodically, the Insurance Services Office reviews the City's fire suppression system to develop a public protection classification for fire insurance rating purposes. The major elements of such system are measured, including the Communications Center, the Fire Department and the water supply. The measurements are then developed into a Public Classification number on a relative scale of 1 to 10, with 10 representing less than the minimum recognized protection. The City's last evaluation by ISO was in November, 2001 and the City received a rating of Public Protection Class 3, on a scale of 10 (the lowest rating) to 1 (the highest rating) based upon a review of the water supply pressure and flow tests, water distribution main network, hydrant distribution, and water supply available to fight a fire. Forty points are available for water supply, with 36.68 points having been awarded. If water supply were the sole element in determination of a Public Protection Class rating, the City would have received a rating of 1.

Waterworks System Employee Information

The System has 104 employees as of the date of this Official Statement. All employees, with the exception of three managers who are not represented by any bargaining unit, are represented by one of the Public Association of Governmental Employees, the Lincoln City Employees Association, or the Lincoln "M" Class 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 \$1,077,013 for the 2011-12 Fiscal Year.

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

Miki Esposito	Director of Public Works & Utilities Years of Related Experience: 2 Years with City of Lincoln: 3
Fran Mejer	Public Works & Utilities Business Manager Years of Related Experience: 22 Years with City of Lincoln: 22
Jerry Obrist	Chief Engineer Waterworks Years of Related Experience: 43 Years with City of Lincoln: 43
John Miriovsky	Superintendent of Water Production & Treatment Years of Related Experience: 30 Years with City of Lincoln: 30
Nick McElvain	Superintendent of Water Operations Support Years of Related Experience: 35 Years with City of Lincoln: 38
Steve Owen	Superintendent of Water Distribution Years of Related Experience: 10 Years with City of Lincoln: 29

THE SERIES 2013 BONDS

General

The Series 2013 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 February 15 and August 15 of each year, commencing August 15, 2013, and will mature on August 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 2013 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 2013 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 2013 Bond shall be payable only upon the surrender of such Series 2013 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 2013 Bonds. The ownership of one fully registered Series 2013 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 2013 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 2013 Bonds may experience some delay in their receipt of distributions of the principal or redemption price of and interest on the Series 2013 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 2013 Bonds can only be effected through DTC, DTC Participants and certain banks, the ability of a Beneficial Owner to pledge Series 2013 Bonds to persons or entities that do not participate in the Book-Entry System, or otherwise to take actions in respect of such Series 2013 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 2013 Bonds maturing on or prior to August 15, 2023 are not subject to redemption prior to their stated maturities. Series 2013 Bonds maturing on or after August 15, 2024 are subject to redemption prior to maturity at the option of the City in whole or in part, at any time on or after August 15, 2023 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 no fewer than 30 days prior to the redemption date to the registered owner of each Series 2013 Bonds, all or a portion of which is called for redemption. Each notice of redemption shall designate the Series 2013 Bonds to which such notice relates, the Date of Original Issue of such Series 2013 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 2013 Bonds of such maturity to be redeemed and, in the case of any Series 2013 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 2013 Bonds, or portions thereof, the redemption price thereof, together with interest accrued 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 2013 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 2013 Bonds, the Registrar will provide the notices of Series 2013 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 2013 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 2013 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 2013 Bonds is exercised, the City shall execute and the Registrar shall deliver the Series 2013 Bonds in accordance with the Ordinance. For every such transfer or exchange of Series 2013 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 2013 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 2013 Bonds, after notice of the redemption of such Series 2013 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 2013 BONDS - Book-Entry System"** herein so long as the Series 2013 Bonds are held in book-entry format.

RATINGS

Moody's Investors Service has assigned the Series 2013 Bonds the rating of "Aa1" and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., has assigned the Series 2013 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 2013 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 2013 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 2013 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 2013 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 2013 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 2013 Bonds:

Federal and Nebraska Tax Exemption. The interest on the Series 2013 Bonds 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 2013 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 2013 Bonds have not been designated as “qualified tax-exempt obligations” for purposes of Section 265(b) of the Code.

Bond counsel’s opinions are provided as of the date of the original issue of the Series 2013 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 2013 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 2013 Bonds in gross income for federal and Nebraska income tax purposes retroactive to the date of issuance of the Series 2013 Bonds. Bond Counsel is expressing no opinion regarding other federal, state or local tax consequences arising with respect to the Series 2013 Bonds but has reviewed the discussion under the heading “**TAX MATTERS.**”

Other Tax Consequences

Original Issue Premium. If a Series 2013 Bond is issued at a price that exceeds the stated redemption price at maturity of the Series 2013 Bond, the excess of the purchase price over the stated redemption price at maturity constitutes “premium” on that Series 2013 Bond. Under Section 171 of the Code, the purchaser of that Series 2013 Bond must amortize the premium over the term of the Series 2013 Bond using constant yield principles, based on the purchaser’s yield to maturity. As premium is amortized, the owner’s basis in the Series 2013 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 2013 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 2013 Bonds. Upon the sale, exchange or retirement (including redemption) of a Series 2013 Bond, an owner of the Series 2013 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 2013 Bond (other than in respect of accrued and unpaid interest) and such owner's adjusted tax basis in the Series 2013 Bond. To the extent a Series 2013 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 2013 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 2013 Bonds, and to the proceeds paid on the sale of the Series 2013 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 2013 Bonds should be aware that ownership of the Series 2013 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 2013 Bonds. Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of Series 2013 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 2013 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 2013 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 is current in its continuing disclosure reporting and is in compliance with all prior undertakings.

Annual Reports. Pursuant to the Continuing Disclosure Undertaking, the City shall, not later than **May 1** of each year, commencing May 1, 2014, 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 Water 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 2013 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, together with the information under the following headings in this Official Statement:

Projected Operating Results and Debt Service Coverage

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 2013 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 2013 Bonds, or other material events affecting the tax status of the Series 2013 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 2013 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 2013 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 2013 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 2013 Bonds or questioning or affecting the validity of the Series 2013 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 2013 Bonds are being issued.

UNDERWRITING

The Underwriter has agreed, subject to certain customary closing conditions, to purchase the Series 2013 Bonds at an aggregate purchase price of \$31,076,767.25 (equal to the par amount of the Series 2013 Bonds plus net original issue premium in the amount of \$2,719,105.75 and less Underwriter's discount of \$237,338.50), and to make a public offering of the Series 2013 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 2013 Bonds if any such Series 2013 Bonds are purchased. The Series 2013 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 2013 Bonds are subject to the approval of Bond Counsel. Certain legal matters will be passed on by Rodney C. Confer, City Attorney. Bond Counsel has participated in the preparation of this Official Statement, but the factual and financial

APPENDIX A

THE CITY OF LINCOLN, NEBRASKA

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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 91.76 square miles, and in its growth and development has annexed five other municipalities so that the City includes most of the urban area of Lancaster County. It enjoys a unique position in Nebraska as the center of the state governmental and educational activities.

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 2012 population is 262,341.

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 6,503 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 Atlanta, Chicago, Denver, Memphis, and Minneapolis. Eppley Airfield, located in east Omaha, is 65 minutes from downtown Lincoln and offers service from 22 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 24,610 students, Nebraska Wesleyan University, with approximately 2,138 students, Union College, with approximately 901 students, Kaplan University, with approximately 690 students and Southeast Community College, with approximately 12,242 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 36,902 is served by 6 high schools, 11 middle schools, and 37 elementary schools. Lincoln is home to nearly 30 private and parochial schools. Lincoln's private school offerings range from pre-K to high school institutions. Affiliations include Roman Catholic, Lutheran, SDA, and nondenominational Christians.

Building Permits and Property Values

FISCAL YEAR	LAST TEN YEARS						TOTALS
	COMMERCIAL 1 CONSTRUCTION		RESIDENTIAL 1 CONSTRUCTION		PROPERTY VALUE 2		
	# PERMITS	VALUE	# PERMITS	VALUE	COMMERCIAL	RESIDENTIAL	
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
2004	1,061	258,670,339	3,846	321,126,701	3,598,787,015	8,402,403,364	12,001,190,379
2003	1,036	269,298,229	3,913	315,662,242	3,094,988,486	7,255,640,292	10,350,628,778

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 2012-2013 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 ATU and IAF contracts are awaiting City offers and expected to be finalized soon. The ATU contract will likely expire at the end of August, 2013. All other contracts will expire at the end of August, 2014.

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, 2012		NOVEMBER 30, 2012	
	Number Employed	Percent of Total	Number Employed	Percent of Total
Industry Manufacturing:				
Durable Goods	7,797	4.4	8,218	4.6
Nondurable Goods	4,357	2.5	4,574	2.6
Total Industry Manufacturing	12,154	6.9	12,792	7.2
Nonmanufacturing:				
Natural Resource & Construction	6,982	4.0	7,156	4.0
Transportation, Communications & Utilities	10,456	5.9	10,395	5.8
Wholesale Trade	4,193	2.4	4,028	2.3
Retail Trade	19,076	10.8	19,278	10.8
Information	2,095	1.2	2,148	1.3
Finance, Insurance & Real Estate	13,627	7.7	13,651	7.6
Services (except domestic)	67,756	38.4	69,262	38.8
Government	39,936	22.7	40,037	22.4
Total Nonmanufacturing	164,121	93.1	165,955	93.0
TOTAL	176,275	100.0	178,747	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.

LINCOLN SMSA (LANCASTER COUNTY LABOR FORCE DATA 2011-2002) (For the Calendar Year Indicated)

	*2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Civilian Labor Force	163,270	159,872	159,387	160,357	157,841	156,204	156,033	156,100	154,720	151,775
Unemployment	6,516	6,792	6,937	4,839	4,365	4,308	5,603	5,470	5,686	4,934
Percent of Labor Force	4.0	4.2	4.4	3.0	2.8	2.8	3.6	3.5	3.7	3.3
Employment	156,755	153,080	152,450	155,518	153,476	151,896	150,430	150,630	149,034	146,841

STATE OF NEBRASKA

Percent of Labor Force										
Unemployment	4.4	4.7	4.7	3.3	3.0	3.0	3.9	3.9	4.0	3.7

Source: State of Nebraska, Department of Labor

* Labor Force Data for 2012 is unavailable at date of print

**LINCOLN PRINCIPAL EMPLOYERS
CURRENT YEAR**

Employer	Employees	Rank	Percentage of Total City Employment
State of Nebraska	8,894	1	5.00 %
Lincoln Public Schools	7,515	2	4.23
University of Nebraska-Lincoln	6,006	3	3.38
BryanLGH Medical Center	3,865	4	2.17
US Government	3,035	5	1.71
City of Lincoln	2,587	6	1.45
Saint Elizabeth Regional Medical Center	2,259	7	1.27
Burlington Northern Railroad	1,800	8	1.01
B&R Stores, Inc.	1,506	9	0.85
State Farm Insurance	1,382	10	0.78
Total	38,849		21.85 %

**DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

Year	Population 1	Per Capita Personal Income 2	School Enrollment 3
2012	262,341	\$	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
2004	236,146	32,907	32,270
2003	235,565	32,009	31,889

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 2012 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>
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
2004	73,059	91,046	119,456
2003	72,260	89,642	116,974

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
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
2004	30,884,544	55,272,920	13,633,902	22,308,940	14,728,510	18,544,667	10,525,090	7,914,521	173,813,094
2003	28,938,852	50,933,285	12,317,663	19,935,823	16,469,645	17,614,751	7,996,019	8,507,223	162,713,261

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

GENERAL REVENUES BY SOURCE ¹ LAST TEN FISCAL YEARS

Fiscal Year	Taxes And Special Assessment	Inter-Governmental	Permits And Fees	Reimbursement For Services	Investment Earnings	Other	Totals
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
2004	114,756,962	58,619,699	15,593,326	6,322,870	5,207,711	10,188,520	210,689,088
2003	107,114,577	52,773,424	12,679,623	6,097,336	4,353,336	8,234,138	191,252,434

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

**SPECIAL ASSESSMENT COLLECTIONS
LAST TEN YEARS ¹**

Fiscal Year Ended August 31	Special Assessment Collections Including Interest
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
2004	2,104,925
2003	1,814,191

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 2012 tax levy for the 2012-2013 fiscal year is \$107,939,017 below the legal limit, a tax rate per \$100 valuation of .31580. The assessed value upon which the 2012 levy is based is \$16,676,196,896. By charter, only 90% of the property tax levy may be appropriated.

For the 2012-2013 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 2012-2013 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 4.88%. An additional 1% can be authorized by a 75% vote of the City Council and was utilized for the 2012-2013 budget. The 2012-2013 budget is \$9,362,458 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 After Levy		Accumulated Collections As Of August 31, 2012	
		Amount	Percent	Amount	Percent
2012	\$ 50,214,817	\$ 48,788,943	97.16 %	\$ 48,788,943	97.16 %
2011	45,718,972	44,206,917	96.69	45,555,557	99.64
2010	45,197,040	43,791,366	96.89	45,185,352	99.97
2009	45,884,670	44,385,970	96.73	45,869,388	99.97
2008	45,052,028	43,526,689	96.61	45,040,680	99.97
2007	43,291,440	41,815,295	96.59	43,285,065	99.99
2006	40,930,818	39,549,553	96.63	40,927,608	99.99
2005	38,755,995	37,488,504	96.73	38,749,283	99.98
2004	36,994,112	35,696,288	96.49	36,902,819	99.75
2003	35,007,926	33,648,496	96.12	34,916,463	99.74

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	2012 Assessed Valuations	Percentage Of Total Assessed Valuation
Burlington Northern	Railroad	\$ 82,347,921	0.52%
B & J Partnership Ltd.	Building Management	79,342,600	0.50%
Kawasaki	Manufacturing	72,189,027	0.45%
Ameritas Life Insurance Corp	Insurance	59,515,629	0.37%
WEA Gateway LLC	Retail Management	57,102,771	0.36%
BryanLGH	Hospital	51,802,894	0.33%
Chateau Van Dorn LLC	Real Estate Development	49,141,073	0.31%
Pfizer	Animal Health	45,496,415	0.29%
Nebco	Construction/Development	44,869,204	0.28%
Windstream	Telecommunications	40,146,292	0.25%
		\$ 581,953,826	3.66%

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
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
2004	51,869,477
2003	48,657,268

**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
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
2004	24,546,532	51,869,477	9,263	1,144,747	9,037,781	86,607,800
2003	22,780,085	48,657,268	10,876	1,199,507	8,831,712	81,479,448

**TAXABLE ASSESSED VALUATION
LAST TEN YEARS ¹**

Tax Year	Real Estate	All Other	Total
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
2005	12,421,799,720	716,716,506	13,138,516,226
2004	12,001,190,379	742,915,013	12,744,105,392

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									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
City of Lincoln	0.3158	0.2879	0.2879	0.2879	0.2879	0.2833	0.3009	0.2950	0.2903	0.3145
School District No. 1	1.2461	1.2462	1.2537	1.2668	1.2719	1.2764	1.3142	1.3141	1.3011	1.2830
Lancaster County	0.2683	0.2683	0.2683	0.2683	0.2755	0.2655	0.2841	0.2797	0.2683	0.2683
Educational Service Unit #18	0.0150	0.0145	0.0150	0.0150	0.0141	0.0141	0.0150	0.0150	0.0150	0.0150
Community Technical College	0.0627	0.0600	0.0676	0.0722	0.0689	0.0689	0.0696	0.0655	0.0655	0.0655
Lower Platte South Natural Res. Dist.	0.0398	0.0406	0.0410	0.0410	0.0418	0.0416	0.0422	0.0323	0.0323	0.0359
Railroad Transportation Safety Dist.	0.0260	0.0260	0.0260	0.0260	0.0260	0.0246	0.0260	0.0260	0.0248	0.0220
Lancaster County Correctional JPA City	0.0185	0.0189	0.0194	0.0195	-	-	-	-	-	-
Lancaster County Correctional JPA County	0.0105	0.0106	0.0107	0.0106	-	-	-	-	-	-
Agricultural Society of Lancaster County	0.0016	0.0017	0.0016	0.0015	0.0016	0.0016	0.0018	0.0020	0.0030	0.0012
Lancaster County Fairgrounds	0.0037	0.0038	0.0038	0.0038	0.0043	0.0037	0.0042	0.0042	0.0043	0.0050
Public Building Commission	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170
	2.0250	1.9955	2.0120	2.0296	2.0090	1.9967	2.0750	2.0508	2.0216	2.0274

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, 2012

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	7,235
8,295	06/27/07	Stormwater Drainage and Flood Mgmt	4.625 - 5.000	Serial 2008 to 2027	2017	"	6,935
8,200	02/10/11	Stormwater Bonds	2.000 - 4.500	Serial 2013 to 2030	2020	"	8,200
19,290	06/21/11	Refunding	0.2000 - 5.000	Serial 2011 to 2022	2019	"	18,880
8,090	06/26/12	Refunding	1.000 - 3.000	Serial 2013 to 2023	na	"	8,090
Total General Bonds							\$ 49,340
Tax Allocation Bonds:							
5,500	04/21/04	Tax Allocation Bonds	3.000 - 4.800	Serial 2004 to 2015	2010	"	2,415
365	08/15/05	Tax Allocation Bonds	4.750	Serial 2006 to 2018	Anytime	"	187
288	10/01/06	Tax Allocation Bonds	5.100	Serial 2008 to 2016	Anytime	"	157
2,205	04/05/07	Tax Allocation Bonds	5.000 - 5.550	Serial 2009 to 2018	2012	"	1,655
601	06/01/07	Tax Allocation Bonds	5.240	Serial 2008 to 2018	Anytime	"	550
388	06/01/07	Tax Allocation Bonds	5.240	Serial 2007 to 2020	Anytime	"	275
369	06/15/07	Tax Allocation Bonds	5.400	Serial 2007 to 2014	Anytime	"	140
42	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2021	Anytime	"	33
71	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2017	Anytime	"	58
474	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2022	Anytime	"	280
547	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	435
200	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	157
611	06/30/09	Tax Allocation Bonds	7.00	Serial 2011 to 2023	Anytime	"	597
3,375	07/28/09	Tax Allocation Bonds	2.500 - 6.400	Serial 2011 to 2023	Anytime	"	3,175
263	04/01/11	Tax Allocation Bonds	3.990	Serial 2011 to 2022	Anytime	"	244
Total Tax Allocation Bonds							\$ 10,358
Tax Supported Bonds:							
27,000	12/05/06	Highway Allocation Fund	4.000 - 5.000	Serial 2008 to 2027	2016	Semiannually	22,155
28,095	06/06/12	Highway Allocation Fund	1.000 - 5.000	Serial 2012 to 2023	na	"	28,095
Total Tax Supported Bonds							\$ 50,250
Special Assessment Bonds:							
825	08/18/11	Special Assessment	0.400 - 3.700	Serial 2012 to 2026		Semiannually	775
375	08/18/11	Special Assessment	4.200	Term 2031		"	375
3,000	11/23/11	Special Assessment	2.000 - 3.500	Serial 2012 to 2031		"	2,860
Total Special Assessment Bonds							\$ 4,010
West Haymarket Joint Public Agency							
31,515	09/08/10	Facility Bonds Taxable Build America Bonds	3.500 - 4.45	Serial 2020 to 2030	Anytime	Semiannually	31,515
68,485	09/08/10	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	08/24/11	Facility Bonds	3.500 - 5.000	Serial 2021 to 2032	2021	"	44,290
55,710	08/24/11	Facility Bonds	4.250 / 5.000	Term 2036 & 2042	2021	"	55,710
Total West Haymarket Joint Public Agency							\$ 300,000
TOTAL GENERAL OBLIGATION BONDS							\$ 413,958
Tax Supported Bonds:							
11,080	3/13/02	Antelope Valley Project	1.500 - 5.000	Serial 2002 to 2016	2012	Semiannually	\$ 5,210
Revenue Bonds:							
18,000	08/03/05	Wastewater Revenue	4.000 - 5.000	Serial 2006 to 2030	2015	Semiannually	\$ 14,460
16,710	04/18/07	Wastewater Revenue	4.000 - 4.500	Serial 2008 to 2029	2017	"	14,190
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	"	38,290
Total Wastewater Bonds							\$ 70,690
40,000	11/16/04	Water Revenue	3.000 - 5.000	Serial 2005 to 2025	2014	Semiannually	31,210
10,515	08/04/09	Water Revenue	2.000 - 4.125	Serial 2013 to 2029	2019	"	10,515
4,905	08/04/09	Water Revenue	4.5000	Term 2034	2019	"	4,905
10,895	06/21/12	Water Revenue	1.000 - 4.000	Serial 2013 to 2022	na	"	10,895
Total Water Bonds							\$ 57,525
4,360	12/18/01	Parking Revenue	3.750 - 5.000	Serial 2002 to 2017	2011	"	1,650
1,640	12/18/01	Parking Revenue	5.125	Term 2021	2011	"	1,640
2,065	12/29/10	Parking Revenue	1.250 - 2.850	Serial 2011 to 2014	N/A	"	1,185
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
Total Parking Bonds							\$ 22,995
4,000	08/17/06	Solid Waste Management Revenue	4.000 - 4.250	Serial 2007 to 2021	2013	Semiannually	\$ 2,800
148,190	10/01/02	Electric Revenue and Refunding Bonds	4.000 - 5.000	Serial 2004 to 2025	2012	"	70,040
93,045	10/01/03	Electric Revenue and Refunding Bonds	3.000 - 5.000	Serial 2004 to 2026	2014	"	74,905
33,265	10/01/03	Electric Revenue and Refunding Bonds	4.750	Term 2028	2014	"	33,265
61,290	10/01/05	Electric Revenue Bonds	5.000	Serial 2029 to 2032	2015	"	61,290
53,710	10/01/05	Electric Revenue Bonds	4.750	Term 2035	2015	"	53,710
183,230	05/15/07	Electric Revenue and Refunding Bonds	4.000 - 5.000	Serial 2009 to 2035	2016	"	172,490
81,850	05/15/07	Electric Revenue and Refunding Bonds	4.500 / 4.750	Term 2034 & 2037	2016	"	81,850
Total Electric Bonds							\$ 547,550
TOTAL REVENUE BONDS							\$ 701,560

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
2013	\$ 7,683	19,140	740	238	3,842	962
2014	8,876	19,022	780	200	3,983	878
2015	9,236	18,766	815	162	4,076	787
2016	9,606	18,433	855	122	4,165	680
2017	8,724	18,114	2,020	51	2,955	573
2018 - 2022	54,714	85,303	-	-	8,894	1,822
2023 - 2027	69,719	71,004	-	-	5,123	613
2028 - 2032	55,270	57,191	-	-	333	32
2033 - 2037	62,955	43,267	-	-	-	-
2038 - 2042	76,235	25,396	-	-	-	-
2043 - 2046	50,940	5,492	-	-	-	-
	<u>413,958</u>	<u>381,128</u>	<u>5,210</u>	<u>773</u>	<u>33,371</u>	<u>6,347</u>

Fiscal Year Ended August 31	Business-Type Activities					
	Revenue Bonds		Loans Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 27,200	32,687	368	139	343	49
2014	28,440	31,411	527	259	350	41
2015	29,605	30,123	693	371	297	32
2016	30,920	28,746	709	355	243	27
2017	32,355	27,288	725	338	248	22
2018 - 2022	167,615	112,587	3,887	1,431	790	48
2023 - 2027	117,085	79,931	4,365	954	-	-
2028 - 2032	117,995	52,148	4,448	415	-	-
2033 - 2037	122,705	23,693	810	25	-	-
2038	27,640	1,244	-	-	-	-
	<u>\$ 701,560</u>	<u>419,858</u>	<u>16,532</u>	<u>4,287</u>	<u>2,271</u>	<u>219</u>

Fiscal Year Ended August 31	Major Enterprise Funds					
	Wastewater System		Water System		Electric System	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 3,488	2,925	3,360	2,397	19,610	26,333
2014	3,724	2,858	3,498	2,323	20,595	25,353
2015	3,909	2,838	3,649	2,239	21,620	24,323
2016	4,047	2,665	3,752	2,107	22,675	23,271
2017	4,200	2,493	3,875	1,971	23,800	22,146
2018 - 2022	22,513	10,690	21,435	7,169	120,725	91,862
2023 - 2027	26,752	6,262	12,993	2,897	75,095	68,966
2028 - 2032	15,407	1,520	5,225	1,190	95,195	48,970
2033 - 2037	554	17	2,366	151	120,595	23,550
2038 - 2042	-	-	-	-	27,640	1,244
	<u>\$ 84,594</u>	<u>32,268</u>	<u>60,153</u>	<u>22,444</u>	<u>547,550</u>	<u>356,018</u>

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

Net assets of \$4,447,455, \$2,847,674, \$10,305,977, and \$363,083 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	19,307,004	-
Improvements	219,925	-
Infrastructure	15,475,023	-
Machinery and Equipment	4,699,356	3,122,785
Construction In Progress	672,247	160,297
Less Accumulated Depreciation, (where applicable)	<u>(6,939,014)</u>	<u>(2,219,160)</u>
Total	<u>\$ 35,208,991</u>	<u>\$ 1,273,922</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, 2012, 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	\$ 413,958,000	100.0 %	\$ 413,958,000
Overlapping:			
School District #1	351,443,000	99.5	349,686,000
Lower Platte South N.R.D.	-	75.4	-
Lancaster County	1,070,000	85.4	914,000
Public Building Commission	39,270,000	85.4	33,537,000
Lancaster County Correctional Facility	57,130,000	85.4	48,789,000
Lancaster County Fairgrounds	8,115,000	85.4	6,930,000
	<u>457,028,000</u>		<u>439,856,000</u>
Total	<u>\$ 870,986,000</u>		<u>\$ 853,814,000</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 \$1,577.94; a per capita direct and overlapping debt of \$3,254.60; a ratio of direct City debt to 2012 actual valuation of 2.60 percent; and a ratio of direct and overlapping debt to 2012 actual valuation of 5.37 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, 2012, the Airport Authority had outstanding \$9,540,000 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
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
2004	4,934,224	2,893,437	7,827,661	173,813,094	4.50
2003	5,435,370	2,986,634	8,422,004	162,713,261	5.18

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
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%
2004	98,915,000	20,509,000	78,406,000	236,146	332.02	12,744,105,392	0.62%	12,001,190,379	0.65%
2003	61,759,000	17,083,000	44,676,000	235,565	189.65	11,130,588,167	0.40%	10,350,628,778	0.43%

¹ Source: Lincoln/Lancaster Planning Department.

² Assessed valuation is 100% of actual

**REVENUE BOND COVERAGE
LAST TEN FISCAL YEAR**

	Gross Revenue	Direct Operating Expenses	Net Available Revenue	Debt Service Requirements			Coverage
				Principal	Interest	Total	
Wastewater System							
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
2004	18,092,619	10,042,919	8,049,700	1,750,000	2,133,704	3,883,704	2.07
2003	15,607,743	9,086,469	6,521,274	1,032,500	266,722	1,299,222	5.02
Water System							
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
2004	24,557,918	12,477,486	12,080,432	3,115,000	2,411,632	5,526,632	2.19
2003	22,094,721	11,631,496	10,463,225	3,010,000	2,898,489	5,908,489	1.77
Parking Facilities ¹							
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
2004	6,299,598	2,733,492	3,566,106	1,145,000	908,456	2,053,456	1.74
2003	5,988,240	2,304,632	3,683,608	1,085,000	962,829	2,047,829	1.80
Solid Waste Management							
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
2008	8,537,520	5,540,292	2,997,228	190,000	155,825	345,825	8.67
2007	8,020,390	5,290,802	2,729,588	185,000	160,825	345,825	7.89

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

	F.Y. 2012	F.Y. 2011	F.Y. 2010	F.Y. 2009	F.Y. 2008	F.Y. 2007	F.Y. 2006	F.Y. 2005	F.Y. 2004	F.Y. 2003
Cash & Investment Balance - September 1 of Year Indicated	16,942,409	14,597,487	16,286,626	15,738,481	14,632,274	13,475,643	18,948,253	23,521,130	26,784,845	26,589,993
Receipts:										
Property Tax	33,574,992	31,449,267	31,486,553	33,783,984	32,181,660	31,454,763	28,366,526	26,727,618	24,546,532	22,780,085
City Sales & Use Tax	61,472,342	57,959,545	54,925,013	54,255,376	55,733,297	53,960,485	54,270,346	53,781,209	51,869,477	48,657,268
Other Income	36,542,477	33,232,580	27,906,103	27,389,492	26,270,119	27,663,641	25,390,112	25,620,145	23,615,320	24,933,838
Total Receipts	131,589,811	122,641,392	114,317,669	115,428,852	114,185,076	113,078,889	108,026,984	106,128,972	100,031,329	96,371,191
Less Disbursements	125,742,998	120,296,470	116,006,808	114,880,707	113,078,869	111,922,258	113,499,594	110,701,849	103,295,044	96,176,339
Cash & Investment Balance - August 31 of Year Indicated	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	26,784,845

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. 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>	<u>F.Y. 2004</u>	<u>F.Y. 2003</u>
Cash Balance - September 1 of Year Indicated	2,234,981	2,941,245	3,533,968	4,201,889	4,057,088	2,761,491	3,364,608	3,570,557	2,935,997	3,440,537
Receipts:										
Property Tax	5,773,392	5,337,610	5,517,878	5,689,007	5,709,454	5,460,690	2,973,410	5,607,615	5,387,468	5,883,592
Interest Income	13,723	28,331	60,063	131,475	153,977	84,935	86,812	83,286	48,595	32,298
Bond Proceeds	8,369,497	20,236,484						6,597,635		9,436,083
Other Income	110,962	116,758	124,279	173,446	1,003,173	1,927,112	2,935,603	149,038	691,340	240,110
Total Receipts	<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>	<u>6,127,403</u>	<u>15,592,083</u>
Disbursements:										
Bonds Paid	2,390,000	2,720,000	4,110,000	4,320,000	4,260,000	3,950,000	4,250,000	3,850,000	3,215,000	4,177,765
Bonds Defeased										9,609,774
Interest Paid	1,822,197	1,753,957	2,178,545	2,335,411	2,456,373	2,217,610	2,342,582	2,197,207	2,271,548	2,309,084
Transfer to Trustee	8,242,367	21,746,822						6,504,876		
Other Disbursements	118,023	204,668	6,398	6,438	5,430	9,530	6,360	91,440	6,295	
Total Disbursements	<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>	<u>5,492,843</u>	<u>16,096,623</u>
Equity Transfer										
Cash Balance - August 31 of Year Indicated	<u>3,929,968</u>	<u>2,234,981</u>	<u>2,941,245</u>	<u>3,533,968</u>	<u>4,201,889</u>	<u>4,057,088</u>	<u>2,761,491</u>	<u>3,364,608</u>	<u>3,570,557</u>	<u>2,935,997</u>

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

	<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>	<u>F.Y. 2004</u>	<u>F.Y. 2003</u>
Cash & Investment Balance - September 1 of Year Indicated	759,180	4,302,257	4,161,711	11,148,146	9,991,053	8,846,000	7,583,251	7,830,502	6,910,967	6,586,633
Receipts:										
Special Assessment Collections	1,049,570	996,209	984,301	954,672	1,235,621	1,257,112	1,476,284	1,208,686	1,654,695	1,271,575
Interest on Special Assessments	98,844	106,379	148,383	112,749	179,258	188,349	189,927	204,108	267,298	346,725
City's Share of Costs	621,898	233,615	292,420	34,802		187,957	723,038	578,992	116,009	97,107
Developers' Share of Costs										
Bond Proceeds	3,036,003	1,200,000								
Interest on Investments	47,349	60,248	135,149	335,273	453,282	340,274	254,809	217,996	140,289	130,555
Miscellaneous		38,456			33,964	49,403	74,657	30,687	288,482	195,535
Total Receipts	<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>	<u>2,466,773</u>	<u>2,041,497</u>
Disbursements:										
Construction Costs	2,359,096	2,081,765	1,113,691	861,203	742,698	766,768	1,066,513	1,796,239	1,399,323	1,560,456
Bonds Paid	190,000					55,000		100,000	105,000	105,000
Equity Transfer				7,554,009						
Interest Paid on Bonds & Notes	94,911	3,758,342				37,581		3,425	10,420	17,534
Other Refunds & Expenses	620,064	337,877	306,016	8,719	2,334	18,693	389,453	588,056	32,495	34,173
Total Disbursements	<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>	<u>1,547,238</u>	<u>1,717,163</u>
Cash & Investment Balance - August 31 of Year Indicated	<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>	<u>7,830,502</u>	<u>6,910,967</u>

APPENDIX B

FINANCIAL STATEMENTS

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LINCOLN WATER SYSTEM

Financial Statements
& Schedules
Fiscal Year Ended
August 31, 2012



ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS/UTILITIES

CITY OFFICIALS

Chris Beutler Mayor

COUNCIL MEMBERS

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Eugene Carroll

Jonathan Cook

Doug Emery

DiAnna Schimek

WATER SYSTEM

Miki Esposito Director of Public Works/Utilities

Lincoln Water System
August 31, 2012 and 2011

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Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying basic financial statements of Lincoln Water System as of and for the years ended August 31, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of Lincoln Water System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of Lincoln Water 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 Water System. They do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Water System as of August 31, 2012 and 2011, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

Our audits were conducted for the purpose of forming an opinion on Lincoln Water System's basic 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 audit 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 taken as a whole.

BKD, LLP

November 30, 2012

LINCOLN WATER SYSTEM

Management's Discussion and Analysis

This Management's Discussion and Analysis of the Lincoln Water System's (the "System") financial performance provides an overview of the financial activities for the years ended August 31, 2012 and 2011. Please read this information in conjunction with the accompanying basic financial statements and notes to the financial statements.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The System's Net Assets

The System's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The System's net assets increased by \$10,584,523 (4.16%) in 2012 over 2011 as shown in Table 1.

Financial Analysis

The following comparative condensed financial statements summarize Lincoln Water System's financial position and operating results for the years ended August 31, 2012, 2011, and 2010.

Table 1

Condensed Balance Sheets

	August 31		Change	
	2012	2011	Dollars	Percent
Current assets	\$ 20,220,886	\$ 9,111,242	\$11,109,644	121.93%
Capital assets	296,794,471	298,002,486	(1,208,015)	(0.41%)
Noncurrent assets	14,943,168	17,029,661	(2,086,493)	(12.25%)
Total assets	331,958,525	324,143,389	7,815,136	2.41%
Current liabilities	7,528,808	9,313,114	(1,784,306)	(19.16%)
Long-term liabilities	59,684,673	60,669,754	(985,081)	(1.62%)
Total liabilities	67,213,481	69,982,868	(2,769,387)	(3.96%)
Net assets				
Invested in capital assets, net of related debt	238,567,894	239,387,493	(819,599)	(0.34%)
Restricted for debt service	149,097	419,376	(270,279)	(64.45%)
Restricted for capital acquisition	299,582	39,915	259,667	650.55%
Unrestricted	25,728,471	14,313,737	11,414,734	79.75%
Total net assets	264,745,044	254,160,521	10,584,523	4.16%
Total liabilities and net assets	\$331,958,525	\$324,143,389	\$ 7,815,136	2.41%

Financial Highlights – Fiscal Year 2012

- Total assets at year end were \$331,958,525 and exceeded total liabilities by \$264,745,044. Of this amount \$25,728,471 (unrestricted) may be used to meet the ongoing obligations of the System.
- Current assets increased by \$11,109,644 (121.93%) primarily due to the increase in our cash and accounts receivables balances at year end.
- Noncurrent assets decreased by \$2,086,493 (12.25%) primarily due to a decrease in investment balances.
- Current liabilities decreased by \$1,784,306 (19.16%). In August 2012 the final payment was made on the Series 2003 Bonds.

Table 2**Condensed Balance Sheets**

	August 31		Change	
	2011	2010	Dollars	Percent
Current assets	\$ 9,111,242	\$ 9,500,666	(\$389,424)	(4.10%)
Capital assets	298,002,486	301,028,028	(3,025,542)	(1.01%)
Noncurrent assets	17,029,661	14,980,814	2,048,847	13.68%
Total assets	324,143,389	325,509,508	(1,366,119)	(0.42%)
Current liabilities	9,313,114	9,599,932	(286,818)	(2.99%)
Long-term liabilities	60,669,754	67,181,646	(6,511,892)	(9.69%)
Total liabilities	69,982,868	76,781,578	(6,798,710)	(8.85%)
Net assets				
Invested in capital assets, net of related debt	239,387,493	238,080,168	1,307,325	0.55%
Restricted for debt service	419,376	397,377	21,999	5.54%
Restricted for capital acquisition	39,915	2,454	37,461	1526.53%
Unrestricted	14,313,737	10,247,931	4,065,806	39.67%
Total net assets	254,160,521	248,727,930	5,432,591	2.18%
Total liabilities and net assets	\$324,143,389	\$325,509,508	(\$1,366,119)	(0.42%)

Financial Highlights – Fiscal Year 2011

- Total assets at year end were \$324,143,389 and exceeded total liabilities by \$254,160,521. Of this amount \$14,313,737 (unrestricted) may be used to meet the ongoing obligations of the System.
- Noncurrent assets increased by \$2,048,847 (13.68%) to build cash balances and maintain bonding capacity in future years.
- Long term liabilities decreased by \$6,511,892 (9.69%) due to repayments on borrowings.

Table 3

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

	August 31		Change	
	2012	2011	Dollars	Percent
Operating revenue				
Water revenue	\$33,527,885	\$27,979,011	\$5,548,874	19.83%
Other revenue	622,407	580,473	41,934	7.22%
Total operating revenue	<u>34,150,292</u>	<u>28,559,484</u>	<u>5,590,808</u>	<u>19.58%</u>
Operating expenses				
Supply, pumping and purification	12,923,017	12,886,573	36,444	0.28%
Transmission and distribution	8,206,260	8,041,446	164,814	2.05%
Accounting and collecting	978,437	1,047,761	(69,324)	(6.62%)
Administrative and general	1,057,752	1,124,293	(66,541)	(5.92%)
Total operating expenses	<u>23,165,466</u>	<u>23,100,073</u>	<u>65,393</u>	<u>0.28%</u>
Operating income	10,984,826	5,459,411	5,525,415	101.21%
Net nonoperating expenses	(2,212,360)	(2,088,376)	(123,984)	5.94%
Capital contributions	1,791,452	1,902,161	(110,709)	(5.82%)
Transfers In	20,605	159,395	(138,790)	(87.07%)
Change in net assets	<u>\$10,584,523</u>	<u>\$ 5,432,591</u>	<u>\$5,151,932</u>	<u>94.83%</u>

Financial Highlights – Fiscal Year 2012

- Total operating revenues increased by \$5,590,808 (19.58%) due to the severe drought conditions experienced by Nebraska this past year. Water pumpage was up 20% from last year. In July 2012 the Mayor of the City of Lincoln asked the customers of the System to voluntarily comply with alternate day watering restrictions, which became mandatory in August 2012.
- Total operating expenses increased marginally by \$65,393 (0.28%) due to cost cutting efforts made by the System.

Table 4

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

	August 31		Change	
	2011	2010	Dollars	Percent
Operating revenue				
Water revenue	\$27,979,011	\$24,620,902	\$3,358,109	13.64%
Other revenue	580,473	514,225	66,248	12.88%
Total operating revenue	<u>28,559,484</u>	<u>25,135,127</u>	<u>3,424,357</u>	<u>13.62%</u>
Operating expenses				
Supply, pumping and purification	12,886,573	11,701,713	1,184,860	10.13%
Transmission and distribution	8,041,446	7,519,133	522,313	6.95%
Accounting and collecting	1,047,761	927,213	120,548	13.00%
Administrative and general	1,124,293	1,105,592	18,701	1.69%
Total operating expenses	<u>23,100,073</u>	<u>21,253,651</u>	<u>1,846,422</u>	<u>8.69%</u>
Operating income	5,459,411	3,881,476	1,577,935	40.65%
Net nonoperating expenses	(2,088,376)	(1,692,623)	(395,753)	23.38%
Capital contributions	1,902,161	1,900,970	1,191	0.06%
Transfers In	159,395	–	159,395	100.00%
Change in net assets	<u>\$ 5,432,591</u>	<u>\$ 4,089,823</u>	<u>\$1,342,768</u>	<u>32.83%</u>

Financial Highlights – Fiscal Year 2011

- Operating revenues increased by \$3,424,357 (13.62%) compared to 2010. Effective February 2011, there was a 5% user fee increase. In addition, metered sales were up 7.96% due to a dry fall and spring.
- Operating expenses increased \$1,846,422 (8.69%) compared to 2010 due to increased personnel, energy and chemical costs.
- Net nonoperating expenses increased \$395,753 (23.38%) compared to 2010 as a result of higher interest expense on bonds and lower interest income on cash & investment balances.
- Lincoln Water System reported capital contributions of \$1,902,161.
- Lincoln Water System received \$159,395 of funding from the City's Fast Forward Fund, which funds economic development projects.

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 new debt is restricted.

In July 2011, the Lincoln Water System has entered into a \$15,000,000 loan agreement with Nebraska Department of Environmental Quality (NDEQ) to fund certain water system extension and water repairs.

In June 2012, the System issued \$10,895,000 in Water Revenue Refunding Bonds at an average interest rate of 3.55% to refund \$11,910,000 with interest rates ranging from 3.75% to 5.0%. The City completed the advance refunding to reduce its total debt service payments over the next 10 years by \$3,119,197, for an economic gain of \$1,947,399.

System Credit and Bond Ratings

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

Commitments and Contingencies

Lincoln Water System has commitments under major construction contracts in progress of approximately \$3,600,000 at August 31, 2012.

Forward-Looking Information

The approved Capital Improvement Program for Fiscal Year 2012/13 -2017/18 identifies the need for \$76,600,000 to fund capital improvements for the Water System. Approximately \$8,800,000 of that total is projected to be funded by revenue bonds. Future user fee increases will be needed to make the necessary improvements possible.

In August 2012, the Lincoln City Council approved rate increases for the next two years. The first increase of 5% is effective in November 2012 and the second increase of 5% is effective in November 2013.

Contact Information

This financial report is intended to provide users with a general overview of the System's financial performance for 2012 and 2011. 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 WATER SYSTEM

Balance Sheets

August 31, 2012 and 2011

Assets	2012	2011
Current assets:		
Equity in pooled cash and investments	\$ 8,205,819	1,270,745
Receivables:		
Accounts receivable	4,159,867	2,745,516
Unbilled revenues	5,038,847	3,848,140
Due from other governments	1,500,956	-
Due from other funds	299,582	274,293
Impact fees	73,164	39,915
Total receivables	11,072,416	6,907,864
Inventories	942,651	932,633
Total current assets	20,220,886	9,111,242
Noncurrent assets:		
Equity in pooled cash and investments	7,141,068	5,982,360
Restricted assets:		
Equity in pooled cash and investments	314,670	631,698
Investments	6,948,305	9,828,598
Total restricted assets	7,262,975	10,460,296
Utility plant	413,465,558	407,695,172
Less accumulated depreciation	116,671,087	109,692,686
Net utility plant	296,794,471	298,002,486
Unamortized bond issuance costs	539,125	587,005
Total noncurrent assets	311,737,639	315,032,147
Total assets	\$ 331,958,525	324,143,389
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 816,353	449,849
Accrued liabilities	950,932	688,527
Deposits liability	104,850	75,344
Accrued compensated absences	428,112	427,699
Construction contracts	1,758,562	2,169,341
Current maturities of long-term debt	3,360,000	5,380,000
Accrued interest	109,999	122,354
Total current liabilities:	7,528,808	9,313,114
Long-term liabilities:		
Accrued liabilities	235,233	196,145
Accrued compensated absences	371,425	395,957
Construction contracts	190,638	193,636
Long-term debt, excluding current maturities	58,887,377	59,884,016
Total long-term liabilities	59,684,673	60,669,754
Total liabilities	67,213,481	69,982,868
Net assets:		
Invested in capital assets, net of related debt	238,567,894	239,387,493
Restricted for debt service	149,097	419,376
Restricted for capital acquisition	299,582	39,915
Unrestricted	25,728,471	14,313,737
Total net assets	264,745,044	254,160,521
Total liabilities and net assets	\$ 331,958,525	324,143,389

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets

Years ended August 31, 2012 and 2011

	2012	2011
Operating revenues:		
Water sales	\$ 33,527,885	27,979,011
Service and materials, net	622,407	580,473
Total operating revenues	34,150,292	28,559,484
Operating expenses:		
Supply, pumping and purification	12,923,017	12,886,573
Transmission and distribution	8,206,260	8,041,446
Accounting and collecting	978,437	1,047,761
Administrative and general	1,057,752	1,124,293
Total operating expenses	23,165,466	23,100,073
Operating income	10,984,826	5,459,411
Nonoperating revenues (expenses):		
Investment income	530,761	892,051
Interest expense	(2,666,166)	(2,907,198)
Amortization of bond costs	(76,955)	(76,887)
Federal grants	-	3,658
Net nonoperating expenses	(2,212,360)	(2,088,376)
Increase in net assets before capital contributions	8,772,466	3,371,035
Capital contributions from:		
Developers	487,614	724,190
Impact fees	921,837	833,875
Tap fees	382,001	344,096
Total capital contributions	1,791,452	1,902,161
Transfers In	20,605	159,395
Increase in net assets	10,584,523	5,432,591
Total net assets - beginning	254,160,521	248,727,930
Total net assets - ending	\$ 264,745,044	254,160,521

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2012 and 2011

	2012	2011
Operating activities:		
Receipts from customers and users	\$ 31,541,491	28,440,323
Payments to suppliers	(6,854,824)	(7,459,478)
Payments to employees	(8,147,810)	(8,104,984)
Net cash provided by operating activities	16,538,857	12,875,861
Noncapital financing activities:		
Repayment from (advance to) other funds, net	(25,289)	68,777
Net cash provided by (used in) noncapital financing activities:	(25,289)	68,777
Capital and related financing activities:		
Acquisition and construction of capital assets	(4,922,677)	(2,816,602)
Principal paid on revenue bonds	(5,380,000)	(6,310,000)
Proceeds from NDEQ loan	1,127,435	-
System funds used for bond refunding	(74,312)	-
Interest paid on revenue bonds	(2,898,314)	(3,118,530)
Net cash used in capital and related financing activities	(12,147,868)	(12,245,132)
Investing activities:		
Purchases of investments	(25,752,723)	(9,727,504)
Proceeds from sales and investment maturities	20,631,982	8,023,611
Interest on investments	452,942	470,210
Net cash used in investing activities	(4,667,799)	(1,233,683)
Net decrease in cash and cash equivalents	(302,099)	(534,177)
Cash and cash equivalents at beginning of year	1,270,745	1,804,922
Cash and cash equivalents at end of year	\$ 968,646	1,270,745
Composition of equity in pooled cash and investments		
Cash and cash equivalents	\$ 968,646	1,270,745
Investments	7,237,173	-
Total equity in pooled cash and investments	\$ 8,205,819	1,270,745
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 10,984,826	5,459,411
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,528,972	7,645,046
Changes in operating assets and liabilities:		
Accounts receivable	(2,638,307)	(117,611)
Inventories	(10,018)	(92,261)
Accounts payable	366,504	(215,245)
Accrued liabilities and deposit liability	330,999	153,568
Accrued compensated absences	(24,119)	42,953
Total adjustments	5,554,031	7,416,450
Net cash provided by operating activities	\$ 16,538,857	12,875,861

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$487,614 and \$724,190 were added to utility plant in 2012 and 2011, respectively.

Accounts payable incurred for utility plant purchases were \$1,949,200 and \$2,362,977 in 2012 and 2011, respectively.

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(1) Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations

Lincoln Water System is a public utility accounted for as an enterprise fund by the City of Lincoln, Nebraska (City). Lincoln Water 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 the Lincoln Water System is a part of the City, it is exempt from federal income tax.

Measurement Focus and Basis of Accounting

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

The financial statements referred to above present only the Lincoln Water System and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2012 and 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Operating Revenues and Expenses

As an enterprise fund, the Lincoln Water 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 Water System's principal ongoing operations. The principal operating revenues of the Lincoln Water System are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(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. Depreciation expense recognized on contributed assets is charged to operations in accordance with similar utility assets.

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

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

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(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 Water 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 Water 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. Treasury and Agency obligations are carried at fair value as determined based on quoted market price.

Capital Contributions

Developer contributions are water 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 WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

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

Revenues

Water 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 Water System. The following rates were assessed per one hundred cubic feet of water usage for the years ended August 31, 2012 and 2011:

	<u>August 31, 2012</u>	<u>August 31, 2011</u>
<u>Water Usage</u>		
Residential:		
100 to 800 cubic feet	\$ 1.344	\$ 1.28
801 to 2,300 cubic feet	1.911	1.82
2,301 and up	2.961	2.82
Nonresidential low volume user:		
100 to 8,000 cubic feet	1.344	1.28
8,001 and up	1.911	1.82
Nonresidential high volume user:		
Base usage which is average water usage for previous three calendar years	1.276 to 1.407	1.215 to 1.34
<u>Service Charge</u>		
Residential: single-family dwelling unit	\$ 3.42	\$ 3.26
Residential: multiple-family dwelling unit	2.10	2.00
Non-residential:	Based on size and number of water meters or number of dwelling units.	

In August 2012, the Lincoln City Council approved rate increases for the next two years. The first rate increase of 5% is effective in November 2012 and the second increase, also 5%, is effective in November 2013.

Bond Issuance Costs

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

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

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

Net Assets Classification

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

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt.

Restricted - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

Compensated Absences

Employees earn vacation days at varying rates dependent on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation which is in no case longer than 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 Water System accrues for vacation, sick leave and other compensated absences with similar characteristics.

Compensated absences of the Lincoln Water System at August 31, 2012 and 2011 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, 2012	\$823,656	403,580	427,699	799,537	428,112
August 31, 2011	\$780,703	452,023	409,070	823,656	427,699

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

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

Other Post-Employment Benefits

The Water System recorded a liability for the annual required contribution (ARC) of approximately \$235,000 and \$196,000 as of August 31, 2012 and 2011, 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 Lincoln Water System has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets, liabilities, and revenues to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(2) Deposits, Investments, and Investment Return

Deposits

State statutes require banks either to give bond or to pledge government securities to the City Treasurer in the amount of the City's deposits. The System has been allocated a portion of the City's pooled cash and investments. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC insured institutions. For interest-bearing cash accounts, the City's cash deposits, including certificates of deposit, are insured up to \$250,000 by the FDIC. Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits are covered by collateral held in a Federal Reserve pledge account or by an agent for the City and thus no custodial risk exists. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Investments

The City may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to 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 Water System's investments in U.S. Treasury and U.S. 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.

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

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

At August 31, 2012 and 2011, the Lincoln Water System had the following investments and maturities:

Type	August 31, 2012				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Government Sponsored Agency	\$6,948,305	-	-	2,989,366	3,958,939

Type	August 31, 2011				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury	\$3,295,042	3,295,042	-	-	-
U.S. Government Sponsored Agency	<u>6,533,556</u>	<u>1,001,040</u>	<u>-</u>	<u>1,675,381</u>	<u>3,857,135</u>
	<u>\$9,828,598</u>	<u>4,296,082</u>	<u>-</u>	<u>1,675,381</u>	<u>3,857,135</u>

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(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, with the exception of funds held in accordance with the bond resolution, are limited to ten year maturities.

Credit Risk:

Credit Risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. As of August 31, 2012 and 2011, the Lincoln Water 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.

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, 2012, and 2011, the Lincoln Water System investments in United States Government sponsored agencies obligations constituted 31% and 37% respectively, of its total funds available for investing. The above mentioned investments were made with funds from the bond debt reserve funds established.

The carrying amount of equity interests in pooled cash and investments at August 31, 2012 and 2011 are:

	<u>2012</u>	<u>2011</u>
Equity in pooled cash and investments	\$15,661,557	7,884,803

Investment Income

Investment income for the years ended August 31, 2012 and 2011 consisted of:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$418,549	452,394
Net change in fair value of investments	<u>112,212</u>	<u>439,657</u>
	<u>\$530,761</u>	<u>892,051</u>

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(3) Inventories

Balances of the major classes of inventory at August 31, 2012 and 2011, are shown below:

	2012	2011
Heavy materials	\$707,025	665,263
Diesel fuel	95,836	96,234
Water meters and parts	104,735	133,060
Chemicals	35,055	38,076
Total inventories	\$942,651	932,633

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(4) Utility Plant

Utility plant is summarized by major classification at August 31, 2012 as follows:

Asset Class	Capital Assets			Accumulated Depreciation				Net Capital Assets	
	August 31, 2011	Increases	Decreases	August 31, 2012	August 31, 2011	Increases	Decreases	August 31, 2012	
Airport	\$ 42,172	-	-	42,172	(26,589)	(422)	-	(27,011)	15,161
Structures and improvements	67,363,431	363,868	-	67,727,299	(24,398,945)	(1,379,253)	-	(25,778,198)	41,949,101
Reservoirs	38,370,053	-	-	38,370,053	(11,306,550)	(727,360)	-	(12,033,910)	26,336,143
Other power and production equipment	2,426,342	24,098	-	2,450,440	(1,539,334)	(58,789)	-	(1,598,123)	852,317
Electric pumping equipment	21,374,897	992	-	21,375,889	(8,608,958)	(535,970)	-	(9,144,928)	12,230,961
Purification system	28,912,064	-	-	28,912,064	(8,785,446)	(955,187)	-	(9,740,633)	19,171,431
Transmission mains	82,669,821	395	-	82,670,216	(14,754,760)	(1,254,594)	-	(16,009,354)	66,660,862
Distribution mains and accessories	133,253,048	2,131,068	-	135,384,116	(25,371,971)	(1,522,576)	-	(26,894,547)	108,489,569
Hydrants	4,844,227	-	-	4,844,227	(3,484,439)	(69,942)	-	(3,554,381)	1,289,846
Office furniture and equipment	1,848,969	52,887	(417,077)	1,484,779	(1,611,193)	(41,144)	417,077	(1,235,260)	249,519
Shop equipment	199,383	-	-	199,383	(178,120)	(3,536)	-	(181,656)	17,727
Laboratory equipment	411,195	-	(5,974)	405,221	(306,991)	(27,576)	5,974	(328,593)	76,628
Tools and work equipment	295,615	-	-	295,615	(266,246)	(7,320)	-	(273,566)	22,049
Communications system	2,998,845	143,489	-	3,142,334	(525,237)	(156,900)	-	(682,137)	2,460,197
Meters	12,913,146	309,466	-	13,222,612	(6,729,562)	(584,296)	-	(7,313,858)	5,908,754
Vehicles	2,815,716	419,313	(146,285)	3,088,744	(1,798,345)	(204,107)	127,520	(1,874,932)	1,213,812
Total depreciable assets	400,738,924	3,445,576	(569,336)	403,615,164	(109,692,686)	(7,528,972)	550,571	(116,671,087)	286,944,077
Land and land rights	5,445,167	4,531	-	5,449,698	-	-	-	-	5,449,698
Construction in progress	1,511,081	5,123,328	(2,233,713)	4,400,696	-	-	-	-	4,400,696
Total nondepreciable assets	6,956,248	5,127,859	(2,233,713)	9,850,394	-	-	-	-	9,850,394
Total capital assets	\$ 407,695,172	8,573,435	(2,803,049)	413,465,558	(109,692,686)	(7,528,972)	550,571	(116,671,087)	296,794,471

During 2012, Lincoln Water System incurred \$2,942,846 of interest cost. Interest capitalized into construction in progress during 2012 was \$56,888. 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 1.87% in 2012.

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(4) Utility Plant

Utility plant is summarized by major classification at August 31, 2011 as follows:

Asset Class	Capital Assets			August 31, 2011	Accumulated Depreciation			August 31, 2011	Net Capital Assets
	August 31, 2010	Increases	Decreases		August 31, 2010	Increases	Decreases		August 31, 2011
Airport	\$ 42,172	-	-	42,172	(26,167)	(422)	-	(26,589)	15,583
Structures and improvements	67,219,982	143,449	-	67,363,431	(22,896,770)	(1,502,175)	-	(24,398,945)	42,964,486
Reservoirs	38,370,053	-	-	38,370,053	(10,579,190)	(727,360)	-	(11,306,550)	27,063,503
Other power and production equipment	2,422,720	3,622	-	2,426,342	(1,481,846)	(57,488)	-	(1,539,334)	887,008
Electric pumping equipment	21,162,891	212,006	-	21,374,897	(8,074,323)	(534,635)	-	(8,608,958)	12,765,939
Purification system	28,047,482	864,582	-	28,912,064	(7,826,671)	(958,775)	-	(8,785,446)	20,126,618
Transmission mains	82,667,250	2,571	-	82,669,821	(13,500,174)	(1,254,586)	-	(14,754,760)	67,915,061
Distribution mains and accessories	129,921,473	3,331,575	-	133,253,048	(23,893,349)	(1,478,622)	-	(25,371,971)	107,881,077
Hydrants	4,844,227	-	-	4,844,227	(3,414,497)	(69,942)	-	(3,484,439)	1,359,788
Office furniture and equipment	1,774,770	82,186	(7,987)	1,848,969	(1,510,749)	(108,431)	7,987	(1,611,193)	237,776
Shop equipment	199,383	-	-	199,383	(174,510)	(3,610)	-	(178,120)	21,263
Laboratory equipment	396,815	14,380	-	411,195	(274,904)	(32,087)	-	(306,991)	104,204
Tools and work equipment	295,615	-	-	295,615	(253,704)	(12,542)	-	(266,246)	29,369
Communications system	2,744,693	254,152	-	2,998,845	(375,990)	(149,247)	-	(525,237)	2,473,608
Meters	12,651,017	262,129	-	12,913,146	(6,161,542)	(568,020)	-	(6,729,562)	6,183,584
Vehicles	2,772,508	54,133	(10,925)	2,815,716	(1,622,166)	(187,104)	10,925	(1,798,345)	1,017,371
Total depreciable assets	395,533,051	5,224,785	(18,912)	400,738,924	(102,066,552)	(7,645,046)	18,912	(109,692,686)	291,046,238
Land and land rights	5,444,607	560	-	5,445,167	-	-	-	-	5,445,167
Construction in progress	2,116,922	3,564,673	(4,170,514)	1,511,081	-	-	-	-	1,511,081
Total nondepreciable assets	7,561,529	3,565,233	(4,170,514)	6,956,248	-	-	-	-	6,956,248
Total capital assets	\$ 403,094,580	8,790,018	(4,189,426)	407,695,172	(102,066,552)	(7,645,046)	18,912	(109,692,686)	298,002,486

During 2011, Lincoln Water System incurred \$3,179,819 of interest cost. Interest capitalized into construction in progress during 2011 was \$73,328. 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 1.91% in 2011.

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(5) Long-term Liabilities

Long-term debt of the Lincoln Water System at August 31, 2012 and 2011 is summarized below:

2012						
Type of Debt	August 31, 2011	Additions	Reductions	August 31, 2012	Due	Within One Year
2.75% - 5.00% Water Revenue Bonds, Series 2002, refunded in 2012.	\$12,840,000	-	12,840,000	-	-	-
5.00% Water Revenue Bonds, Refunding Series 2003, final principal payment of \$2,630,000 paid on August 15, 2012.	2,630,000	-	2,630,000	-	-	-
3.00% - 5.00% Water Revenue Bonds, Series 2004, due in annual principal installments on August 15, increasing from \$1,885,000 in 2013 to the final payment of \$3,065,000 on August 15, 2025.	33,030,000	-	1,820,000	31,210,000	1,885,000	-
2.00% - 4.50% Water Revenue Bonds, Series 2009, due in annual principal installments on August 15, increasing from \$465,000 in 2013 to the final payment of \$1,080,000 on August 15, 2034.	15,420,000	-	-	15,420,000	465,000	-
1.00% - 4.00% Water Revenue Bonds, Refunding Series 2012, due in annual principal installments on August 15, increasing from \$1,010,000 in 2013 to the final payment of \$965,000 on August 15, 2022.	-	10,895,000	-	10,895,000	1,010,000	-
3.25% Nebraska Department of Environmental Quality 2011 (NDEQ) project loan payable, due in semi-annual principal installments on June 15 and December 15 from \$48,337 in 2014 to the final payment of \$86,702 in 2034.	-	2,628,391	-	2,628,391	-	-
Unamortized premium on bonds	1,474,077	1,093,705	496,144	2,071,638	-	-
Deferred for refunding	(130,061)	22,909	(129,500)	22,348	-	-
Total long-term debt	<u>\$65,264,016</u>	<u>14,640,005</u>	<u>17,656,644</u>	<u>62,247,377</u>	<u>3,360,000</u>	-

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(5) Long-term Liabilities (continued)

2011					
Type of Debt	August 31, 2010	Additions	Reductions	August 31, 2011	Due Within One Year
2.75% - 5.00% Water Revenue Bonds, Series 2002, due in annual principal installments on August 15, increasing from \$930,000 in 2012 to the final payment of \$1,465,000 on August 15, 2022.	\$13,735,000	-	895,000	12,840,000	930,000
5.00% Water Revenue Bonds, Refunding Series 2003, final principal payment of \$2,630,000 due on August 15, 2012.	6,965,000	-	4,335,000	2,630,000	2,630,000
3.00% - 5.00% Water Revenue Bonds, Series 2004, due in annual principal installments on August 15, increasing from \$1,820,000 in 2012 to the final payment of \$3,065,000 on August 15, 2025.	34,110,000	-	1,080,000	33,030,000	1,820,000
2.00% - 4.50% Water Revenue Bonds, Series 2009, due in annual principal installments on August 15, increasing from \$465,000 in 2013 to the final payment of \$1,080,000 on August 15, 2034.	15,420,000	-	-	15,420,000	-
Unamortized premium on bonds Deferred for refunding	1,809,087 <u>(265,778)</u>	- <u>-</u>	335,010 <u>(135,717)</u>	1,474,077 <u>(130,061)</u>	- <u>-</u>
	<u>\$71,773,309</u>	<u>-</u>	<u>6,509,293</u>	<u>65,264,016</u>	<u>5,380,000</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 WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(5) Long-term Liabilities (continued)

Maturities and sinking fund requirements on long-term debt at August 31, 2012 are as follows:

Years ending August 31	Principal	Interest	Total
2013	\$ 3,360,000	2,397,437	5,757,437
2014	3,498,337	2,323,460	5,821,797
2015	3,648,874	2,238,558	5,887,432
2016	3,751,882	2,106,701	5,858,583
2017	3,874,981	1,970,527	5,845,508
2018 - 2022	21,434,787	7,169,479	28,604,266
2023 - 2027	12,992,682	2,896,863	15,889,545
2028 - 2032	5,225,591	1,189,764	6,415,355
2033 - 2034	2,366,257	151,325	2,517,582
Total	\$60,153,391	22,444,114	82,597,505

In June 2012, the Lincoln Water System issued \$10,895,000 in Water Revenue Refunding Bonds at an average interest rate of 3.55% to refund \$11,910,000 of Water Revenue Bonds, Series 2002 with interest rates ranging from 3.75% to 5.00%. The City completed the advance refunding to reduce its total debt service payments over the next 10 years by \$3,119,197, for an economic gain of \$1,947,399.

The City has pledged future revenues derived from the operation of the Lincoln Water System, net of operating and maintenance expenses, to repay all outstanding water revenue bonds. Proceeds from the bonds and loan provided financing for improvements to the water supply system, as well as refunding prior water revenue bonds. The bonds are payable solely from the net earnings of the Water System and are payable through 2034. The total principal and interest remaining to be paid on the bonds is \$82,597,505, with annual payments expected to require 41 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$8,335,202 and \$20,348,397, respectively.

Lincoln Water System has entered into a \$15,000,000 loan agreement with Nebraska Department of Environmental Quality (NDEQ). This funding is available to fund certain water system extension and water repairs. 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, 2012, Lincoln Water System incurred project costs totaling \$3,432,815 resulting in the recognition of a project payable of \$2,628,391. The remaining available funds totaling \$12,371,609 are not reflected in the Lincoln Water System financial statements.

Construction contracts of the Lincoln Water System at August 31, 2012 and 2011 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, 2012	\$2,362,977	1,755,564	2,169,341	1,949,200	1,758,562
August 31, 2011	\$2,621,631	1,135,377	1,394,031	2,362,977	2,169,341

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(6) Commitments and Contingencies

Lincoln Water System has commitments under major construction contracts in progress of approximately \$3,600,000 at August 31, 2012.

Lincoln Water System has entered into various agreements with developers to build infrastructure for new developments. These commitments are included in the System's current 6 year Capital Improvement Program or depending on when the commitment is due, will be included in the System's future Capital Improvement Programs. As of August 31, 2012, the System's commitment to these developers is estimated to be approximately \$7,272,000 over the next 10 - 15 years, of which some may be under current contract.

(7) Disclosure About the Fair Value of Financial Instruments

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

- *Cash, accounts receivable and accounts payable* - The carrying amount approximates fair value because of the short maturity of these instruments.
- *Long-term debt* - The estimated fair value of the System's long-term debt is approximately \$75,388,000 based on borrowing rates currently available as of August 31, 2012.
- *Investments* - The fair values of investments are based on quoted market prices for those investments as shown in Note 2.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(8) Related Party Transactions

The City billed the Water System approximately \$535,000 and \$447,000 for administrative services during 2012 and 2011, respectively. The Water 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 \$2,925,000 and \$2,830,000 during 2012 and 2011, respectively. Further, the Water System collects payments from customers on behalf of LES. At August 31, 2012, approximately \$542,000 is included in accounts payable for amounts owed to LES for electricity used and customer payments collected.

A special revenue fund of the City collects and holds impact fees until they are disbursed in accordance with City ordinance. The Lincoln Water System was due impact fees of \$73,164 and \$39,915 as of August 31, 2012 and 2011, respectively.

The City of Lincoln general fund has borrowed monies from the pooled cash and investment account. The Water System's allocated share of the borrowing was \$299,582 and \$274,293 as of August 31, 2012 and 2011, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the balance sheets.

(9) Risk Management

Lincoln Water 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-insurance loss fund. The Division provides first dollar coverage for all liability and workers' compensation exposure with insurance acting as an umbrella or excess coverage. The maximum exposure would be the deductible amounts for property and auto physical damage, as well as losses not covered by insurance. Lincoln Water System had no claims or judgments exceeding the policy limits during each of the last three prior years. Budgeted premium amounts charged to Lincoln Water System are placed in the appropriate fund maintained by the Division. Premium expense was approximately \$249,000 and \$317,000 in 2012 and 2011, respectively.

(10) Pension Plan

Employees of Lincoln Water 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 Water 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% vesting in year seven. Contributions made by the System were approximately \$642,000 and \$652,000 for 2012 and 2011, respectively. Contributions made by the plan members were approximately \$352,000 for both 2012 and 2011.

SUPPLEMENTARY
INFORMATION

LINCOLN WATER SYSTEM

Schedule 1

Summary of Long-Term Debt

August 31, 2012

Due years ending August 31	Series 2004		Series 2009		Series 2012		NDEQ Loan (D311548) 2011		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2013	\$ 1,885,000	1,480,606	465,000	589,331	1,010,000	327,500	-	-	3,360,000	2,397,437	5,757,437
2014	1,950,000	1,386,356	475,000	580,031	1,025,000	317,400	48,337	39,673	3,498,337	2,323,460	5,821,797
2015	2,020,000	1,288,856	490,000	570,531	1,040,000	302,025	98,874	77,146	3,648,874	2,238,558	5,887,432
2016	2,095,000	1,187,856	500,000	558,281	1,055,000	286,425	101,882	74,139	3,751,882	2,106,701	5,858,583
2017	2,175,000	1,083,106	520,000	545,781	1,075,000	270,600	104,981	71,040	3,874,981	1,970,527	5,845,508
2018-2022	12,290,000	3,713,980	2,880,000	2,475,581	5,690,000	674,600	574,787	305,318	21,434,787	7,169,479	28,604,266
2023-2027	8,795,000	803,472	3,530,000	1,880,970	-	-	667,682	212,421	12,992,682	2,896,863	15,889,545
2028-2032	-	-	4,450,000	1,085,250	-	-	775,591	104,514	5,225,591	1,189,764	6,415,355
2033-2034	-	-	2,110,000	143,550	-	-	256,257	7,775	2,366,257	151,325	2,517,582
	\$ 31,210,000	10,944,232	15,420,000	8,429,306	10,895,000	2,178,550	2,628,391	892,026	60,153,391	22,444,114	82,597,505

LINCOLN WATER SYSTEM

Schedule 2

Debt Coverage Ratio

Last ten fiscal years

(Unaudited)

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
2003	22,094,721	11,631,496	10,463,225	3,010,000	2,898,489	5,908,489	1.77	3,010,000	2,898,489	5,908,489	1.77
2004	24,557,918	12,477,486	12,080,432	3,115,000	2,411,633	5,526,633	2.19	3,115,000	2,411,633	5,526,633	2.19
2005	27,153,937	13,145,665	14,008,272	4,895,000	3,517,932	8,412,932	1.67	4,895,000	3,517,932	8,412,932	1.67
2006	29,014,999	13,808,214	15,206,785	5,130,000	3,834,301	8,964,301	1.70	5,130,000	3,834,301	8,964,301	1.70
2007	29,386,495	14,351,136	15,035,359	5,340,000	3,612,001	8,952,001	1.68	5,340,000	3,612,001	8,952,001	1.68
2008	27,257,184	14,425,521	12,831,663	5,555,000	3,376,201	8,931,201	1.44	5,555,000	3,376,201	8,931,201	1.44
2009	27,838,187	14,995,077	12,843,110	5,795,000	3,128,414	8,923,414	1.44	5,795,000	3,128,414	8,923,414	1.44
2010	26,515,467	14,091,292	12,424,175	6,050,000	3,458,097	9,508,097	1.31	6,050,000	3,458,097	9,508,097	1.31
2011	30,629,506	15,455,027	15,174,479	6,310,000	3,191,857	9,501,857	1.60	6,310,000	3,191,857	9,501,857	1.60
2012	35,984,891	15,636,494	20,348,397	5,380,000	2,953,765	8,333,765	2.44	5,380,000	2,955,202	8,335,202	2.44

LINCOLN WATER SYSTEM

Schedule 3

Operating Expenses

Years ended August 31, 2012 and 2011

	2012	2011
Lincoln Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 62,038	59,631
Electrical maintenance	430	-
Control System Maintenance	186	-
Wellfield maintenance	40,377	19,873
Wellfield operations	-	562
Depreciation of general plant	903	903
Total source of supply	\$ 103,934	80,969
Power and pumping expenses:		
Supervision, management and administrative support	\$ 116,680	132,795
Training and education	16,195	12,204
Data management	6,171	9,658
General operations	169,159	205,072
Structures maintenance	34,996	15,855
Control system maintenance	53,672	57,467
Electrical maintenance	136,819	117,791
Grounds maintenance	281,711	331,016
Main repair/maintenance	9,857	13,863
Customer services	60,013	33,777
Laboratory operations	-	52
Pumping and transmission maintenance	137,981	149,892
Pumping and transmission operations	1,846,011	1,859,803
Security maintenance	6,698	4,479
Depreciation of pumping equipment	435,444	434,111
Depreciation of general plant and improvements	-	78
Depreciation of structures and improvement	928,833	945,721
Total power and pumping	\$ 4,240,240	4,323,634
Total - Lincoln Water Plant	\$ 4,344,174	4,404,603
Ashland Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 151,079	143,305
Control system maintenance	29,654	33,763
Electrical maintenance	46,685	30,615
Grounds maintenance	107,948	98,055
Main repair/maintenance	5,686	1,979
Laboratory operations	8,123	12,047
Security maintenance	3,270	5,989
Wellfield maintenance	172,851	206,192
Wellfield operations	990,692	836,236
Depreciation of transmission mains	260,420	260,420
Depreciation of other production equipment	2,698	1,395
Depreciation of wells and houses	465,350	465,350
Total source of supply	\$ 2,244,456	2,095,346

LINCOLN WATER SYSTEM

Schedule 3, Cont.

Operating Expenses

	2012	2011
Power and pumping expenses:		
Supervision, management and administrative support	\$ 140,404	127,454
General operations	1,106	1,343
Structures maintenance	865	1,309
Control system maintenance	17,517	10,364
Electrical maintenance	30,111	36,085
Grounds maintenance	541	122
Main repair/maintenance	236	808
Pumping and transmission maintenance	78,050	42,950
Pumping and transmission operations	869,219	535,568
Depreciation of pumping equipment	385,121	377,468
Depreciation of structures and improvement	159,218	159,218
Depreciation of general plant	-	161
Depreciation of transmission mains	533,748	533,752
Depreciation of other production equipment	54,200	54,201
Total power and pumping	\$ 2,270,336	1,880,803
Purification expense:		
Supervision, management and administrative support	\$ 345,446	370,097
Training and education	178,946	104,714
General operations	165,320	180,052
Treatment and process control	132,889	183,718
Structures maintenance	27,337	16,179
Process equipment maintenance	7,744	7,788
Control system maintenance	143,939	142,493
Electrical maintenance	43,433	36,141
Grounds maintenance	461,717	530,566
Laboratory operations	372,831	358,858
Treatment operations	747,876	1,023,009
Security maintenance	7,058	8,571
Depreciation of structures and improvements	426,375	532,408
Depreciation of transmission mains	20,088	20,076
Depreciation of purification equipment	955,188	958,775
Depreciation of general plant & equipment	27,864	32,376
Total purification expenses	\$ 4,064,051	4,505,821
Total Ashland Water Plant	\$ 8,578,843	8,481,970
Total supply, pumping and purification	\$ 12,923,017	12,886,573

LINCOLN WATER SYSTEM

Schedule 3, Cont.

Operating Expenses

	2012	2011
Transmission and distribution expenses:		
Supervision and management	\$ 777,419	983,423
Administrative and support staff	471,207	467,377
Training and education	58,705	55,487
Data management	637,274	517,895
General operations	329,588	369,677
Main repair/maintenance	1,663,491	1,485,399
Contractor services	223,611	170,451
Customer services	1,399,836	1,331,245
Depreciation of structures and improvements	1,033	1,033
Depreciation of transmission mains	438,768	438,767
Depreciation of distribution mains	2,101,213	2,043,098
Depreciation of hydrants and fountains	69,942	69,942
Depreciation of general plant and equipment	34,173	107,652
Total transmission and distribution	\$ 8,206,260	8,041,446
Accounting and collecting expenses:		
Supervision and management	\$ 189,710	258,195
Administrative and support staff	3,607	3,694
Meter reading	142,693	131,115
Billing and accounting	325,151	336,240
Collections	118,524	118,725
Customer services and billing	148,972	158,638
Customer contracts and orders	42,130	35,416
Depreciation of general plant and equipment	7,650	5,738
Total accounting and collecting	\$ 978,437	1,047,761
Administrative and general expenses:		
Supervision and management	\$ 913,914	989,056
Administrative and support staff	127,202	119,938
Depreciation of general plant and equipment	16,636	15,299
Total administrative and general	\$ 1,057,752	1,124,293

LINCOLN WATER SYSTEM

Schedule 4

Utility Plant in Service

August 31, 2012

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2011	Increases	Decreases	August 31, 2012	August 31, 2011	Increases	Decreases	August 31, 2012	August 31, 2012
Lincoln Water Plant:									
Airport	\$ 42,172	-	-	42,172	(26,589)	(422)	-	(27,011)	15,161
Structures and improvements	15,064,729	363,868	-	15,428,597	(7,668,964)	(364,910)	-	(8,033,874)	7,394,723
Reservoirs	26,086,436	-	-	26,086,436	(8,724,431)	(550,099)	-	(9,274,530)	16,811,906
Other power and production equipmer	37,856	-	-	37,856	(4,732)	(1,893)	-	(6,625)	31,231
Electric pumping equipment	15,252,739	992	-	15,253,731	(3,736,596)	(389,824)	-	(4,126,420)	11,127,311
Purification system	-	-	-	-	1,072	-	-	1,072	1,072
Transmission mains	33,680,814	-	-	33,680,814	(7,295,295)	(440,338)	-	(7,735,633)	25,945,181
Distribution mains and accessories	133,253,048	2,131,068	-	135,384,116	(25,371,971)	(1,522,576)	-	(26,894,547)	108,489,569
Hydrants	4,844,227	-	-	4,844,227	(3,484,439)	(69,942)	-	(3,554,381)	1,289,846
Office furniture and equipment	1,541,912	52,887	(208,948)	1,385,851	(1,327,857)	(40,124)	208,948	(1,159,033)	226,818
Shop equipment	181,432	-	-	181,432	(160,169)	(3,536)	-	(163,705)	17,727
Laboratory equipment	7,959	-	-	7,959	(2,874)	(796)	-	(3,670)	4,289
Tools and work equipment	195,403	-	-	195,403	(166,154)	(7,256)	-	(173,410)	21,993
Communications system	1,188,760	-	-	1,188,760	(415,062)	(58,585)	-	(473,647)	715,113
Meters	12,913,146	309,466	-	13,222,612	(6,729,562)	(584,296)	-	(7,313,858)	5,908,754
Lincoln depreciable assets	244,290,633	2,858,281	(208,948)	246,939,966	(65,113,623)	(4,034,597)	208,948	(68,939,272)	178,000,694
Land and land rights	1,546,121	51	-	1,546,172	-	-	-	-	1,546,172
Lincoln nondepreciable assets	1,546,121	51	-	1,546,172	-	-	-	-	1,546,172
Total Lincoln plant	245,836,754	2,858,332	(208,948)	248,486,138	(65,113,623)	(4,034,597)	208,948	(68,939,272)	179,546,866
Ashland Water Plant:									
Structures and improvements	52,298,702	-	-	52,298,702	(16,729,981)	(1,014,343)	-	(17,744,324)	34,554,378
Reservoirs	12,283,617	-	-	12,283,617	(2,582,119)	(177,261)	-	(2,759,380)	9,524,237
Transmission mains	48,989,007	395	-	48,989,402	(7,459,465)	(814,256)	-	(8,273,721)	40,715,681
Office furniture and equipment	307,057	-	(208,129)	98,928	(283,336)	(1,020)	208,129	(76,227)	22,701
Shop equipment	17,951	-	-	17,951	(17,951)	-	-	(17,951)	-
Laboratory equipment	403,236	-	(5,974)	397,262	(304,117)	(26,780)	5,974	(324,923)	72,339
Other power and production equipmer	2,388,486	24,098	-	2,412,584	(1,534,602)	(56,896)	-	(1,591,498)	821,086
Electric pumping equipment	6,122,158	-	-	6,122,158	(4,872,362)	(146,146)	-	(5,018,508)	1,103,650
Purification system	28,912,064	-	-	28,912,064	(8,786,518)	(955,187)	-	(9,741,705)	19,170,359
Communications Systems	1,810,085	143,489	-	1,953,574	(110,175)	(98,315)	-	(208,490)	1,745,084
Tools and work equipment	100,212	-	-	100,212	(100,092)	(64)	-	(100,156)	56
Ashland depreciable assets	153,632,575	167,982	(214,103)	153,586,454	(42,780,718)	(3,290,268)	214,103	(45,856,883)	107,729,571
Land and land rights	3,899,046	4,480	-	3,903,526	-	-	-	-	3,903,526
Ashland nondepreciable assets	3,899,046	4,480	-	3,903,526	-	-	-	-	3,903,526
Total Ashland plant	157,531,621	172,462	(214,103)	157,489,980	(42,780,718)	(3,290,268)	214,103	(45,856,883)	111,633,097
Vehicles and work equipment (all locatio	2,815,716	419,313	(146,285)	3,088,744	(1,798,345)	(204,107)	127,520	(1,874,932)	1,213,812
Utility plant in service	\$ 406,184,091	3,450,107	(569,336)	409,064,862	(109,692,686)	(7,528,972)	550,571	(116,671,087)	292,393,775
Construction in progress	1,511,081	5,123,328	(2,233,713)	4,400,696	-	-	-	-	4,400,696
Total capital assets	\$ 407,695,172	8,573,435	(2,803,049)	413,465,558	(109,692,686)	(7,528,972)	550,571	(116,671,087)	296,794,471

LINCOLN WATER SYSTEM

Schedule 5

GENERAL STATISTICS

Year Ended August 31, 2012

(Unaudited)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	91.76 Square Miles
Population	265,594 Estimate
Source of Water Supply	Wells
Location of Supply - Platte River, Ashland, Nebraska	
Well Capacity - Ashland	110 Million Gallons
Treatment of Water - Ashland West Plant	Aeration; Chlorination; Detention; Rapid Sand Filtration; and Chloramination
Treatment of Water - Ashland East Plant	Ozonation; Rapid Sand Filtration; and Chloramination
Rainfall for Year Ended August 31, 2012	19.34
Kind and Size of Mains Used	Cast Iron/Ductile Iron/PVC 4 Inches to 60 Inches
Kind and Size of Transmission Mains	
from Ashland to Lincoln	36-Inch Cast Iron 48-Inch Reinforced Concrete 54 / 60-Inch Steel
Length of Transmission Mains	
from Ashland to Lincoln	25.1 Miles
Total Miles of Distribution Mains in Use:	
Miles in use September 1, 2011	1,242.6
Estimated Added During Year	8.6
Estimated Removed During Year	0.9
Total as of August 31, 2012	1,250.3 Miles
Amount of Water Pumped During Year Ended August 31, 2012	14,032,320,000 gallons
Average Daily Consumption of Water	38,444,712 gallons
Average Daily Consumption Per Capita	145 gallons
Total Number of Active Residential Water Customers	
End of Fiscal Year	75,028
Total Number of Active Non-Residential Water Customers	
End of Fiscal Year	4,670
Bonded Debt of Lincoln Water System at August 31, 2012	\$59,718,123

LINCOLN WATER SYSTEMSchedule 6**TOP TEN CUSTOMERS****Year Ended August 31, 2012**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	518,243	\$943,878
2. City of Lincoln	378,752	739,653
3. Archer-Daniels Midland Company	329,621	417,871
4. State of Nebraska	314,821	609,482
5. Veyance Technologies, Inc.	199,677	258,226
6. University of Nebraska Foundation	183,436	232,448
7. BryanLGH Medical Center	164,387	326,136
8. Lincoln Public Schools	138,545	277,230
9. Pfizer Animal Health	133,620	192,791
10. Lincoln Plating Company	111,902	214,597
Top Ten Users Totals	2,473,004	\$4,212,312

1 Property" shall be defined as property consisting of dwelling units. If there is more than one
2 use per master meter on any one property including the residential use, the schedule to be
3 used will be determined as residential, if the residential portion is 50 percent or more of the
4 area of the building.

	Effective November, 2012	Effective November, 2013
5 100 to 800 cubic feet	\$1.344	\$1.344
6 801 to 2,300 cubic feet	1.911	1.911
7 2,301 cubic feet and up	2.961	2.961

8 SCHEDULE B

9 The following rate schedule shall apply for the current calendar year to all non-
10 residential property that used less than 12,000,000 cubic feet of water in the previous
11 calendar year:

	Effective November, 2012	Effective November, 2013
12 100 to 8,000 cubic feet	\$1.344	\$1.344
13 8,001 cubic feet and up	1.911	1.911

14 SCHEDULE C

15 The following rate schedule shall apply for the current year to all non-residential
16 property that used more than 12,000,000 cubic feet of water in the previous calendar year.
17 On a calendar year basis, a "base usage" of each high user customer will be determined.
18 The base usage is an average of the water usage of each high user customer for the previous
19 three (3) calendar years.

1 The following fees would apply:

	Effective November, 2012	Effective November, 2013
2 Base and below (per 100 cubic 3 feet)	127.6	127.6
4 Water usage 5%- 15% above 5 base (per 100 cubic feet)	132.3	132.3
6 Water usage 15% - 25% above 7 base (per 100 cubic feet)	136.5	136.5
8 Water usage over 25% above 9 base (per 100 cubic feet)	140.7	140.7

10 SCHEDULE D - PROVISIONS APPLICABLE -
11 TO ALL TYPES OF WATER SERVICE

12 Service Charge. There shall be a Service Charge per month to each property using
13 the Lincoln Water System, determined by the number and size of the water meter, or meters,
14 serving such property, to-wit:

	Effective November, 2012	Effective November, 2013
15 Water Meter Size	Service Charge	Service Charge
16 5/8 inch	\$3.60	\$3.80
17 5/8 x 3/4 inch	4.55	5.75
18 3/4 inch	4.55	5.75
19 1 inch	7.60	9.60
20 1-1/2 inch	15.15	19.15
21 2 inch	24.25	30.65
22 3 inch	45.50	57.50
23 4 inch	75.85	95.85
24 6 inch	151.65	191.65
25 8 inch	242.65	306.65
26 10 inch	348.85	440.85

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WATER RATES TO CUSTOMERS OUTSIDE
THE CITY LIMITS

Customers located outside the City Limits of Lincoln and served by the water system of the City of Lincoln shall pay no less than the water rates charged to customers within the City Limits of Lincoln for water furnished them by the water system of the City of Lincoln.

BE IT FURTHER RESOLVED that Resolution No. A-86439, adopted by the City Council on August 8, 2011, is hereby superseded.

Introduced by:

Jon A. Camp

AYES: Camp, Carroll, Cook,
Emery, Eskridge, Hornung,
Schimek; NAYS: None.

Approved as to Form & Legality:

D. Couper
City Attorney

Approved this 10th day of Aug., 2012:
Chris Brown
Mayor

ADOPTED
AUG - 8 2012
BY CITY COUNCIL

CITY OF LINCOLN

Request for: Ordinance
 Resolution

(Do Not Write in this Space)

Bill Control No. 12R-176 Date: 7/24

Docketing Date 7/30; PH. 8-6-12

(To Be Entered by City Clerk)

DATE July 23, 2012	REQUEST MADE BY Miki Esposito, Director	DEPARTMENT Public Works/Utilities
DESIRED DOCKET DATE: 7-30; PH 8-6-12	IF EMERGENCY, GIVE REASON (See Art. 6, Sec. 2 of Charter)	
Emergency Measure Required: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		

REASONS OR JUSTIFICATION FOR PROPOSED LEGISLATION

To establish a new rate schedule for the Lincoln Water System for purposes of covering the System's operational and maintenance costs including debt service, and the costs of the Capital Improvements Program for F.Y. 2012-13 and F.Y. 2013-14.

FILED
 CITY CLERK'S OFFICE
 2012 JUL 24 AM 9 44
 CITY OF LINCOLN
 NEBRASKA

REQUESTOR <input type="checkbox"/> DOES <input checked="" type="checkbox"/> DOES NOT	WISH TO REVIEW AND APPROVE THIS ORDINANCE PRIOR TO ITS INTRODUCTION	<i>Miki Esposito</i> DIRECTOR'S SIGNATURE	<u>7/24/12</u> DATE
---	--	--	------------------------

TO BE USED BY THE FINANCE DEPARTMENT

BUDGET REVIEW	DATE:	ACCOUNT NUMBER AND APPROPRIATE BALANCES	DATE:	FUND AVAILABILITY APPROVED	DATE:
DIRECTOR OF FINANCE SIGNATURE					

DISTRIBUTION
 Return two (2) copies to City Clerk for Docket Number

City Council Introduction: July 30, 2012

Bill Number 12R-176

Public Hearing: August 6, 2012

FACT SHEET

TITLE: Proposed Resolution to increase Water Use Charges

SPONSOR: Public Works/Utilities

OTHER DEPARTMENTS AFFECTED:

OPPONENTS: Unknown

APPLICANT: Public Works/Utilities

STAFF RECOMMENDATION: For

REASON FOR LEGISLATION: To establish a new rate schedule for Lincoln Water System for purposes of covering the System's operational and maintenance costs including debt service, and the costs of the Capital Improvements Program for F.Y. 2012-13 and F.Y. 2013-14.

DISCUSSION

The Public Works & Utilities Department recommends a 5% revenue increase and proposes to change the following rates as shown below. These changes will take effect with the "H" billing cycle commencing in November, 2012 and November, 2013.

Water Meter Size	Current Rate	Effective November, 2012	Effective November, 2013
		Service Charge	Service Charge
5/8 inch	\$3.42	\$3.60	\$3.80
5/8 x 3/4 inch	3.42	4.55	5.75
3/4 inch	3.42	4.55	5.75
1 inch	3.42	7.60	9.60
1-1/2 inch	6.84	15.15	19.15
2 inch	13.66	24.25	30.65
3 inch	30.73	45.50	57.50
4 inch	54.64	75.85	95.85
6 inch	122.88	151.65	191.65
8 inch	218.51	242.65	306.65
10 inch	341.39	348.85	440.85

FACT SHEET PREPARED BY: *Fran Mejia*

Public Works & Utilities Business Manager

REVIEWED BY: *Mike Espino*

Director of Public Works & Utilities

Quantitative Statistics

Years ended August 31, 2012 and 2011

(Unaudited)

	2012	2011	Increase (decrease)
Water pumpage in one hundred cubic feet:			
(H.C.F.) by months:			
September	1,606,230	1,566,845	39,385
October	1,499,586	1,599,840	(100,254)
November	971,698	1,080,722	(109,024)
December	1,001,364	913,061	88,302
January	1,050,588	900,722	149,866
February	1,002,834	827,968	174,866
March	1,120,842	973,971	146,872
April	1,324,452	1,010,668	313,783
May	1,711,297	1,340,053	371,243
June	2,169,184	1,491,818	677,366
July	2,942,179	2,095,481	846,698
August	2,359,532	1,821,912	537,620
Total H.C.F. pumped	18,759,786	15,623,061	3,136,725
H.C.F. sold and donated:			
Customer metered sales	17,482,179	15,211,581	2,270,598
Used in new building construction (estimated)	10,000	10,000	-
Used in flushing on new sewers, water main construction, etc. (estimated)	5,500	5,500	-
Hydrant permits	42,441	27,344	15,097
Used for testing meters (estimated)	250	250	-
Used by Fire Department (estimated)	3,200	3,200	-
Lawn sprinkling and service shop water (estimated)	100	100	-
Total water accounted for	17,543,670	15,257,975	2,285,695
Total H.C.F. unaccounted for	1,216,116	365,086	851,030
Percent of H.C.F. unaccounted for	6.48%	2.34%	

LINCOLN WATER SYSTEM

Schedule 9

COMPARATIVE PUMPING REPORT

For Fiscal Years as Shown by Gallons

(Unaudited)

MONTH	August 31, 2012	August 31, 2011	August 31, 2010	August 31, 2009	August 31, 2008
September	1,201,460,000	1,172,000,000	1,078,830,000	1,122,830,000	1,336,190,000
October	1,121,690,000	1,196,680,000	817,530,000	952,000,000	971,640,000
November	726,830,000	808,380,000	697,300,000	759,790,000	848,660,000
December	749,020,000	682,970,000	682,290,000	789,130,000	796,270,000
January	785,840,000	673,740,000	747,470,000	847,930,000	818,900,000
February	750,120,000	619,320,000	690,540,000	698,790,000	783,230,000
March	838,390,000	728,530,000	756,830,000	819,680,000	780,350,000
April	990,690,000	755,980,000	857,960,000	798,590,000	773,220,000
May	1,280,050,000	1,002,360,000	959,180,000	1,231,090,000	893,870,000
June	1,622,550,000	1,115,880,000	1,056,010,000	1,087,110,000	890,790,000
July	2,200,750,000	1,567,420,000	1,284,390,000	1,502,970,000	1,374,170,000
August	1,764,930,000	1,362,790,000	1,710,020,000	1,331,280,000	1,716,280,000
Total	14,032,320,000	11,686,050,000	11,338,350,000	11,941,190,000	11,983,570,000

LINCOLN WATER SYSTEM
ANNUAL RAINFALL FOR THE PERIOD OF
September 1, 2011 to August 31, 2012
(Unaudited)

	Inches of <u>Rainfall</u>
September	1.33
October	0.93
November	1.66
December	1.58
January016
February	2.10
March	0.89
April	3.49
May	3.00
June	3.57
July033
August	<u>0.30</u>
TOTAL INCHES FOR FISCAL YEAR	<u>19.34</u>

LINCOLN WATER SYSTEM

WATER ANALYSIS

(All Results in Parts Per Million)
(Collected August 6, 2012)
(Unaudited)

550 W. Cornhusker Hwy.

Hydrogen Ion Concentration (pH)	7.83
Total Dissolved Solids	380 ppm.
Total Iron (Fe)	<0.050 ppm.
Manganese (Mn)	2.25 ppb.
Calcium (as Ca)	57.2 ppm.
Total Alkalinity (CaCO ₃)	172 ppm.
Chloride (Cl)	23.6 ppm.
Fluoride (F)	0.92 ppm.
Nitrate (+Nitrite)	0.246 ppm.
Sodium (Na)	37.7 ppm.
Hardness as (CaCO ₂)	
Total Hardness	200 ppm.

(All above analysis made in accordance with Standard Methods for Water and Wastewater,
20th Ed.)

Lincoln Water System

Summary of Insurance Coverage

August 31, 2012

(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	SEL3017304
Automobile Fleet Physical Damage**	Self-Insured	Actual cash value	2,500	2,500		
Building and Contents (Includes Boiler & Machinery)	Blanket policy - buildings and contents	Replacement cost	50,000	2,500	FM Global	FM840
Money and Securities	Inside/outside premises	50,000	500	0	Fidelity & Deposit	CCP003059514
Water Distribution	Water distribution center	25,000,000	50,000	10,000	FM Global	FM840
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FM840
Equipment Floater (911)	Radio tower floater	Replacement cost	50,000	2,500	FM Global	FM840
Equipment Floater (NON-LIC)	Nonlicensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM840
General Liability ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017304
Public Employee Blanket Bond	Employees blanket bond coverage	1,000,000	25,000	10,000	Fidelity & Deposit	CCP003059514
Public Officials Liability***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017304
Workers' Compensation Excess	Statutory	Statutory	800,000	0	Midwest Employers Casualty (MECC)	EWC007744

** Self-insured for both comp & collision.

*** Public Entity Policy

LINCOLN WATER 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, radio towers, and nonlicensed equipment.

WATER DISTRIBUTION SYSTEM

Provides coverage for underground pipeline between Lincoln and Ashland.

GENERAL LIABILITY

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

PUBLIC EMPLOYEES BLANKET BOND

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

PUBLIC OFFICIALS LIABILITY (Claims-made)

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

WORKERS' COMPENSATION

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

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

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SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

The following is a summary of certain provisions and defined terms of the Bond Ordinance. Summaries of certain definitions contained in the Bond Ordinance are set forth below. Other terms defined in the Bond Ordinance for which summary definitions are not set forth herein are also 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 Bond Ordinance, to which reference is hereby made. Copies of the Bond 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 Bond 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 Bond 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 Bond 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 Sections 8 and 44 of Article IX of the Charter of the City, as each may be amended from time to time.

“Appreciated Value” means, with respect to any Deferred Income Bond, (i) as of any date of computation prior to the Current Interest Commencement Date with respect to such Deferred Income Bond, an amount equal to the principal amount of such Bond plus the interest accrued on such Bond from the date of original issuance of such Bond to the Periodic Compounding Date next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Deferred Income Bonds determined in accordance with the Series Bond 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 Bond Ordinance authorizing such Deferred Income Bonds, Appreciated Value accrues in equal daily amounts on the basis of a year consisting of twelve 30-day months and (ii) as of any date of computation on and after the Current Interest Commencement Date, the Appreciated Value on the Current Interest Commencement Date.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Bond Obligation” means, as of any date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date), and (3) with respect to any Outstanding Deferred Income Bond, the Appreciated Value thereof as of the date on which interest on such Deferred Income Bond is computed next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case as of such date).

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

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

“Construction Fund” means the Construction Fund established with the City pursuant to the provisions of the Bond 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 Bond 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 Bond 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 Bond Ordinance or to be paid into the Water 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 Bond 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 Bond Ordinance, with the first such payment date being the first such periodic date immediately succeeding such Current Interest Commencement Date.

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

“Deferred Income Bonds” means any Bond issued under the Bond Ordinance as to which interest accruing prior to the Current Interest Commencement Date is (i) compounded periodically on dates determined in accordance with the Series Bond Ordinance authorizing such Deferred Income Bonds and (ii) payable only at the maturity, earlier redemption or other payment thereof pursuant to the Bond Ordinance or the Series Bond 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 water production, treatment and distribution 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 und) 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 Bond Ordinance), all Bonds theretofore, or thereupon being, authenticated and

delivered by the Registrar under the Bond 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 Bond Ordinance, portions thereof deemed to have been cancelled); (b) Bonds (or in the case of Book Entry Bonds, to the extent provided in the Bond Ordinance, portions thereof with respect to which all liability of the City shall have been discharged in accordance with the Bond 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 Bond Ordinance; and (d) Bonds no longer deemed to be outstanding under the Bond Ordinance as provided in the Series Bond 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 Bond Ordinance to make payments of the principal of, Redemption Price and interest on the Series of Bonds authorized by such Series Bond 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 Bond Ordinance authorizing such Capital Appreciation Bond or Deferred Income Bond on which interest on such Bond is to be compounded.

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

“Project” means any water generation, transmission, distribution and general 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 generation, transmission, distribution, sale, purchase, exchange or interchange of water, and in the supplying of water 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 water generation, transmission, distribution or general 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 water 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 Bond 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 with the City pursuant to the Bond 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 Bond Ordinance to maintain on behalf of the City books of record in which the registered owners of the Bonds authorized by such Series Bond 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 Bond Ordinance, in which there shall be established an account for each Series of Bonds issued pursuant to the Bond 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 Water Revenue Fund created with the City into which all of the Revenues of the System shall be deposited.

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

"Sinking Fund Installment" means an amount so designated which is established pursuant to a Series Bond Ordinance authorizing a Series of Bonds and which is required by the Bond 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 Bond 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 Bond Ordinance as security for the Bonds.

"Surplus Fund" means the Surplus Fund established with the City pursuant to the provisions of the Bond 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 acquiring,

producing, treating, transmitting, distributing and selling water, 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 water 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 water system.

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

Pledge.

The Bonds of each Series are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal, Accreted Value and Appreciated Value thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured by a lien upon (i) the Net Revenues and (ii) the other funds, assets and security described under the Bond Ordinance and under the Series Bond Ordinance creating such Series. In the Bond 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 Bond 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 Bond 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 Bond 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 Bond Ordinance shall remain in effect until there are no Bonds Outstanding.

Application of Revenues.

The Revenues are pledged by the Bond 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 Bond Ordinance permitting application for other purposes. The Bond 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 Bond Ordinance.

Funds.

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

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

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

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

Water Revenue Fund. The City covenants and agrees in the Bond Ordinance that from and after the delivery of the initial Series of Bonds issued under the Bond 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 Water 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 Water Revenue Fund shall be administered and applied solely for the purposes and in the manner provided in the Bond Ordinance.

Application of Money in Funds. Subject to the provisions of the Bond Ordinance, the City covenants and agrees that from and after the delivery of the initial Series of Bonds under the Bond 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 Water 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 Water 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 Bond Ordinance shall be credited against the City's payment obligations as set forth in the Bond Ordinance.

(c) *Reserve Fund.* After all payments and credits required at the time to be made under the provisions of paragraphs (a) and (b) above have been made, there shall next be paid and credited to each Account established in the Reserve Fund, all remaining Revenues until the amount on deposit in each Account in the Reserve Fund aggregates the Reserve Requirement for the Series of Bonds for which such Account was established. So long as each Account in the

Reserve Fund aggregates the Reserve Requirement with respect to the Series of Bonds for which such Account was established, no further payments into said Account shall be required, but if the City is ever required to expend and use a part of the moneys in said Account for the purpose authorized in the Bond Ordinance and such expenditure reduces the amount of said Account below the Reserve Requirement for the Series of Bonds for which such Account was established, the City shall resume and continue said monthly payments into said Account until said Account shall again aggregate the Reserve Requirement with respect to the Series of Bonds for which such Account was established.

(d) *Surplus Fund.* After all payments and credits required at the time to be made under the provisions of paragraphs (a), (b) and (c) of this Section have been made, all moneys remaining in the Water 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 Bond Ordinance, the City will make good the amount of such deficiency by making additional payments or credits out of the first available Revenues thereafter received from the operation of the System, such payments and credits being made and applied in the order hereinbefore specified under the caption "Application of Money in Funds."

Bond Fund.

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

The amount, if any, deposited in the Bond Fund from the proceeds of each Series of Bonds shall be set aside in the Bond Fund and applied to the payment of interest on Bonds in accordance with the Series Bond 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 Bond 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 Bond 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 Bond Ordinance; provided that such withdrawal shall not be made unless item (i) referred to hereinabove have been satisfied.

Reserve Fund.

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

benefit and security such Series of Bonds. The City shall hold any such Account and shall deposit therein from the proceeds of the Series of Bonds for which such Account is established or from other funds of the City legally available therefore, an amount equal to the Reserve Requirement for such Series of Bonds.

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

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

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

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

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

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

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

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

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

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

Capital Improvement Fund.

There shall be deposited into the Capital Improvement Fund, at the option of the City, such amounts from the Surplus Fund as shall be directed by the City from time to time, together with any moneys received for or in connection with the System by the City from any other source, unless required to be applied otherwise as provided by the Bond 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 arbitrage rebate 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 Bond Ordinance, the obligation to pay arbitrage rebate to the United States and to comply with all other requirements of this Section and the Arbitrage Instructions shall survive the defeasance or payment in full of the Bonds.

Surplus Fund.

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

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

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

Construction Fund.

(a) There shall be paid into the Construction Fund such amounts from the proceeds of a Series of Bonds as may be required by the provisions of the Bond Ordinance and any Series Bond 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 Bond 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 Bond Ordinance.

(f) Nothing in the Bond 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 Bond Ordinance as security for the Bonds.

Investment of Funds.

Unless limited by the provisions of a Series Bond Ordinance, all amounts held in any fund or account established under the Bond 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 Bond Ordinance or paid into the Revenue Fund.

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

Covenant as to Rates, Fees and Charges.

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

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

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

Additional Bonds.

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

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

(i) The City shall not be in default in the payment of principal of or interest on any Bonds at the time Outstanding under the Bond 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 Bond Ordinance (unless such additional revenue bonds or obligations are being issued to provide funds to cure such default); and

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

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

Application of Insurance Proceeds. 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 Bond 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 Bond 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 Bond Ordinance. Notwithstanding any other provision of the Bond 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 Bond Ordinance.

(a) (1) Unless such modifications or amendments are permitted under subsection (b) below, the Bond 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 Bond 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 Bond Ordinance is only applicable to a Series of Bonds, the Bonds of that Series) then Outstanding; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding.

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

(3) It shall not be necessary for the consent of the Owners to approve the particular form of any Supplemental Bond Ordinance, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the adoption by the City of any Supplemental Bond Ordinance pursuant to this subsection (a), the Registrar shall mail a notice provided by the Bond Ordinance, setting forth in general terms the substance of such Supplemental Bond 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 Bond 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 Bond Ordinance in substantially the same form.

(5) Any consent given by the Owner of a Bond pursuant to the provisions of the Bond 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 Bond 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 Bond Ordinance or a Supplemental Bond 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 Bond 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 Bond 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 Bond Ordinance, or in regard to matters or questions arising under the Bond 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 Bond Ordinance in such manner as to permit the qualification of the Bond 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 Bond Ordinance with such interest rate, payment, maturity and other terms as the City may deem desirable subject to the provisions of the Bond Ordinance;

(5) if the City has covenanted in a Series Bond 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 Bond Ordinance in any other respect whatsoever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of each Series Outstanding at the date of the adoption of such Series or

Supplemental Bond Ordinance shall cease to be Outstanding, and (ii) such Series or Supplemental Bond 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 Bond 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 Bond 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 Bond 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 Bond 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 Bond 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 Bond 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 Bond Ordinance and the continuing duties of the Paying Agent and Registrar.

Whenever in the Bond 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 Bond Ordinance and shall be one or more of the following:

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

(ii) Federal Securities or Municipal Obligations which are non-callable by the issuer, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Paying Agent for which payment is being made (upon which opinion the Paying Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such Bond Obligation or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV of the Bond 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 Bond 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 Bond 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 Bond Ordinance, the City shall not be deemed in default during the continuance of such disability. The term "force majeure" as used in the Bond 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 Bond 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 Bond 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 Bond 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 Bond Ordinance or in aid of execution of any power granted in the Bond 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 Bond 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 Bond 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 Bond 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 Bond 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 Water 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 Bond 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 Bond 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 Bond Ordinance, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Bond 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 Bond Ordinance to the contrary notwithstanding, if at any time the moneys in the Water 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 Bond Ordinance or otherwise, shall be applied as follows:

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

(ii) If the principal of all the Bonds shall have become due and payable, all such moneys shall be applied to the payment of the principal Accreted Value, Appreciated Value or Redemption Price or interest then due and unpaid upon the Bonds, without preference or priority

of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bonds over any other Bonds, ratable, according to the amounts due, respectively, for principal or interest to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

(b) Whenever moneys are to be applied by the Receiver pursuant to the provisions stated above, such moneys shall be applied by the Receiver at such times, and from time to time, as the Receiver in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future; the setting aside of such moneys, in trust for the proper purpose, shall constitute proper application by the Receiver; and the Receiver shall incur no liability whatsoever to the City, to any Owner or to any other person for any delay in applying any such moneys, so long as the Receiver acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Bond 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 Bond 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 Bond 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 Bond Ordinance or for any other remedy under the Bond Ordinance. It is understood and intended that no one or more Owners of the Bonds secured by the Bond Ordinance shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Bond Ordinance, or to enforce any right thereunder, except in the manner provided in the Bond 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 Bond Ordinance to the rights and remedies provided in the Bond 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 Bond Ordinance.

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EXHIBIT D

BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

The Depository Trust Company, New York, NY, will act as securities depository for the Series 2013 Bonds. The Series 2013 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 2013 Bond will be issued for each maturity of the Series 2013 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 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2013 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 2013 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 2013 Bonds, except in the event that use of the book-entry system for the Series 2013 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013 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 2013 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 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013 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 2013 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Series 2013 Bonds may wish to ascertain that the nominee holding the Series 2013 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 2013 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 2013 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 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2013 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 2013 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 2013 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

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June ___, 2013

Mayor and City Council
The City of Lincoln, Nebraska
Lincoln, Nebraska

Ameritas Investment Corp.
Lincoln, Nebraska

Re: \$28,595,000 The City of Lincoln, Nebraska, Water Revenue Refunding Bonds, Series
2013

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 "Series 2013 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 Series 2013 Bonds are issued pursuant to Ordinance No. 18088 duly adopted by the Council of the City on November 18, 2002 and approved by the Mayor of the City on November 19, 2002, as amended and supplemented from time to time including, but not limited to Ordinance No. 19881 adopted by the Council on May 20, 2013 and approved by the Mayor on May 32, 2013 (collectively the "Bond Ordinance"). Capitalized terms used and not otherwise defined in this opinion have the meanings assigned to those terms in the Bond 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 on 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 Series 2013 Bonds.

2. The Series 2013 Bonds have been duly authorized, executed and delivered by the Issuer and are valid and legally binding special obligations of the Issuer.

3. The Series 2013 Bonds are payable solely from the net income and revenues derived by the Issuer from the operation of the System, after providing for the costs of operation and maintenance thereof. The Series 2013 Bonds do not constitute general obligations of the Issuer and 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 Series 2013 Bonds.

4. The Ordinance has been duly adopted by the governing body of 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 Series 2013 Bonds on a parity with other bonds, if any, issued or to be issued as Bonds under the Ordinance.

5. The interest on the Series 2013 Bonds (including any original issue discount properly allocable to an owner thereof) (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 and is not 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 comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2013 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 Series 2013 Bonds to be included in gross income for federal and Nebraska income tax purposes retroactive to the date of issuance of the Series 2013 Bonds. The Series 2013 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 Series 2013 Bonds (except to the extent, if any, stated in the Official Statement). 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 Series 2013 Bonds and the enforceability of the Series 2013 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,