

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

NEW ISSUE – FULL BOOK ENTRY

**RATINGS: S&P: “AA”
Fitch: “AA”
(See “RATINGS”)**

In the opinion of Kutak Rock LLP, Bond Counsel, assuming continuing compliance with certain requirements described herein, under laws, regulations, rulings and judicial decisions existing as of the date hereof, interest on the 2018 Bonds is not includable in gross income for federal income tax purposes. Such interest is also exempt from all present State of Nebraska personal income taxes. In the opinion of Bond Counsel, interest on the 2018 Bonds does not constitute an item of tax preference for purposes of determining the federal alternative minimum tax for individuals and corporations. See “TAX MATTERS” herein for a discussion of additional federal and State of Nebraska tax law considerations.

THE CITY OF LINCOLN, NEBRASKA



Lincoln Electric System

\$121,205,000

Lincoln Electric System

Revenue Bonds

Series 2018

Dated: Date of delivery (June 28, 2018)

Due: September 1 as set forth on the inside cover

The Series 2018 Bonds (the “2018 Bonds”) are issuable as fully registered securities 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. DTC will act as securities depository for the 2018 Bonds. Purchases of beneficial ownership interests in the 2018 Bonds will be made in book-entry form only, in \$5,000 principal amounts or integral multiples thereof. Beneficial Owners of the 2018 Bonds will not receive physical delivery of bond certificates evidencing their ownership interest in the 2018 Bonds so long as DTC or a successor securities depository acts as the securities depository with respect to the 2018 Bonds. So long as DTC or its nominee is the registered owner of the 2018 Bonds, payments of the principal or redemption price of, and interest on the 2018 Bonds will be made directly to DTC. Disbursements of such payments to DTC Participants are the responsibility of DTC and disbursements of such payments to Beneficial Owners are the responsibility of DTC Participants. See “DESCRIPTION OF THE 2018 BONDS—Book-Entry System” herein. Union Bank and Trust Company is Registrar and Paying Agent for the 2018 Bonds under the Ordinance.

The 2018 Bonds will be dated their date of issue. The 2018 Bonds will bear interest at the rates shown on the inside cover, payable each March 1 and September 1, commencing on September 1, 2018.

Certain of the 2018 Bonds are subject to optional redemption prior to maturity as more fully described herein.

The obligation of the City of Lincoln, Nebraska (the “City”) to pay the principal or redemption price of and interest on the 2018 Bonds is a limited obligation of the City, payable exclusively from and secured by a pledge of the Net Revenues of the Lincoln Electric System (“LES”), all as more fully described herein. See “SECURITY FOR THE 2018 BONDS” herein.

The 2018 Bonds are not obligations of the State of Nebraska or any of its political subdivisions, other than the City, and neither the faith and credit nor the taxing power of the State of Nebraska or any political subdivision thereof, including the City, is pledged for the payment of the 2018 Bonds.

MATURITIES, AMOUNTS, RATES, PRICES OR YIELD – See Inside Cover

The 2018 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Kutak Rock LLP, Omaha, Nebraska, Bond Counsel. Certain legal matters will be passed on for the City by the Lincoln City Attorney, for the Lincoln Electric System by its General Counsel, and for the Underwriters by Nixon Peabody LLP, Counsel to the Underwriters. Public Financial Management is serving as Financial Advisor to LES in connection with the issuance of the 2018 Bonds. It is expected that the 2018 Bonds will be available for delivery through the DTC book-entry system on or about June 28, 2018.

BARCLAYS

BofA MERRILL LYNCH

J.P. MORGAN

US BANCORP

The date of this Official Statement is June 5, 2018.

MATURITY SCHEDULE

\$121,205,000

**THE CITY OF LINCOLN, NEBRASKA
LINCOLN ELECTRIC SYSTEM REVENUE BONDS, SERIES 2018**

\$121,205,000 Serial Bonds

Due September 1	Principal Amount	Rate	Yield	Price	CUSIP⁽¹⁾
2025	\$6,305,000	5.000%	2.340%	117.472%	534272J34
2026	10,465,000	5.000	2.460	118.702	534272J42
2027	10,985,000	5.000	2.510	119.299 ^C	534272J59
2028	11,525,000	5.000	2.570	118.784 ^C	534272J67
2029	12,100,000	5.000	2.640	118.187 ^C	534272J75
2030	12,695,000	5.000	2.700	117.678 ^C	534272J83
2031	5,000,000	3.000	3.150	98.390	534272J91
2031	8,325,000	5.000	2.740	117.340 ^C	534272K24
2032	13,925,000	5.000	2.770	117.088 ^C	534272K32
2033	14,540,000	5.000	2.800	116.836 ^C	534272K40
2034	4,975,000	3.250	3.360	98.632	534272K57
2034	10,365,000	5.000	2.850	116.417 ^C	534272K65

^C Priced to March 1, 2027 par call date.

⁽¹⁾CUSIP® is a registered trademark of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the City, LES or the Underwriters and are included solely for the convenience of the registered owners of the applicable 2018 Bonds. None of the City, LES or the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable 2018 Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2018 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2018 Bonds.

THE CITY OF LINCOLN, NEBRASKA

CITY ADMINISTRATION

CHRIS BEUTLER
BRANDON KAUFFMAN

Mayor
Finance Director

LINCOLN ELECTRIC SYSTEM

ADMINISTRATIVE BOARD

LAYNE SUP
TAMMY WARD
DANAY KALKOWSKI
JERRY HUDGINS
VICKI HUFF
ANDREW HUNZEKER
SARAH PEETZ
LUCAS SABALKA
[VACANT]

Chair
Vice Chair
Secretary
Member
Member
Member
Member
Member
Member

MANAGEMENT

KEVIN G. WAILES
LAURA L. KAPUSTKA
SHELLEY R. SAHLING-ZART
PAUL A. CRIST
JASON L. FORTIK
LISA R. HALE
PATRICIA A. OWEN
DANNY L. PUDENZ

Chief Executive Officer
Vice President and Chief Financial Officer
Vice President and General Counsel
Vice President and Chief Technology Officer
Vice President-Power Supply
Vice President-Customer Services
Vice President-Corporate Operations
Vice President-Energy Delivery

BOND COUNSEL

Kutak Rock LLP
Omaha, Nebraska

FINANCIAL ADVISOR

Public Financial Management
Philadelphia, Pennsylvania

UNDERWRITERS' COUNSEL

Nixon Peabody LLP
New York, New York

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”), the Lincoln Electric System (“LES”) or the Underwriters 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 2018 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the 2018 Bonds. The information set forth herein has been obtained from the City, LES 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 Underwriters. The Underwriters have provided the following sentence for inclusion in this Official Statement: “The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.” The information 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 or LES since the date hereof. The City and LES each maintain a website. However, the information presented therein is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2018 Bonds. The references to internet websites in this Official Statement are shown for reference and convenience only; unless explicitly stated to the contrary, the information contained within the websites is not incorporated herein by reference and does not constitute part of this Official Statement. In connection with this offering, the Underwriters may engage in transactions that stabilize, maintain, or otherwise affect the market prices of the 2018 Bonds. Such transactions, if commenced, may be discontinued at any time.

REGISTRATION EXEMPTION

The 2018 Bonds have not been registered with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon an exemption therefrom. In making an investment decision, investors must rely upon their own examination of the City or LES, the facilities and services, and the terms of the offering, including the merits and risks involved. No federal or state securities commission or regulatory authority has recommended the 2018 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

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the federal securities laws, including statements regarding, among other things, anticipated trends, future liquidity requirements and capital resources. When used in this Official Statement, the words “project,” “estimate,” “intend,” “expect,” “anticipate,” “plan” and similar expressions are intended to identify forward-looking statements. These forward-looking statements are based largely on LES’ expectations and are subject to a number of risks and uncertainties,

certain of which are beyond the control of the City and LES. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Prospective investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The forward-looking statements have neither been reviewed nor reported on by any third party. Neither LES nor any other party plans to issue any updates or revisions to those forward-looking statements if or when the expectations or events, conditions or circumstances upon which such statements are based occur or do not occur.

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OFFICIAL STATEMENT

THE CITY OF LINCOLN, NEBRASKA

\$121,205,000
Lincoln Electric System
Revenue Bonds
Series 2018

INTRODUCTION

This Official Statement (which includes the cover page hereof and the Appendices attached hereto) is furnished by The City of Lincoln, Nebraska (the “City”), a municipal corporation existing pursuant to its home rule charter (the “Charter”) and under the laws of the State of Nebraska (the “State”), to provide information concerning: (a) the City; (b) the City’s electric system (which is hereinafter referred to as the “Lincoln Electric System,” “LES” or the “System” and which is defined in the General Ordinance described below to include all property and assets of the City used for or pertaining to the generation, transmission, distribution and sale of electric power and energy); and (c) the City’s \$121,205,000 aggregate principal amount of Lincoln Electric System Revenue Bonds, Series 2018 (the “2018 Bonds”).

The 2018 Bonds are being issued pursuant to Sections 15-244 and 18-1803 to 18-1805, inclusive, Revised Statutes of Nebraska, as amended, and Article IX, Section 44 of the Charter, and a bond ordinance passed by the Lincoln City Council (“Council”) on July 23, 2001 (Ordinance No. 17879, the “General Ordinance”), as supplemented by a series ordinance passed by Council on November 20, 2017 (Ordinance No. 20583, the “2017 Ordinance”). The General Ordinance as amended and supplemented from time to time, including, but not limited to, by the 2017 Ordinance, is herein referred to as the “Ordinance.” Capitalized terms used herein, which are not otherwise defined, shall have the respective definitions set forth in the Ordinance. See “APPENDIX C: SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE—Definitions.”

The City will, following the closing and issuance of the 2018 Bonds have the following parity bonds (in addition to the 2018 Bonds) outstanding under the Ordinance (the “Outstanding Bonds”): (a) \$1,150,000 aggregate principal amount of its Lincoln Electric System Revenue and Refunding Bonds, Series 2003 (the “2003 Bonds”), (b) \$217,020,000 aggregate principal amount of its Lincoln Electric System Revenue and Refunding Bonds, Series 2012 (the “2012 Bonds”), (c) \$75,525,000 aggregate principal amount of its Lincoln Electric System Revenue and Refunding Bonds, Series 2013 (the “2013 Bonds”), (d) \$167,800,000 of its Lincoln Electric System Revenue and Refunding Bonds, Series 2015A (the “2015 Bonds”) and (e) \$99,575,000 aggregate principal amount of its Lincoln Electric System Revenue Refunding Bonds, Series 2016 (the “2016 Bonds”). The 2018 Bonds will be issued on a parity with the Outstanding Bonds under the Ordinance. In addition, the City has incurred certain subordinate obligations as further described under “OUTSTANDING BONDS AND NOTES – COMMERCIAL PAPER NOTES AND REVOLVING CREDIT AGREEMENTS.” The current outstanding principal amount of subordinate obligations is \$125,500,000, of which \$60,000,000 is expected to be refunded with proceeds of the 2018 Bonds.

The General Ordinance provides for the issuance by the City from time to time of Lincoln Electric System Revenue Bonds (including bonds, notes or other obligations or other evidences of indebtedness, as the case may be, as provided in the General Ordinance, the “Bonds”) (a) to finance properties and assets, and interests in properties and assets, real and personal and tangible and intangible (i) for the generation, transmission, distribution and sale of electric power and energy or (ii) such other activities and transactions

as the LES Administrative Board (the “Board”) and the City shall from time to time determine and (b) to refund outstanding bonds issued under the Ordinance. Pursuant to the Ordinance, the Bonds are payable from and secured by a pledge of the revenues of LES and certain other moneys as described herein, subject to a prior charge on such revenues for the costs of operation and maintenance of LES, including all administration expenses, variable costs of operation and maintenance incurred for power supply facilities (including LES’ ownership interest in electric plants and properties co-owned with others), variable costs associated with power purchase contracts and, in certain circumstances, fixed power supply costs of LES. Additional Bonds or Parity Obligations (as defined in the Ordinance and which, except as provided in the Ordinance, will be on a parity with the 2018 Bonds) may be issued from time to time upon the approval of the Mayor and City Council under the terms and conditions set forth in the Ordinance.

This Official Statement includes summaries of the terms of the 2018 Bonds, the Ordinance and certain contracts and other arrangements relating to LES. The summaries of and references to all documents, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each such summary and reference is qualified in its entirety by references to each such document, report or instrument, copies of which may be obtained, upon request, from Lincoln Electric System, 1040 “O” Street, Lincoln, Nebraska 68508, Attention: Chief Financial Officer. Email inquiries should be addressed to lkapustka@les.com, or call 402-475-4211.

PURPOSE OF ISSUE

The proceeds of the 2018 Bonds will be used to fund a deposit into the 2018 Debt Service Reserve Fund, to reimburse LES for previously incurred capital expenditures, to pay certain costs and expenses relating to the issuance of the 2018 Bonds and, together with other available funds, for the payment and redemption of \$30,000,000 principal amount of LES’ outstanding Commercial Paper Notes and \$30,000,000 of LES’ outstanding obligations under the U.S. Bank Revolving Credit Agreement. See “OUTSTANDING BONDS AND NOTES – COMMERCIAL PAPER NOTES AND REVOLVING CREDIT AGREEMENT” herein.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the 2018 Bonds.

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Sources of Funds:

Par Amount of 2018 Bonds	\$121,205,000.00
Net Original Issue Premium	<u>19,612,551.60</u>
Total Sources of Funds	<u>\$140,817,551.60</u>

Uses of Funds:

Deposit to Construction Fund	\$77,065,931.85
Deposit to 2018 Debt Service Reserve Fund	2,936,593.75
Payments of Commercial Paper Notes	30,000,000.00
Payment of U.S. Bank Revolving Credit Agreement	30,000,000.00
Costs of Issuance ⁽¹⁾	<u>815,026.00</u>
Total Uses of Funds	<u>\$140,817,551.60</u>

⁽¹⁾Includes underwriting discount and rating agency, Trustee and legal fees and other expenses related to the issuance of the 2018 Bonds.

DESCRIPTION OF THE 2018 BONDS

General

The 2018 Bonds will be issued in the aggregate principal amount of \$121,205,000 as set forth on the inside cover of this Official Statement. The 2018 Bonds will be issued in book-entry form only.

The 2018 Bonds will be dated as of their date of issue, will bear interest from that date payable on each March 1 and September 1, beginning September 1, 2018, and will mature on September 1 in the years and the principal amounts, and bear interest at the respective rates, as set forth on the inside cover of this Official Statement. Interest will be paid to the owner of each 2018 Bond as shown in the records of the Registrar on the 15th day of the month immediately preceding such Interest Payment Date. The 2018 Bonds will be issued in minimum denominations of \$5,000 or any integral multiple thereof.

Union Bank and Trust Company has been appointed as Registrar and Paying Agent for the 2018 Bonds (in such capacity, the "Paying Agent").

Interchangeability and Transfer

The 2018 Bonds, upon surrender thereof to the Registrar, with a written instrument of transfer satisfactory to the Registrar, duly executed by the registered owner or his or her duly authorized attorney, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of 2018 Bonds in registered form of the same series, maturity and of any other authorized denomination.

In all cases in which the privilege of exchanging or transferring the 2018 Bonds is exercised, the City shall execute and the Registrar shall deliver the 2018 Bonds in accordance with the Ordinance. For every such exchange or transfer of 2018 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.

No exchange or transfer of any 2018 Bond shall be required to be made during the 15 days next preceding before the date of selection of 2018 Bonds for redemption, or of any 2018 Bond or portion of a 2018 Bond so selected for redemption.

Optional Redemption

The 2018 Bonds maturing on or after September 1, 2027, shall be subject to redemption prior to maturity at the option of the City, in whole or in part in such principal amounts and from such maturity or maturities as the City, in its discretion, shall select, and by lot within a maturity if less than a full maturity is redeemed, on any Business Day on or after March 1, 2027 at redemption prices equal to 100% of the principal amount thereof plus accrued interest to the date fixed for redemption.

Selection of Bonds for Redemption

If less than all 2018 Bonds are to be redeemed, the maturities of 2018 Bonds to be redeemed may be selected by the City. If the City does not select the maturities to be redeemed, the 2018 Bonds will be redeemed in inverse order of maturity. The particular 2018 Bonds or portions of 2018 Bonds to be redeemed shall be selected at random by the Registrar in such manner as the Registrar in its discretion may deem fair and appropriate.

Notice of Redemption

If the City elects to redeem 2018 Bonds, the Registrar shall give notice of such redemption to the registered owners of the 2018 Bonds called for redemption, certain securities depositories and one or more information services. Such notice shall be given by first class mail to the registered owners of the 2018 Bonds designated for redemption at their addresses appearing on the bond registration books, not less than 30 days prior to the redemption date. The actual receipt by the registered owner of any 2018 Bond, the securities depositories and one or more information services of notice of redemption shall not be a condition precedent to redemption, and failure to receive such notice or any defects in such notice shall not affect the sufficiency of the proceedings for the redemption of 2018 Bonds.

Notice of redemption having been given, the 2018 Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the applicable redemption price, plus interest accrued and unpaid to the redemption date and, if presentation and surrender thereof are required by the Ordinance, upon presentation and surrender thereof at the office specified in such notice of such 2018 Bonds or portions thereof and shall be paid at the redemption price, plus interest accrued and unpaid to the redemption date. If there shall be designated for redemption a portion of a 2018 Bond, if presentation and surrender thereof are required, the City shall execute and the Registrar shall authenticate and deliver, upon the surrender of such 2018 Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the 2018 Bond so surrendered, a 2018 Bond of like maturity in any authorized denomination. If, on the redemption date, moneys for the redemption of all the 2018 Bonds or portions thereof to be redeemed, together with interest to the redemption date, shall be available therefor and if notice of redemption shall have been given as provided, then, from and after the redemption date, interest on the 2018 Bonds or portion thereof called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such 2018 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption. The City may elect to provide notice of redemption expressly conditioned upon the availability of moneys to effect such redemption on the redemption date.

For so long as the book-entry system is in effect with respect to the 2018 Bonds, the Registrar will mail notices of redemption to DTC or its nominee or its successor and, if less than all of the 2018 Bonds of

a maturity are to be redeemed, DTC or its successor and DTC Participants and Indirect Participants (as defined in “APPENDIX E: BOOK-ENTRY SYSTEM”) will determine the particular ownership interests of 2018 Bonds of such maturity to be redeemed. Any failure of DTC or its successor or a DTC Participant or Indirect Participant to do so, or to notify a Beneficial Owner of a 2018 Bond of any redemption will not affect the sufficiency or the validity of the redemption of 2018 Bonds. See “DESCRIPTION OF THE 2018 BONDS—Book-Entry System.” The City, LES, the Registrar, the Paying Agent and the Underwriters cannot make any assurance that DTC, the DTC Participants or the Indirect Participants will distribute such redemption notices to the Beneficial Owners of the 2018 Bonds, or that they will do so on a timely basis.

Book-Entry System

General. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2018 Bonds. The ownership of one fully registered 2018 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 2018 Bonds will be available to purchasers only through a book-entry system maintained by DTC (the “Book-Entry System”). A description of DTC, the Book-Entry System and definitions of initially capitalized terms used herein are found in “APPENDIX E: BOOK-ENTRY SYSTEM.”

Risk Factors. Beneficial Owners of the 2018 Bonds may experience some delay in their receipt of distributions of the principal or redemption price of and interest on the 2018 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 2018 Bonds can only be effected through DTC, DTC Participants and certain banks, the ability of a Beneficial Owner to pledge 2018 Bonds to persons or entities that do not participate in the Book-Entry System, or otherwise to take actions in respect of such 2018 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.

SECURITY FOR THE 2018 BONDS

The Pledge and Security Interest Under the Ordinance

The 2018 Bonds, together with the Outstanding Bonds and all other series of Bonds hereafter issued pursuant to the Ordinance, will be payable on a parity basis from and secured by a pledge of and security interest in (1) the Net Revenues of the System and (2) certain Funds established by the Ordinance (including the Electric Revenue Fund and the Bond Fund), subject to the provisions of the Ordinance permitting the application thereof for the purposes and on the terms and conditions set forth in the Ordinance. For a description of the Funds established under the Ordinance and other provisions of the Ordinance, see “APPENDIX C: SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE.”

A 2018 Debt Service Reserve Fund has been established for the 2018 Bonds, into which an amount equal to the Reserve Requirement for the 2018 Bonds will be deposited. The “Reserve Requirement” with respect to the 2018 Bonds, on any date of computation, is an amount equal to the highest six (6) months’ interest on the 2018 Bonds outstanding on such date, as such amount may be reduced at the discretion of LES as the 2018 Bonds are amortized and the requirement is correspondingly reduced. On the date of issue of the 2018 Bonds, the “Reserve Requirement” is \$2,936,593.75. For a more complete description of the

provisions relating to the 2018 Debt Service Fund, see “APPENDIX C: SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE—2018 Debt Service Reserve Fund.”

Pursuant to the General Ordinance, the Bonds of any series hereafter issued are not required to be additionally secured by amounts on deposit in any Debt Service Reserve Fund. The City, however, may provide, at its option, in the Series Ordinance authorizing the Bonds of any series hereafter issued that the Bonds of such series will be additionally secured by amounts on deposit in any Debt Service Reserve Fund to be designated therefor.

The Bonds will be payable solely from the Net Revenues and the other funds, assets and security described in the Ordinance, and neither the State nor any political subdivision thereof (other than the City) shall be obligated to pay the principal or redemption price thereof or interest thereon and neither the faith and credit nor the taxing power of the State or any political subdivision thereof (including the City) is pledged to the payment of the principal or redemption price of or interest on the Bonds. No registered owner of any Bond or receiver or trustee in connection with the payment of the Bonds shall have any right to compel the State or any political subdivision thereof (including the City) to exercise its appropriation or taxing powers.

Rate Covenant and Coverage Under the Ordinance

The City and the Board have covenanted under the Ordinance to fix, establish, maintain, and collect such rates, charges and fees for electric power and energy and services furnished by the Electric System and to the extent legally permissible, revise such rates, charges and fees to produce Revenues each Fiscal Year sufficient (a) to pay all Operation and Maintenance Expenses, (b) to produce Net Revenues equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Bonds and Parity Obligations; and (c) to pay after deducting the amounts determined in (a) and (b) above, all other financial obligations of the Electric System reasonably anticipated to be paid from Revenues. See “APPENDIX C: SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE—Covenant as to Rates, Fees and Other Charges.”

The City may also issue subordinate indebtedness secured by the revenues of the Electric System.

Limits on Additional Debt

The City may issue additional Bonds or Parity Obligations provided (a) the Net Revenues for the Fiscal Year immediately preceding the Fiscal Year in which such additional Bonds or Parity Obligations are issued are not less than 100% of the average annual Debt Service on all Bonds and Parity Obligations to be Outstanding upon the issuance of such additional Bonds or Parity Obligations, (b) neither the City nor LES shall be in default under the terms of the Ordinance and (c) the issuance of such additional Bonds or Parity Obligations shall not cause either the City or LES to be in default under the terms of the Ordinance.

OUTSTANDING BONDS AND NOTES – COMMERCIAL PAPER NOTES AND REVOLVING CREDIT AGREEMENTS

Bonds Outstanding Under the Ordinance

After the issuance of the 2018 Bonds the following Bonds will be outstanding:

Description	Final Maturity	Outstanding Amount
2003 Bonds	September 1, 2021	\$ 1,150,000
2012 Bonds	September 1, 2037	217,020,000
2013 Bonds	September 1, 2025	75,525,000
2015 Bonds	September 1, 2040	167,800,000
2016 Bonds	September 1, 2034	99,575,000
2018 Bonds	September 1, 2034	121,205,000

Commercial Paper Notes

In addition to the Bonds, LES maintains a commercial paper program. The payment of the Commercial Paper Notes is subordinate to the payment of the principal of, and interest on, the outstanding Bonds. LES is presently authorized to issue up to \$150,000,000 aggregate principal amount in Commercial Paper Notes. Following the application of a portion of the proceeds of the 2018 Bonds to refund Commercial Paper Notes, LES will have \$65,500,000 of Commercial Paper Notes outstanding.

In addition, LES has entered into a Revolving Credit Agreement dated as of August 1, 2012 with The Bank of Tokyo-Mitsubishi UFJ, Ltd. (“BTMU”), acting through its New York branch (the “Revolving Credit Agreement”). The BTMU Revolving Credit Agreement terminates on August 27, 2018. The BTMU Revolving Credit Agreement obligates BTMU to fund advances to LES in accordance with the terms of the BTMU Revolving Credit Agreement in an aggregate amount not to exceed \$150,000,000. Such advances, if requested and made, are available solely for the purpose of paying maturing principal of the Commercial Paper Notes. LES’ obligation to repay such advances and the interest thereon is subordinate to the payment of the principal of, and interest on, the Outstanding Bonds. As of the date hereof, there are no advances outstanding under the BTMU Revolving Credit Agreement. LES plans to execute a new Revolving Credit Agreement prior to the termination date of the current agreement.

Revolving Credit Agreement

LES has also entered into a Revolving Credit Agreement with U.S. Bank National Association (“U.S. Bank”) dated as of November 1, 2017 (the “U.S. Bank Revolving Credit Agreement”). The U.S. Bank Revolving Credit Agreement permits LES to draw up to \$50,000,000 on a floating rate basis. The U.S. Bank Revolving Credit Agreement terminates, unless extended in accordance with its terms, on November 2, 2020. LES’ obligation to repay advances and the interest thereon under the U.S. Bank Revolving Credit Agreement is subordinate to the payment of the principal of, and interest on, the Outstanding Bonds as well as LES’ Commercial Paper Notes and LES’ obligations under the BTMU Revolving Credit Agreement. Pursuant to the U.S. Bank Revolving Credit Agreement, LES may direct

U.S. Bank to issue letters of credit securing obligations of LES. In November 2017, LES received a \$30,000,000 advance under the U.S. Bank Revolving Credit Agreement, which is the only advance received under the agreement. Following the application of a portion of the proceeds of the 2018 Bonds to pay amounts outstanding under the U.S. Bank Revolving Credit Agreement Notes, LES will have \$0 outstanding thereunder.

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BOND DEBT SERVICE SCHEDULE

Set forth below is a schedule of the debt service requirements for the twelve months ending September 1, 2018 and for each full year thereafter for the 2003 Bonds, 2012 Bonds, 2013 Bonds, 2015 Bonds, 2016 Bonds and 2018 Bonds. Amounts listed below do not include Commercial Paper Notes or obligations under the U.S. Bank Revolving Credit Agreement. See “OUTSTANDING BONDS AND NOTES – COMMERCIAL PAPER NOTES AND REVOLVING CREDIT AGREEMENTS.”

Period Ending	Series 2018	Series 2016	Series 2015	Series 2013	Series 2012	Series 2003	Aggregate Annual Debt Service
9/1/2018	\$1,027,808	\$23,978,150	\$7,484,800	\$2,839,893	\$9,369,156	\$54,625	\$44,754,432
9/1/2019	5,873,188	17,659,150	16,099,800	2,839,893	9,369,156	54,625	51,895,812
9/1/2020	5,873,188	2,817,400	35,699,800	2,839,893	9,369,156	54,625	56,654,062
9/1/2021	5,873,188	2,817,400	6,354,050	17,579,893	22,824,156	1,204,625	56,653,312
9/1/2022	5,873,188	2,817,400	6,356,050	17,577,893	24,031,606	–	56,656,137
9/1/2023	5,873,188	2,817,400	6,361,850	17,574,143	24,029,106	–	56,655,687
9/1/2024	5,873,188	2,817,400	6,361,250	17,570,528	24,031,806	–	56,654,172
9/1/2025	12,178,188	2,817,400	6,364,450	12,775,128	18,343,056	–	52,478,222
9/1/2026	16,022,938	12,917,400	6,363,950	–	18,088,231	–	53,392,519
9/1/2027	16,019,688	10,552,400	6,375,450	–	20,445,731	–	53,393,269
9/1/2028	16,010,438	12,977,400	6,374,200	–	18,019,531	–	53,381,569
9/1/2029	16,009,188	5,816,350	9,885,100	–	21,668,781	–	53,379,419
9/1/2030	15,999,188	7,425,200	9,974,800	–	19,974,563	–	53,373,751
9/1/2031	15,994,438	5,728,200	10,033,050	–	21,610,969	–	53,366,657
9/1/2032	16,028,188	5,738,800	10,096,550	–	21,538,494	–	53,402,032
9/1/2033	15,946,938	11,076,550	19,364,300	–	6,928,969	–	53,316,757
9/1/2034	16,019,938	7,218,750	23,225,300	–	6,927,575	–	53,391,563
9/1/2035	–	–	10,266,050	–	6,928,181	–	17,194,231
9/1/2036	–	–	24,181,050	–	6,925,038	–	31,106,088
9/1/2037	–	–	1,628,400	–	6,927,644	–	8,556,044
9/1/2038	–	–	14,668,400	–	–	–	14,668,400
9/1/2039	–	–	14,671,800	–	–	–	14,671,800
9/1/2040	–	–	<u>14,669,200</u>	–	–	–	<u>14,669,200</u>
Total	<u>\$192,496,058</u>	<u>\$137,992,750</u>	<u>\$272,859,650</u>	<u>\$91,597,264</u>	<u>\$317,350,905</u>	<u>\$1,368,500</u>	<u>\$1,013,665,127</u>

CITY OF LINCOLN

Lincoln, the capital of Nebraska, is located in southeastern Nebraska near the center of population of the State. The City is a municipal corporation and a city of the primary class under Nebraska law. It operates under a home rule Charter and has an elected full-time chief executive (“Mayor”) and elected legislative body (“City Council”). The City’s government has a broad range of responsibilities, including operation and maintenance of electric, water, and sanitary sewer systems. The Charter grants the City power to purchase, construct and otherwise acquire, own, maintain and operate public utility plants, property and facilities within and without the limits of the City. The administration of City government operates outside of the direction of the Mayor by administrative departments.

The 2018 Bonds are not general obligation indebtedness of the City.

The City is authorized under the Constitution and laws of the State and its home rule Charter to issue revenue bonds. The Finance Director is appointed by the Mayor with the approval of the City Council. Among other duties imposed by the City Charter, the Finance Director is responsible for the issuance and sale of bonds, for depositing the proceeds therefrom and for other acts relating to bonds. Selected demographic information with respect to the City and the LES service area is included in Appendix A to this Official Statement.

LINCOLN ELECTRIC SYSTEM

Organization

Since 1913, the City has owned and operated at least a partial electric system. In 1966, the City purchased the properties serving the City from Consumers Public Power District and combined them with City property to form Lincoln Electric System. In 1971, following a referendum, the Administrative Board for LES was created. The Board is responsible for day-to-day administration of the electric system. The City, through the City Council, retains the right to approve rates, the annual budget, debt financing for LES capital requirements, and appointment of the Chief Executive Officer (“CEO”). Historically, such approvals have been granted by the City Council based on the actions approved and recommended by LES management and the Board.

Service Area

The LES service area includes the corporate area of the City and an area outside the City’s corporate limits. The service area covers approximately 200 square miles, of which approximately 94 square miles are within the City limits. Approximately 4% of LES’ customers are located outside the City’s corporate limits. To the extent that the corporate limits of the City are expanded in the future, Nebraska law provides that the service area of LES may likewise be expanded. The LES service area is totally surrounded by Norris Public Power District (“Norris”). LES and Norris have an agreement providing a mechanism for orderly expansion of the LES service area as the City expands. LES holds an exclusive right to serve customers within its service area. The City of Waverly, with a population of approximately 3,786, is located within the LES service area and has been served by LES under a franchise agreement since 1986. A renewal agreement with an initial term of ten years, plus an automatic renewal provision calling for continued five-year extension until terminated by either party providing notice to the other was put in place November 1, 2006. As of the date hereof, no notice has been provided by either party. LES’ financial results would not be materially adversely affected by the loss of the Waverly energy sales and revenues.

LES served 138,482 retail customers as of December 31, 2017, of which approximately 88% were residential, and 12% were commercial and industrial. The total number of customers increased 0.9% in 2013, 1.1% in 2014, 1.3% in 2015, 1.7% in 2016 and 1.4% in 2017.

Administration

The Board consists of nine members who are appointed by the Mayor of Lincoln and confirmed by the Lincoln City Council. Each Board member is eligible for three successive terms of three years each and must be a ratepayer of LES. There is currently one vacant position on the Board due to an out-of-state move by a Board member. The present members and their occupations are as follows:

Member	Term Expires December	Occupation
Layne Sup Chair	2019	CEO, Binary Net and Infinite Systems
Tammy Ward Vice Chair	2019	President, Tammy J. Ward, LLC
DaNay Kalkowski Secretary	2019	Attorney, Seacrest & Kalkowski, PC, LLO
Jerry Hudgins	2018	Professor and Department Chair of Electrical Engineering University of Nebraska–Lincoln
Vicki Huff	2018	Retired
Andrew Hunzeker	2020	CFO, Vice President Finance & IT, Lincoln Industries
Sarah Peetz	2020	Vice President for Community Outreach, Lincoln Community Foundation
Lucas Sabalka	2020	Computer Vision Specialist, Ocuvera

The executive team of LES, their areas of responsibility and their utility related experience are described below.

Chief Executive Officer – Kevin G. Wailes has held this position since July 2010. The Chief Executive Officer has full authority within approved budgets and policies of LES, as directed by the Administrative Board, to administer, manage, plan and direct the operations of LES. Prior to joining LES, Mr. Wailes served as General Manager of Your Own Utilities, the municipal electric utility serving Tallahassee, Florida. Mr. Wailes joined the City of Tallahassee in May of 1987 as the Assistant Director – Electric Utility, and was named General Manager of the Electric Utility in October of 1995. Prior to joining the City of Tallahassee, Mr. Wailes served as Superintendent of the Lamar Utilities Board, a Colorado municipal electric utility from 1981 to 1987. Mr. Wailes holds a Bachelor of Electrical Engineering from Colorado State University. Among many utility-related positions, he has served on the Board of Directors and as President of the Colorado Association of Municipal Utilities, Chairman of the Executive Board of the Florida Electric Power Coordinating Group, a member of the Board of Directors of the Florida Reliability Coordinating Council, including two years as Chairman, Chairman of the Southern/Florida Reliability Agreement Executive Council, and a member of the Board of Directors, previously as Secretary Treasurer and as President, of the Florida Municipal Electric Association. Mr. Wailes currently serves as Co-Chair of the Electricity Sub-Sector Coordinating Council and on the Boards of Directors of the American Public Power Association, the Nebraska Power Association, the Lincoln Chamber of Commerce and the Lincoln and Lancaster County United Way.

Vice President and Chief Financial Officer – Laura L. Kapustka has held this position since November 2010. Prior to that, Ms. Kapustka was employed by Omaha Public Power District for over 25 years. Ms. Kapustka has a Bachelor of Science degree in Business Administration and a Masters in Business Administration from the University of Nebraska at Omaha. She also has a risk management

designation from the Insurance Institute of America. Ms. Kapustka's responsibilities include: accounting and financial reporting, debt management, financial forecasting, corporate budgeting, risk and insurance management, strategic planning, portfolio management, retail rate programs, load forecasting, revenue forecasting, and market research. Ms. Kapustka serves as a board member for the Nebraska Utility Corporation and is a member of the Southwest Power Pool Finance Committee.

Vice President and General Counsel – Shelley R. Sahling-Zart has held this position since August 2011. Prior to her current position, she acted as vice president and assistant counsel. She has worked at LES since 1988. Ms. Sahling-Zart holds a Bachelor of Arts degree in Political Science from Doane College and Juris Doctorate from the University of Nebraska-Lincoln College of Law. She is a member of the American Bar Association and Nebraska State Bar Association. Ms. Sahling-Zart previously served two terms on the Board of Directors for the American Public Power Association. She recently completed service on the federal Surface Transportation Board's Rail-Shipper Transportation Advisory Council, having served the maximum two, three-year terms on the Council including one year as Chair. Ms. Sahling-Zart is responsible for legal affairs, government relations, strategic planning, customer and corporate communications and records, and corporate policy analysis.

Vice President and Chief Technology Officer – Paul A. Crist has held this position since May 2013. Prior to that, Mr. Crist was Substation Director/Manager, Manager of Communication and Protection Design, System Control Supervisor, System Protection Supervisor, and System Protection Engineer. He has worked at LES since April 1990. Mr. Crist holds a Bachelor of Science Degree in Electrical Engineering and a Masters of Business Administration from the University of Nebraska-Lincoln. He is also a Registered Professional Electrical Engineer in Nebraska and has been active in the University of Nebraska Electrical Engineering External Advisory Board. He is currently designated as the LES Critical Infrastructure Protection Senior Manager and an acting chairperson of the North American Electric Reliability Corporation ("NERC") Critical Infrastructure Protection Committee Compliance Input Working Group. His duties include the oversight of all operational and enterprise technology systems at LES. Mr. Crist's responsibilities include the systems that operate and monitor the Bulk Electric System, Cyber Security, the Enterprise Resource Planning System, and the Geographic Information Systems.

Vice President of Customer Services – Lisa R. Hale has been Vice President of Customer Services since October 2012. Prior to that, she was employed at Metropolitan Utilities District in Omaha, Nebraska for 23 years. Ms. Hale has a Bachelor of Science degree in Business Administration and a Masters in Business Administration from Creighton University. Her duties include economic development, managing customer relationships, customer billing and payment, collection of delinquent accounts, maintaining metering infrastructure, as well as the Sustainable Energy Program and other energy efficiency programs.

Vice President of Corporate Operations – Patricia A. Owen has held this position since August 2014. Prior to her current position, Ms. Owen was employed by the Mayor of the City of Lincoln, Nebraska as Deputy Chief of Staff overseeing Public Works and Utilities, Human Resources, Lincoln-Lancaster County Health Department, Planning, Lincoln Fire & Rescue, Lincoln Police/911 Emergency Services, Building and Safety and Aging Services. Ms. Owen holds a Master's degree in Public Administration from the University of Nebraska-Omaha and a Bachelor of Arts degree in Organizational Management from Concordia University. Ms. Owen's responsibilities include oversight of corporate facilities maintenance and construction, procurement, human resources, training, wellness, safety, physical security and transportation.

Vice President of Power Supply – Jason L. Fortik has held this position since September 2011. Mr. Fortik has worked at LES since May 1995, most recently serving as Manager of Resource and Transmission Planning in the Power Supply Division. He also has held several engineering positions in both the Power Supply and Energy Delivery Divisions at LES. Mr. Fortik earned a Bachelor of Science

degree in electrical engineering from the University of Nebraska-Lincoln and is a Registered Professional Engineer. He also holds a Master's degree in Business Administration from the University of Nebraska-Lincoln, a Bachelor of Technology degree in industrial supervision from Peru State College, and an Associate of Applied Science degree in electrical technology from Southeast Community College. His duties include oversight of generating resource planning, transmission planning and the related Southwest Power Pool interactions, energy marketing functions, natural gas procurement, environmental compliance, generation operations and maintenance, and generation projects engineering. He serves as a board member for the Nebraska Utility Corporation and Administrator of the District Energy Corporation.

Vice President of Energy Delivery – Danny L. Pudenz has been Vice President of Energy Delivery since May 2008 and previously held positions at LES as Vice President of Engineering Services and Vice President of Operations. Mr. Pudenz has been employed at LES since 1977, has a Bachelor of Science in Civil Engineering from Iowa State University and is a Registered Professional Engineer. He has represented LES as an advisor to the Electric Power Research Institute (“EPRI”) in the Transmission & Substation area as well as the Distribution area since 1997, serving as national utility chair of the Transmission & Substation area for several years. He now serves on the EPRI Sector Council and the EPRI Research Advisory Council. Mr. Pudenz has served as the primary LES representative to the North American Transmission Forum (“NATF”) since 2009, serving a third term on the NATF Board, currently as Board Chair. His duties include oversight of planning, budgeting, design, construction, operations, property management and maintenance of the transmission, substation and distribution systems.

Employee Relations and Benefit Programs

LES has approximately 495 employees and maintains competitive compensation and fringe benefit programs and supports continuing education and training. The overall turnover rate for the past three years, including temporary employees, has been approximately 6% annually. Approximately 133 employees in the trades and crafts are represented by the International Brotherhood of Electrical Workers (“IBEW”) Local 1536. LES’ and IBEW’s existing three-year contract was approved by the Board on February 20, 2015. The contract with IBEW has been extended for an additional year through April 30, 2019 since it was not opened for negotiations.

The International Brotherhood of Electrical Workers Local No. 1536 filed a petition with the Nebraska Commission of Industrial Relations (“CIR”) seeking recognition of a bargaining unit consisting of twelve non-management, non-clerical employees at Rokeby Generation Station. The CIR mailed ballots to the eligible employees on April 23, 2018 for the employees to cast their vote on whether they wish to form a bargaining unit and the eligible employees had until April 30, 2018 to return their ballots with the returned ballots being counted on May 7, 2018. The majority vote of the eligible employees was to form a bargaining unit. LES expects the newly formed unit to initiate negotiations on a labor contract. The resulting contract may change the compensation structure for these newly represented employees. LES expects no material adverse financial impacts as a result of this new bargaining unit.

LES has a defined contribution retirement plan covering benefit-eligible employees upon hire. The total retirement contribution, including the employee contribution but net of employee forfeitures, was \$7,050,835 and \$7,512,484 for the years ended December 31, 2016 and 2017, respectively. LES’ contribution is equal to 200% of the employees’ contributions up to 5% of compensation for employees hired at LES prior to January 1, 2011. The contribution rate for employees hired after that date is equal to 100% of the employee contribution, up to 10% of employee compensation. Vesting of LES contributions is a stepped vesting schedule, with employees being fully vested after three years. Employee forfeitures are used to reduce employer contributions. Vested benefits are fully funded. LES also offers a 457(b) plan into which employees can choose to deposit additional pre-tax compensation for retirement.

LES has no post retirement benefit program liability.

Payments in Lieu of Taxes

The City Charter requires that 5% of the gross revenues received from the sale of electricity within the City's corporate limits and any incorporated city or village within which LES sells electricity at retail shall be paid annually in lieu of taxes and divided among the City and certain other local political subdivisions in LES' service area. The amount of any such annual payment is reduced to the extent of other payments in lieu of taxes required to be made by LES with respect to its property or operations. Upon the adoption of a charter amendment in 1996, payments in lieu of tax are made after debt service on all current and future series of Bonds issued pursuant to the Ordinance.

Pursuant to a Waverly Franchise Agreement ("Franchise Agreement"), LES pays to the City of Waverly 5% of the total gross revenues received from the sale of electricity within the City of Waverly corporate limits. The current Franchise Agreement became effective November 1, 2006 with a term of ten years. After the initial term, the Franchise Agreement shall automatically be renewed for five-year terms unless notice is given by either party at least 18 months in advance of the expiration of the initial term or any subsequent term. No such notice has been provided by either party.

In 2018, \$12.9 million of LES' revenues were paid pursuant to this provision of the City Charter and the Franchise Agreement, an increase of 2% from 2017. Of this 2018 amount the City received 17%, Lancaster County received 14%, Lincoln Public School District received 66% and the City of Waverly received 3%. Over the past 51 years, LES has paid \$285.9 million in lieu of taxes.

City Dividend for Utility Ownership

Effective September 1, 2011, LES began collecting a City Dividend for Utility Ownership (the "CDFUO") from its customers. The CDFUO is a payment to the City for its ownership of LES. The CDFUO is required by an ordinance that was approved by the Council (the "Dividend Ordinance"). LES is required to make a CDFUO payment to the City equivalent to 2.4% of its Total Net Position (equity). The Dividend Ordinance also requires that when the annual CDFUO payment equals or exceeds \$7 million, the amount of the annual CDFUO payment will instead increase in total by 2% or the Consumer Price Index, whichever is greater. The CDFUO payment exceeded \$7 million in 2015, and increased by 2% in 2016 and 2017. The CDFUO is listed on LES electric bills as a separate item. In 2017, \$7.4 million of LES' revenues were paid to the City pursuant to the Dividend Ordinance. The CDFUO payments are not available for payment of debt service on Bonds.

The Dividend Ordinance was a joint effort of the Mayor's office, the City Attorney and LES, as a result of discussions on how the City could receive a more appropriate return on investment for its ownership of LES. After assessing what the City receives from its ownership, and what other cities receive from their electric utility, LES suggested the CDFUO as a contribution to the City, given the advantages municipal ownership provides to customers. Such an approach provides a predictable utility cost.

Nebraska Power Review Board

The Nebraska Power Review Board (the "NPRB") was created in 1963 and consists of five members appointed by the Governor, subject to confirmation by the Legislature. The duties and jurisdiction of the NPRB are limited to those matters specifically granted by State statute including jurisdiction over the retail service areas of the electric utilities in the State and approval, with some exceptions, of new generation and transmission facilities constructed in the State. The NPRB does not have authority over retail electric rates in Nebraska. Retail rates are set by each local utility governing body.

Nebraska law provides that, under certain circumstances, the NPRB may render advisory opinions concerning wholesale rate disputes which are not binding on the parties. The statutes further provide that, with certain exceptions, before any electric generation facilities or any transmission lines or related facilities carrying more than 700 volts are constructed by any supplier of electricity, approval of the NPRB must be obtained.

Nebraska law also provides for the filing with the NPRB by the Nebraska Power Association (which represents Nebraska utilities) of certain information, including a coordinated 20-year long-range power supply report, an annual load and capability report, and a research and conservation report.

Insurance

LES maintains an insurance program designed to mitigate losses having a material adverse effect on its financial position or operational capabilities. LES continually reviews its risks of potential loss and modifies the insurance program as warranted. Types of insurance LES maintains include fiduciary, property, excess liability, cyber, commercial pollution, crime, public entity, workers compensation, and business travel.

Enterprise Risk Management

LES maintains an Enterprise Risk Management program (the “ERM Program”) to identify, assess, prioritize and mitigate the adverse effects of enterprise risks. The ERM Program receives input from all areas and levels of the organization, including the Board. A cross-functional Risk Management Committee, which has oversight from the Vice President and Chief Financial Officer, is utilized to discuss and analyze the potential risks that could hinder the achievement of LES’ strategic objectives. Risks are evaluated periodically and escalated to the appropriate oversight levels, including the Board, when applicable. An overview of the ERM Program is provided to the Board annually.

Energy Risk Management. The nature of LES’ business exposes it to a variety of risks, including exposure to volatility in electric energy and fuel prices and uncertainty in load and resource availability. To help manage energy risks, including the risks related to LES’ participation in the Southwest Power Pool (“SPP”) Integrated Market (“IM”), LES maintains an Energy Risk Management Program. The Energy Risk Management Program establishes guidelines, roles, responsibilities and governance for employees participating in market activities to ensure management of energy market risks in a manner consistent with LES’ risk tolerance.

Future LES Facilities. In 2015, LES purchased a nearly 120-acre parcel of land for a new service center in the southeast part of the City. The need for a second location is driven by growth of the customer base and service area, customer response time and travel time to support service in the south and southeast parts of the service area and risk management concerns about having all of LES’ equipment and material housed at a single location. The project is being constructed in two phases. The first phase includes operations facilities which are planned for occupancy in 2019. The business facilities are anticipated to be completed in 2021.

Cyber and Physical Security

LES continues to be heavily involved in cyber and physical security activities within the utility industry. LES’ Chief Executive Officer, Chief Technology Officer, and Vice President of Corporate Operations, actively participate in industry groups with security clearances and work with industry and government representatives to address incidents and best practices to protect cyber and physical infrastructure and ensure reliability of the bulk electric system.

Cyber Security. LES' Chief Executive Officer serves as co-chair of the Electricity Sub-Sector Coordinating Council (“ESCC”), a group of electric industry chief executive officers who meet regularly with their government counterparts to address policy-related activities and initiatives designed to improve the reliability and resilience of the electric grid, including cyber and physical security. The industry, through the ESCC, has developed a critical partnership with the senior levels of government, facilitated by the Department of Energy and Department of Homeland Security. The ESCC supports continually improving information sharing, expanded tools and cooperation in developing solutions to achieve higher levels of resilience. Through its work the council focuses on issues pertaining to joint planning, preparedness, resilience, and recovery related to events of national significance that may affect the delivery of electricity.

The ESCC has created a Cyber Mutual Assistance Program for entities in the electric sector. The program allows electric utilities to call upon industry peers for emergency cyber assistance in the form of services, personnel and/or equipment to aid in maintaining or restoring electric service, systems and/or IT infrastructure when such service, systems or IT infrastructure have been disrupted due to a cyber emergency. The fundamental purpose of the program is to create a pool of industry experts with cyber skills and experience who can provide assistance on a voluntary basis to other participating entities. LES is a participating entity in the program.

An LES NERC Cyber Security Task Force reviews, evaluates and implements NERC standards and other best practices related to the identification and protection of LES’ cyber assets that support the reliable operation of the bulk electric system. The task force monitors LES’ compliance with these standards and implements appropriate measures when deemed necessary to achieve compliance and for best security practices.

LES also participates in industry activities to further enhance the awareness of emerging cyber threats for industry use. In the past, LES participated in a pilot program supported by the Department of Energy which included additional network activity monitoring and rigorous analysis. The program anonymously shared information related to monitored cyber threats with participants from the gas, oil and electric industries. The pilot program, which was one of several governmental-led efforts, encouraged the sharing of threat information. LES also works with the Fusion Center in Nebraska and the Electricity Information Sharing and Analysis Center to provide additional data from LES’ cyber monitoring tools to help identify any emerging trends of malicious activity.

To enhance cybersecurity efforts, LES trains employees on topics such as identifying suspicious emails and best practices for computer use. LES also has installed email filtering software that blocks suspicious emails and overwrites all URLs included in an email to ensure they are safe. Network scans are performed routinely to detect and mitigate new vulnerabilities. LES held a cyber tabletop exercise in early 2018 to test preparedness and will continue to periodically complete similar exercises.

Physical Security. In 2015, LES changed its physical security program from individually administered departmental activities to a centralized program located within the Corporate Operations division. During the year, LES participated in three physical security assessments from the North American Transmission Forum and Department of Homeland Security to assist in setting a physical security baseline. The comprehensive assessments led to the adoption of a large number of operational and physical improvements to all LES facilities. Installation of new and enhanced surveillance cameras for both security and operations, as well as new access control measures, were completed in 2017.

To enhance security awareness, in 2017 monthly training was provided to all LES employees through a Culture of Awareness campaign that highlighted physical security programs and policies. Opportunities for additional reinforcement of those physical security programs and policies will be included

throughout 2018. Additionally, in 2018 all LES staff will actively drill on responding to an active shooter scenario.

Liquidity

LES employs a probability-based model that assists in determining a minimum level of liquidity to be maintained. The model uses a two-step approach to analyze historical financial volatility and identify and quantify business risks. The model identifies a baseline level of liquidity to meet operational needs and a risk-based liquidity level to meet risks identified in LES' ERM Program. The sum of the baseline and risk-based liquidity levels determines the minimum total liquidity level. As of the date hereof, the minimum targeted level of liquidity is approximately \$59.2 million or 75 days' cash on hand. As of December 31, 2017, LES' total liquidity was approximately \$103 million or 144 days' cash on hand, not including amounts available through the issuance of Commercial Paper Notes and draws under the U.S. Bank Revolving Credit Agreement. See "OUTSTANDING BONDS AND NOTES – COMMERCIAL PAPER NOTES AND REVOLVING CREDIT AGREEMENTS."

Rate Stabilization Fund

LES maintains a Rate Stabilization Fund (the "RSF") to provide a method of mitigating risks that may occur from unforeseen or one-time events which may have a significant financial impact to LES. LES does not intend to fund routine rate adjustments with funds from the RSF. Deposits and withdrawals of the RSF are subject to approval of the Board based upon recommendations from the Board Finance & Audit Committee. The current target for the RSF balance, as identified by LES' liquidity modeling, is \$32.3 million. As of the date hereof the fund balance is \$33.8 million. The RSF balance is unrestricted but is not pledged to pay debt service on Bonds, but the funds could be made available by the Board to pay debt service.

RATES

General

The City Council has exclusive jurisdiction for establishing rates for LES' retail customers. In the opinion of the LES General Counsel, no other State or Federal regulatory body has any authority to determine or review the retail rates set by the City Council. There are currently no investor-owned electric utilities serving retail customers in Nebraska. State residents are served exclusively by public power districts, municipally-owned utilities, such as LES, and not-for-profit rural electric cooperatives. The Nebraska Public Service Commission retains only very limited jurisdiction over the operation of electric utilities in the State, with no jurisdiction over electric rates.

The retail electric rates charged by LES are not subject to Federal regulation.

Rate Design

LES' rates are designed by LES staff using cost of service principles and do not include an automatic fuel cost or power cost adjustment. Rates are adopted by the Board after a public hearing and then recommended to the City Council for approval. The City Council has final authority to approve LES' rate adjustments and has always approved such adjustments, albeit on rare occasions with minor modifications to size. The table set forth below under the sub caption "History of Rate Changes" lists average annual retail rate changes since 2014; rate changes for individual customer classes may have been lower and higher than the average rates.

History of Rate Changes

Over the last five years, LES retail sales have represented 84.8% of LES' operating revenues. The average annual retail rate percentage changes since 2014 are as follows:

Effective Date	Average % Change
January 1, 2014	2.9
January 1, 2015	0.0
January 1, 2016	0.0
January 1, 2017	3.0
January 1, 2018	0.0

For 2017, LES' average billed retail revenue was \$0.0838 per kilowatt-hour ("kWh") and for 2018 is budgeted at \$0.0833 per kWh.

LES, like most electric utilities, has historically recovered a substantial portion of its fixed costs through its variable energy rate charges. With this rate structure, there is a risk that as customers use less energy, sufficient revenues will not be collected. In order to better align its revenue collection to the manner in which costs are incurred, in 2016 LES began the transition of increasing the fixed-charge portion of the bill and lowering the energy charge for Residential, General Service and Heating Service rate classes. Although no system-wide rate increase was implemented for 2018, LES furthered its rate restructuring efforts by once again increasing the facilities charges for residential customers and decreasing the energy charges. These rate changes are revenue neutral to LES.

MANAGEMENT DISCUSSION OF OPERATIONS

General

LES is a summer peaking utility and experiences varying weather conditions. The peak loads (including losses, but excluding reserve requirements) since 2013 are as follows:

Year	System Peak Load (MW)
2013	758
2014	742
2015	747
2016	780
2017	763

Variability in the summer peak reflects not only weather variation but also the effect of economic conditions on load needs and energy efficiency from all customer classes.

LES continues to experience steady customer growth. The average number of customers served by LES since 2013 is shown below:

Year	Average Customers	Annual Percent Increase
2013	131,237	0.9%
2014	132,672	1.1
2015	134,410	1.3
2016	136,635	1.7
2017	138,482	1.4

Years Ended December 31, 2017 and 2016

Total operating revenues for 2017 were 1.9% greater than 2016. This increase is attributed to greater retail revenues due to an increased number of customers in 2017.

Operating expenses for 2017 were 0.1% greater than 2016.

See “APPENDIX B: LES’ AUDITOR’S REPORT AND FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016” for financial information.

LES MANAGEMENT SERVICES

District Energy Corporation

On December 18, 1989, articles of incorporation creating the District Energy Corporation of Lincoln and Lancaster County, Nebraska (“DEC”) were filed with the Nebraska Secretary of State for the purpose of creating a nonprofit corporation to own, operate, maintain and finance heating and cooling facilities for existing and future buildings of Lancaster County, Nebraska (the “County”) and the City. As a result of amendments to Nebraska law, on March 27, 1992, the County and the City entered into an Interlocal Cooperation Agreement (the “DEC Agreement”) with respect to DEC and on April 5, 1992, amended and restated articles of incorporation for DEC were filed with the Nebraska Secretary of State. DEC is authorized pursuant to the DEC Agreement and its articles of incorporation to provide for purchasing, leasing, constructing and financing facilities and the acquisition of services in order to furnish energy requirements and related services to the City and the County and to such other persons and entities as the City and the County may be authorized by law to serve. Under the DEC Agreement, LES may appoint at least one member of the DEC Board of Directors. LES has also entered into a Management Agreement with DEC, dated December 15, 1989 (the “DEC Management Agreement”), pursuant to which LES provides operational and financial management services for DEC. The DEC Management Agreement was amended in 2017 to be effective for a twenty-year term commencing June 1, 2017 and is in effect from year to year thereafter until either party gives the other 24 months’ notice of termination. Either party may terminate the agreement at any time upon 60 days notice after DEC no longer has debt outstanding. The final maturity of existing DEC debt is July 1, 2043. LES receives a management fee based on the fully allocated cost of services provided by LES. For the year ended December 31, 2017, LES received \$1,221,000 from DEC as a management fee. LES is not currently liable for any of DEC’s obligations, liabilities, or debt.

Nebraska Utility Corporation

On May 17, 2001, the City on behalf of LES and the Board of Regents of the University of Nebraska (the “Regents”) entered into an Interlocal Cooperation Agreement Establishing the Nebraska Utility Corporation (the “NUCorp Agreement”) and on May 21, 2001, articles of incorporation for the Nebraska Utility Corporation (“NUCorp”) were filed with the Nebraska Secretary of State. NUCorp was created for the purpose of providing for purchasing, leasing, constructing and financing facilities and acquiring services in order to furnish energy requirements, utility and infrastructure facilities and related energy, utility and infrastructure services to the City and the Regents and to such other persons and entities as the City and the Regents may be authorized by law to undertake. The NUCorp Agreement establishes a five-member Board of Directors, of which LES appoints two and the Regents appoint three. LES has also entered into an Energy Management Agreement with NUCorp, dated May 30, 2001 (the “NUCorp Management Agreement”), pursuant to which LES provides management services relative to electrical and thermal energy systems on the University of Nebraska-Lincoln campus for NUCorp, and manages the business and financial matters of NUCorp. The NUCorp Management Agreement expires on the later of May 30, 2026, or the date on which all long-term indebtedness of NUCorp has been paid or is deemed to be paid. NUCorp indebtedness is scheduled to mature in January 2033. Thereafter the NUCorp Management Agreement remains in effect on a year-to-year basis until either party gives the other 12-months’ notice of termination. LES receives a management fee based on the fully allocated cost of services provided by LES. For the year ended December 31, 2017, LES received \$125,000 from NUCorp as a management fee. LES is not currently liable for any of NUCorp’s obligations, liabilities, or debt.

POWER SUPPLY

Summary of Resources

LES’ energy requirements are met through the SPP Integrated Marketplace (“IM”). LES satisfies its capacity requirements from the following resources which are dispatched upon request from SPP:

(a) LES-owned generation facilities comprised of (i) output associated with LES’ undivided ownership interest, as a tenant in common, in the Missouri Basin Power Project and its Laramie River Generating Station (“LRS”) operated and maintained by Basin Electric Power Cooperative (“Basin”), (ii) generation from four LES-owned combustion turbines located at the Rokeby Generation Station and 8th & J Street, two wind turbines located next to the Terry Bundy Generating Station (“TBGS”) and a three-unit landfill-gas-to-energy generation facility also located next to the TBGS, (iii) a four-unit combined cycle and peaking generating facility located at TBGS, and (iv) output associated with LES’ joint ownership interest in the Walter Scott Energy Center Unit #4 (“WSEC #4”) operated and maintained by MidAmerican Energy Company (“MEC”) (see “LES-Owned Generation”);

(b) (i) Purchases from Nebraska Public Power District (“NPPD”), under separate participation contracts, of a portion of the output of the Gerald Gentleman Station and four wind plants owned and operated by NPPD (see “Participation Units”) and (ii) purchase from MEC of a portion of the output of Walter Scott Energy Center Unit # 3; and

(c) Other power purchase arrangements including purchases from (i) the United States Department of Energy, Western Area Power Administration (“WAPA”), (ii) purchases through the Southwest Power Pool and (iii) purchases from three wind plants (see “Firm Contracts”).

In 1980, LES began participating in Nebraska Public Power District’s (NPPD) coal-fired Sheldon Station under a life-of-plant contract in which LES was obligated to purchase 30 percent of the output, or

approximately 65 megawatts (MW). LES and NPPD agreed to terminate this contract effective December 31, 2017. This decision was driven by, but not limited to: LES' unique power supply portfolio, the planned hydrogen-fuel conversion of Sheldon Station not meeting LES' risk profile, and LES' integrated resource plan. Based on load forecasts, LES has excess capacity well into the future, and the termination will not impact its ability to meet the long-term needs of customers. As of December 31, 2017, LES has no further financial obligations relating to Sheldon Station and no further right to Sheldon Station power.

Accredited resources available during 2017 (net after sales of capacity) totaled 1,058 MW. Included in this amount is 17.5 MW of accredited capacity from LES' nameplate wind portfolio of 303 MWs. Nameplate generating capacity in 2017 allocated by fuel type was as follows: Coal–34%; Oil and Gas–33%; Renewable–33%.

LES has entered into multiple short-term sales of capacity. The agreement with South Sioux City increases from 7 MW to 44 MW for the years 2017-2021. LES has entered into a sale agreement which increases from 13 MW to 43 MW for the years of 2019 to 2023 with Beatrice. An agreement with Omaha Public Power District increases from 25 MW to 111 MW for the years 2020-2025. LES may enter into additional short-term capacity sales as deemed economically and operationally beneficial.

Discussion regarding impacts from environmental legislation on power supply resources can be found in “FACTORS AFFECTING LES AND THE ELECTRIC UTILITY INDUSTRY.”

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LINCOLN ELECTRIC SYSTEM RESOURCES - 2018

Unit Name	Fuel Type	Lead Owner	Commercial Operation Date	Net Capability (MW)	LES Share (%)	LES Share (MW)⁽¹⁾
<u>Owned Units</u>						
Laramie River Generating Station ⁽²⁾	Coal	Basin	1982	1,710	10.5	179
Walter Scott Jr. Energy Center ⁽³⁾	Coal	MEC	2007	816	12.7	103
J Street Combustion Turbine	Gas/Oil	LES	1972	29	100.0	29
Terry Bundy 1 (Steam Unit) ⁽⁴⁾	Gas/Oil	LES	2004	28	100.0	28
Terry Bundy 2 (Combustion Turbine) ⁽⁴⁾	Gas/Oil	LES	2003	47	100.0	47
Terry Bundy 3 (Combustion Turbine) ⁽⁴⁾	Gas/Oil	LES	2003	47	100.0	47
Terry Bundy 4 (Combustion Turbine)	Gas/Oil	LES	2003	47	100.0	47
Terry Bundy “Black Start” Diesel	Oil	LES	2004	2	100.0	2
Rokeby 1 (Combustion Turbine)	Gas/Oil	LES	1975	72	100.0	72
Rokeby 2 (Combustion Turbine)	Gas/Oil	LES	1996	89	100.0	89
Rokeby 3 (Combustion Turbine)	Gas/Oil	LES	2001	94	100.0	94
Rokeby “Black Start” Diesel	Oil	LES	1997	3	100.0	3
Local Wind Turbines 1 & 2	Wind	LES	1998/1999	1	100.0	1
Landfill Gas to Energy Generators ⁽⁵⁾	Gas	LES	2014	5	100.0	5
<u>Participation Units</u>						
Gerald Gentleman Station	Coal	NPPD	1982	1,365	8.0	109
Elkhorn Ridge Wind Farm ⁽⁵⁾	Wind	NPPD	2009	80	7.5	6
Laredo Ridge Wind Farm ⁽⁵⁾	Wind	NPPD	2011	80	12.5	10
Broken Bow Wind Farm ⁽⁵⁾	Wind	NPPD	2012	80	12.5	10
Crofton Bluffs Wind Farm ⁽⁵⁾	Wind	NPPD	2012	42	7.5	3
<u>Firm Contracts</u>						
Arbuckle Wind Farm ⁽⁵⁾	Wind	LES	2015	100	100.0	100
Buckeye Wind Energy Center ⁽⁵⁾	Wind	LES	2015	100	100.0	100
Prairie Breeze II Wind Energy Center ⁽⁵⁾	Wind	LES	2015	73	100.0	73
Community Solar	Wind	LES	2016	4	100.0	4
Western Area Power Administration	Hydro	WAPA	1974	N/A ⁽⁶⁾	N/A ⁽⁶⁾	<u>127</u>
Total						1,288

⁽¹⁾Summer net maximum rating.

⁽²⁾LES' share is listed after the deduction of participation sales.

⁽³⁾LES is a 12.66% joint owner of Walter Scott Energy Center #4 operated by MEC. LES has an agreement with MEC whereby MEC will provide 50 MW of Walter Scott Energy Center #3 in a swap for 50 MW of LES' share of Walter Scott Energy Center #4.

⁽⁴⁾Terry Bundy Units 1, 2 and 3 are normally operated as a 2-on-1 combined-cycle unit. When operated in combined cycle, the combined output of the three units is 120 MW (2 MW less than the sum of the individual units).

⁽⁵⁾LES is selling the Renewable Energy Credits (“REC”) and the renewable attributes are transferred to the REC recipient.

⁽⁶⁾See “OTHER PURCHASE POWER ARRANGEMENTS – Western Area Power Administration.”

Historical Resource Summary

The following table shows historical energy production, in MWh, for the years ending December 31, 2014 through 2017.

ENERGY (MEGAWATT HOURS)				
	2014	2015	2016	2017
<u>Owned Units</u>				
Laramie River				
Generating Station	1,191,706	771,208 ⁽¹⁾	938,033	823,244
Local Resources	98,418	107,677	183,883	136,571
Walter Scott Energy				
Center Unit #4	680,386	744,412	564,278	480,044
Landfill Gas to Energy	23,358	34,336	30,748	31,684
LES Wind Turbines	2,723	2,502	2,211	2,422
<u>Participation Units</u>				
Gerald Gentleman				
Station	872,950	834,500	756,666	768,817
Sheldon(2)	396,869	278,164 ⁽³⁾	156,259	224,462
Wind (Elkhorn Ridge, Laredo Ridge, Broken Bow, Crofton Bluffs)	118,229	110,752	112,544	103,733
<u>Firm Contracts</u>				
WAPA purchases	265,507	269,191	261,847	260,239
Walter Scott Energy				
Center Unit #3				
purchases	363,200	263,279 ⁽³⁾	290,347	314,657
Arbuckle Wind	–	79,094	406,006	411,956
Buckeye Wind	–	150,330	406,240	399,187
Prairie Breeze II Wind	–	31,222	326,064	308,352
Community Solar	0	0	3,975	7,120
Wholesale purchases	<u>44,769⁽⁴⁾</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net total purchased & generated	<u>4,058,115</u>	<u>3,676,666</u>	<u>4,439,101</u>	<u>4,272,488</u>
Wholesale sales & losses	394,808	348,817	439,237	404,194
LES control area consumption	3,523,698	3,463,987	3,531,525	3,458,204

⁽¹⁾Reduced generation from LRS in 2015 was the result of a scheduled maintenance outage and outages caused by equipment failure. See “POWER SUPPLY—LES Owned Generation.” Scheduled maintenance is any routine maintenance done in accordance with the facility's maintenance plan. Unscheduled maintenance is any maintenance not specifically scheduled to be performed at a certain time.

⁽²⁾Sheldon Station Participation Power Sales Agreement was terminated December 31, 2017.

⁽³⁾Reduced generation in 2015 was primarily the result of scheduled maintenance and lower SPP sales.

⁽⁴⁾The SPP Integrated Marketplace began March 1, 2014.

The following table shows the historical summer season load responsibility in MW (load plus reserve requirements) and how the responsibility was met with existing resources. Values used are summer net ratings in MW. As a participant in the SPP IM, LES must provide sufficient capacity to meet its own load responsibility.

LOAD AND GENERATING CAPACITY (MEGAWATTS)

	2014	2015	2016	2017
LES load responsibility	835	855	828	824
Owned units				
Laramie River Generating Station	179	179	179	179
Local Resources ⁽¹⁾	451	451	451	451
Walter Scott Energy Center Unit #4	103	103	103	103
Landfill Gas	5	5	5	5
Participation units				
Gerald Gentleman Station	109	109	109	109
Sheldon Station	65	65	65	65
Wind PSA	-	4	4	4
Wind PPA	-	14	14	14
WAPA purchases	<u>128</u>	<u>128</u>	<u>128</u>	<u>128</u>
Total resource capability	1,040	1,058	1,058	1,058
Surplus or deficit (-)	205	203	229	234

⁽¹⁾Does not include black start or diesel generators.

The following sections provide a summary description of each of the above-mentioned resources and related contractual arrangements. For detailed information on applicable environmental regulations see “FACTORS AFFECTING LES AND THE ELECTRIC UTILITY INDUSTRY—Environmental and Other Permits and Approvals.”

LES-Owned Generation

Missouri Basin Power Project.

General. LES is one of six participants (the “MBPP Participants”) in the Missouri Basin Power Project (“MBPP”). MBPP includes (i) LRS, (ii) the Grayrocks Dam and Reservoir, (iii) certain transmission and transformation facilities, and (iv) rights under a 60-year transmission service contract with NPPD.

Laramie River Generating Station. LRS, located on a 2,400-acre site five miles northeast of Wheatland in Platte County, Wyoming, consists of three generating units, a substation, coal handling and storage facilities, a unit-train loop track, cooling towers, ash handling and disposal facilities and pollution control facilities for sulfur dioxide (“SO₂”), nitrous oxides (“NO_x”), and particulate removal. Unit No. 1 commenced commercial operation in 1980, Unit No. 2 in 1981 and Unit No. 3 in 1982.

The MBPP Participants have entered into a participation agreement (as amended to the date hereof, the “MBPP Participation Agreement”) which provides for the disposition of the LRS output and use of transmission facilities for service to the MBPP Participants under various conditions of operation, and the payment of costs associated with MBPP. The MBPP Participation Agreement became effective in 1977, and extends for 50 years. LES believes that the intent will be to extend the MBPP Participation Agreement

as long as LRS is economical. The MBPP Participation Agreement provides that the administration, construction, completion, operation and maintenance of MBPP shall be the responsibility of a Management Committee, consisting of one representative of each MBPP Participant, with each representative having one vote.

The percentage entitlements of each of the MBPP Participants with respect to MBPP output are set forth in the following table.

	Entitlement in MBPP
Electric Cooperatives:	
Basin	42.27%
Tri-State	24.13
Public Power:	
LES ⁽¹⁾	12.76
Western Minnesota (Missouri River Energy Services)	16.47
Heartland	3.00
Wyoming Municipal	<u>1.37</u>
Total	100.00%

⁽¹⁾Includes capacity sold to non-participants Municipal Energy Agency of Nebraska (“MEAN”), approximately 28 MW (1.67%), and the county of Los Alamos, approximately 10 MW (0.61%).

The MBPP Participation Agreement provides that certain costs of operation and maintenance directly related to kWh output shall be shared and paid for by the MBPP Participants as a function of net energy generation scheduled and produced for them. Remaining costs are shared and paid for in proportion to the MBPP Participants’ respective entitlement shares.

The MBPP Participation Agreement further provides for an Operating Agent to be responsible for the operation and maintenance under the general supervision of the Management Committee, and subject to removal by the Management Committee under certain circumstances. Basin is the Operating Agent.

LES made sales from LRS to non-participants of approximately 1.67% to MEAN and 0.61% to the Department of Public Utilities, County of Los Alamos, New Mexico. After these sales, LES currently has for its own use approximately 10.48% of MBPP capacity amounting to 179 MW.

Historical operating statistics for LRS Units for the years ended December 31, 2014 - 2017, after the deduction of participation sales, are summarized in the following table.

LES’ SHARE OF LARAMIE RIVER GENERATING STATION

	2014	2015	2016	2017
Net Capability (MW)	179	179	179	179
Net Generation (MWh)	1,191,706	771,208 ⁽¹⁾	938,033 ⁽¹⁾	823,244 ⁽¹⁾
Capacity Factor (%)	76.00	49.18 ⁽¹⁾	59.66 ⁽¹⁾	52.36 ⁽¹⁾

⁽¹⁾Reduced generation and capacity factor were the result of a scheduled maintenance outage.

Transmission Facilities. The transmission grid in the United States has been synchronously separated, although physically connected, along a line extending south from Great Falls, Montana, through Stegall, Nebraska, to the Texas-New Mexico border, resulting in an eastern interconnected system and a western interconnected system. Because of this east-west separation, Units No. 2 and 3 of LRS are currently connected to the western interconnected system and Unit No. 1 is currently connected to the eastern interconnected system.

LES is on the east side of the east-west separation and would be affected by a forced or scheduled outage of Unit No. 1 of LRS. The MBPP Participation Agreement, however, gives each MBPP Participant certain rights to power and energy produced by the entire facility. Basin, as the Operating Agent, is required to use its best efforts to schedule each MBPP Participant's entitlement share to the extent available. In the event that the east side Unit No. 1 is not available for energy production, LES and the other east side MBPP Participants must replace such energy either from their own resources or purchases from the market. MBPP Participants may be exposed to increased costs due to Unit No. 1 not being available for SPP IM dispatch. Additional net costs after the first 144 hours of a major forced outage or unit derating are shared by all MBPP Participants.

MBPP transmission lines and a transmission service contract with NPPD are used for delivery of power and energy beyond the LRS switching station to LES and other east side MBPP Participants.

MBPP Transmission Facilities. The transmission facilities constructed and operated as a part of MBPP consist of approximately 742 miles of 345 kV and 230 kV transmission lines and various substation and switching facilities. Basin is the Operating Agent for both the east side and the west side transmission facilities, but has delegated such responsibility for the west side transmission facilities to Tri-State. Although the MBPP transmission facilities are identified as "west side" and "east side" facilities, the cost of all the transmission facilities are shared by the MBPP Participants on an entitlement share basis.

NPPD Transmission Service. Basin entered into a transmission service contract with NPPD on behalf of MBPP dated April 29, 1977, which extends to December 31, 2040, and under which NPPD receives up to 575 MW of LRS power at Sidney, Nebraska, and delivers such power and associated energy to LES and certain other MBPP Participants. MBPP has compensated NPPD for this transmission service by a payment of about \$54.5 million for the cost of construction of certain designated transmission facilities added to that portion of the NPPD transmission grid designated to operate at 345 kV or higher (the "NPPD Bulk Transmission System"). MBPP also provides monthly payments for MBPP's share of NPPD's renewal and replacement expenditures, operating and maintenance expenses and administration and general expenses attributed to the NPPD Bulk Transmission System. The transmission facilities financed by MBPP are the sole property of NPPD. MBPP's share of such costs is based on a ratio of cost of construction payment by MBPP to the amount of NPPD's investment in utility plant attributable to the NPPD Bulk Transmission System.

Water Supply. The original LRS water requirements are supplied from four sources as follows: (i) water rights in the Boughton Ditch, located about 100 miles upstream from the Grayrocks Dam and Reservoir, (ii) water rights associated with land acquired for LRS that is inundated by waters stored in the Grayrocks Reservoir, (iii) the unused and unappropriated flows of the Laramie River stored in the Grayrocks Reservoir, and (iv) ground water pumped directly to the LRS site from wells on property known as the Johnson Ranch, located about two miles northwest of LRS. In previous years under drought conditions, MBPP has also purchased water from other area landowners. These purchased water quantities were delivered directly to LRS, through pipelines laid on the ground, to supplement the normal reservoir quantities. The pipelines and contracts with local landowners remain in place as a contingency, even though Grayrocks Reservoir has been at or over 100% capacity since May 2015. No water purchases were made in 2016 or 2017. Grayrocks Dam and Reservoir is the primary water supply for MBPP and is located on

the main stem of the Laramie River. The dam was completed in July 1980 with a reservoir storage capacity of approximately 104,000 acre-feet and a surcharge capacity of 42,700 acre-feet. The principal spillway was designed with the capacity to pass the largest flood experienced during the 57 years of record for the Laramie River. Water for cooling and other purposes is pumped from Grayrocks Reservoir by pipeline to LRS.

Fuel Supply. Coal for LRS is supplied pursuant to a coal purchase contract (the “Coal Purchase Contract”) between Basin, as the Operating Agent, and Western Fuels Association, Inc. (“Western Fuels”). Western Fuels is a non-profit Wyoming corporation created by Basin and Tri-State for the purpose of acquiring and developing economical fuel resources for Western Fuels members, consisting of electric cooperative associations and municipal electric systems, as well as other not-for-profit utilities. Western Fuels supplies coal through purchases from other companies and from the Dry Fork Mine, a mine in the Powder River Basin owned and operated by a Western Fuels wholly-owned subsidiary. The MBPP Participants loaned capital construction funds to Western Fuels which Western Fuels in turn loaned to its subsidiary to finance the development of the Dry Fork Mine. MBPP Participants continue to loan funds to Western Fuels to support ongoing operation of Dry Fork Mine.

Under the terms of the Coal Purchase Contract, Western Fuels will supply and deliver the total coal requirements of LRS through the year 2034. Western Fuels will either renew current contracts as they expire, or contract for additional coal, or increase production at the Dry Fork Mine, for up to 2.7 million tons to provide all the coal requirements for LRS. Basin, together with the Engineering and Operations and Management Committees, has established a coal purchasing program that commits to quantities up to 4 years in advance.

Basin, acting as the Operating Agent, entered into an agreement with Cottbus Associates, LLC (a refined coal supplier), to supply a “refined coal” product to LRS. The refined coal is produced by chemically treating the Powder River Basin sub-bituminous coal to produce a fuel stock which reduces air emissions during combustion of the treated coal. In order to be categorized as refined coal, emissions of NO_x must be reduced by at least 20% and either SO₂ or mercury emissions must be reduced by at least 40% (compared to emissions produced by the non-treated coal). Basin sells coal to the refined coal supplier and then repurchases the coal with a \$0.50/ton addition for the chemical treatment. The supplier receives a federal tax credit (adjusted annually for inflation) for each ton of refined coal delivered to the plant. The supplier pays Basin for rent and services provided by Basin in connection with supplier’s production of refined coal, which is distributed to Basin participants on an annual scheduled energy basis. The estimated net benefit to LES for the refined coal project through 2017 is \$4,890,727. The refined coal supplier pays for installation and all operating costs of the coal treatment equipment, which is installed on the LRS plant site. The supplier will retain ownership of the equipment but Basin has the option of purchasing the treatment facilities (or similar assets) after the eligible federal tax credit period ends in 2021. The contract between the coal refiner and Basin allows for either party to terminate the agreement at any time, which would require the removal of the equipment at the refined coal supplier’s cost.

Fuel for LRS is delivered exclusively by Burlington Northern Santa Fe (BNSF). LRS is considered captive to BNSF transportation.

Walter Scott Energy Center Unit #4 (“WSEC #4”).

General. The WSEC #4 project consists of a fourth unit constructed at MEC’s Walter Scott Energy Center on the Missouri River south of Council Bluffs, Iowa (the two original units at the site were retired March 31, 2015). This 805 MW coal-fired unit utilizes high efficiency supercritical boiler technology and state of the art emission control facilities. MEC is the plant’s Operating Agent for the fourteen joint owner utilities. LES is a 12.66% joint owner of WSEC #4 operated by MEC. LES has an agreement with MEC

whereby MEC will provide 50 MW of Walter Scott Energy Center #3 in a swap for 50 MW of LES' share of WSEC #4.

The following is a list of the WSEC #4 participants ("WSEC #4 Participants") with their percentage entitlements:

Participant	Percentage	Share of Capacity (MW)
MidAmerican Energy Company	59.66	480
Lincoln Electric System	12.66	103
Central Iowa Power Cooperative	9.55	77
Municipal Energy Agency of Nebraska	6.92	56
Corn Belt Power Cooperative	5.60	45
City of Cedar Falls, Iowa	2.14	17
City of Spencer, Iowa	1.14	9
City of Eldridge, Iowa	0.56	5
City of New Hampton, Iowa	0.53	4
City of Montezuma, Iowa	0.42	3
City of Waverly, Iowa	0.40	3
City of Alta, Iowa	0.14	1
City of Sumner, Iowa	0.14	1
City of West Bend, Iowa	0.14	1

Historical operating statistics for LES' share of WSEC #4 for years ended December 31, 2014 – 2017 are summarized in the following table.

LES' SHARE OF WALTER SCOTT ENERGY CENTER #4

	2014	2015	2016	2017
Net Capability (MW)	103	103	103	103
Net Generation (MWh)	680,386	744,412	564,278 ⁽¹⁾	480,044 ⁽²⁾
Capacity Factor (%)	75.40	82.50	62.37 ⁽¹⁾	53.06 ⁽²⁾

⁽¹⁾Reduced generation and capacity factor were the result of a scheduled maintenance outage.

⁽²⁾Reduced generation and capacity factor were the result of a scheduled maintenance outage and the resource not being dispatched by SPP IM.

Transmission Facilities. As part of the WSEC #4 construction budget, a 124-mile 345 kV transmission line was constructed from the Walter Scott plant site to a substation in the Des Moines area. The WSEC #4 Participants also paid to construct a 10-mile 161 kV line across the Missouri River, along with required substation upgrades, to interconnect with Omaha Public Power District's ("OPPD") transmission system. Upgrades at NPPD's Cooper Nuclear Station 345 kV substation, completed as part of WSEC #4, increased the Missouri-Iowa-Nebraska Transmission ("MINT") Project line capacity by an additional 195 MW (see discussion in Transmission, Distribution and Interconnection).

Water Supply. Unlike other generating units on the site which use the Missouri River for their water supply, WSEC #4 utilizes ground water for its primary source of plant water. Seven high capacity wells have been drilled on MEC property surrounding the plant. Five of the wells can supply WSEC #4 peak load conditions with the other two wells providing emergency capacity. WSEC #4 utilizes a cooling tower, as opposed to using a once through process as its primary cooling system, further reducing water consumption.

Fuel Supply. The WSEC #4 site can be served by two rail carriers (BNSF and Union Pacific Railroad Company (“UP”). BNSF is currently under contract to provide coal deliveries to the site. WSEC #4, along with the other coal-fired generating stations operated by MEC, is fueled by low-sulfur western coal from the Powder River Basin. MEC’s coal supply portfolio includes multiple suppliers and mines under short-term and multi-year agreements of varying quantities. MEC’s coal supply portfolio has over 91 percent of its 2018 requirements under fixed-price contracts, the remainder of the site’s coal needs will be obtained from the spot market. MEC regularly monitors the western coal market, looking for opportunities to enhance its coal supply portfolio.

Local Resources

General. LES owns five simple cycle combustion turbines, which are referred to as the J Street Station, the Rokeby Station Unit 1, Unit 2 and Unit 3 and TBGS Unit 4. TBGS also includes a 2 on 1 (2 combustion turbines and 1 steam unit) combined cycle unit where the two combustion turbines can also be operated in simple-cycle. Additionally, LES owns two wind turbines, referred to as the Salt Valley Wind Plant Unit 1 and Unit 2 and a three unit landfill-gas-to-energy generation facility located on the TBGS site. Although the local resources will provide approximately 33% of LES’ nameplate generating resource capacity, it is anticipated that they will be used primarily for peaking or intermediate service and produced a quantity of energy that is equivalent to approximately 4% of LES' retail customer energy requirements in 2017. The historical operation for years ended December 31, 2014 – 2017 of LES’ local generation resources is shown in the following table.

LES’ LOCAL RESOURCES⁽¹⁾

	2014	2015	2016	2017
Net Capability (MW)	451	451	451	451
Net Generation (MWh)	98,418	107,677	183,883	136,571
Capacity Factor (%)	2.49	2.73	4.64	3.45

⁽¹⁾ LES’ Local Resources do not include landfill gas.

J Street Generating Station (“J Street”). J Street is located at 725 J Street close to the downtown area of the City and has one Westinghouse 251B simple cycle combustion turbine. The site is also equipped with a small auxiliary diesel generator to maintain unit availability in the event of a loss of system power. A maintenance building that includes shop and office space is located adjacent to the turbine compound. The unit has a generating capacity of 29 MW and entered commercial operation in 1972.

Rokeby Generation Station (“Rokeby”). Rokeby is located at 8000 SW 12th Street and the site includes two ABB/Alstom Frame 11N simple cycle combustion turbines and a General Electric Frame 7B unit. All Rokeby turbine generators have been equipped with the required inlet structure to allow for inlet air cooling to significantly increase the summer capacity. The Rokeby site also includes the Turbine Operations Building and a 3 MW backup generator. LES generation staff provides the operations and

maintenance support for the Rokeby, J Street and Salt Valley Wind Plant generating sites. Rokeby utilizes groundwater resources for various plant processes such as cooling tower make-up, fire suppression, service water, water injection to the combustion turbines and other plant processes. The use of groundwater can require treatment such as chemical additives and/or the utilization of the site's membrane Reverse Osmosis de-ionization system. The ABB/Alstom turbines have generating capacities of 89 MW and 94 MW and entered commercial operation in 1996 and 2001, respectively. The General Electric turbine has a generating capacity of 72 MW and entered commercial operation in 1975. LES' Back-Up Control Center is at the LES Data Center which is adjacent to Rokeby.

Terry Bundy Generating Station. TBGS was constructed in 2003 as a combined cycle unit with combustion turbines and a steam turbine generator. Combining these two cycles provides a significantly higher efficiency when compared to LES' other simple cycle turbines. The site is located in the northeast quadrant of LES' service territory, and has ready access to fuel, water and transmission resources. Because the area surrounding the City has insufficient ground or surface water to support the operation requirements of TBGS, the plant uses up to 3,000 gpm of treated effluent from the City's Northeast Waste Water Treatment Plant (the "Treatment Plant") located two miles south of the plant. The effluent source water provides for TBGS functions such as cooling tower make up, boiler make up in the steam cycle, fire suppression, service water, water injection to the combustion turbines for emissions control and other plant processes. After cycling through the TBGS plant processes, the wastewater generated is collected in an onsite 11 million gallon holding pond and pumped back to the treatment plant for treatment. The final commercial operation date for all units on the site was August 1, 2004. TBGS provides LES with approximately 167 MW of generating capacity.

LES constructed the TBGS site to provide infrastructure such as fuel delivery capability and water and transmission for an ultimate site capacity of approximately 600 MW. This strategy will allow LES the option to stage the installation of additional generating resources coincident with customer load growth.

Landfill-Gas-to-Energy. In January 2014, LES began commercial operation of a 3-unit, 5 MW landfill gas based generating facility located at TBGS. The landfill gas is sourced from the Lincoln Landfill via a 2.5-mile underground pipeline which is owned by LES.

Salt Valley Wind Plant ("Wind Turbines"). The Wind Turbines are located at 9700 North 70th Street just north of Interstate 80 on the east edge of the City. Both Wind Turbines are Vestas model V47s rated at 660 kW each. Vestas is currently under contract through October 1, 2018 to provide all major maintenance and 24-hour alarm monitoring services for the site. The plant has a combined generating capacity of approximately 1 MW with unit one entering commercial operation in 1998 and unit two in 1999. LES is in talks with Vestas to extend the contract for an additional five years.

Fuel Supply. J Street, Rokeby and TBGS utilize natural gas with #2 fuel oil as a backup. For J Street, natural gas is delivered through the local gas distribution piping to a gas compression plant located on the site. Fuel oil is delivered by truck from the Rokeby tank to J Street if gas is not available or if fuel oil is less expensive for the operation of that unit. J Street currently has approximately 135,000 gallons of fuel oil in storage at this location with capacity for 215,000 gallons. At Rokeby, natural gas is delivered from an interstate pipeline to the site through two high pressure lines constructed specifically for the Rokeby site. Provisions are in place to perform online switching to fuel oil. The Rokeby fuel oil is supplied from a pipeline operated by Magellan Pipeline and stored in a 2 million gallon oil tank at Rokeby. LES currently has approximately 748,000 gallons of fuel oil in storage at Rokeby. The natural gas for TBGS is delivered from an interstate pipeline to the generating site through an LES-owned 6-mile high-pressure gas pipeline. LES has established contracts with the interstate pipeline operator for long-term firm transportation and interruptible transportation for both generating sites. LES currently has approximately 650,000 gallons of

fuel oil in storage at TBGS. TBGS has 2 million gallons of fuel oil storage tank capacity on site. Fuel oil must be hauled to the TBGS site.

Participation Units

LES purchases power and energy from NPPD pursuant to a Participation Power Sales Agreement (“Participation Agreement”) from the Gerald Gentleman Station (“Gerald Gentleman Station”). Through the Participation Agreement LES may be required to pay costs associated with compliance with environmental regulations. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory, and judicial action regarding such standards and procedures. Consequently, there is no assurance that the facilities related to the Participation Agreement will remain subject to the regulations currently in effect, will always be in compliance with future regulations, will always be able to obtain all required operating permits, or that LES or NPPD can anticipate the outcome of current regulatory and legislative process. An inability to comply with environmental standards could result in additional expenditures to comply, reduced operating levels or the complete shutdown of individual units not in compliance. See “FACTORS AFFECTING LES AND THE ELECTRIC UTILITY INDUSTRY” for factors generally affecting coal-fired generation plants such as Gerald Gentleman Station.

Gerald Gentleman Station Participation Power Sales Agreement. NPPD owns and operates Gerald Gentleman Station, a two-unit coal-fired generation facility located 22 miles west of North Platte, Nebraska, having an aggregate accredited capability of 1,365 MW. The Gerald Gentleman Station Unit No. 1 began commercial operation in April 1979 and Unit No. 2 began commercial operation in January 1982. Pursuant to the Gerald Gentleman Station Participation Agreement, LES is entitled to 8% (approximately 109 MW) of the power and energy generated by Gerald Gentleman Station. The Gerald Gentleman Participation Agreement terminates on December 31 of the calendar year of the later of (i) the last maturity of the debt attributable to Gerald Gentleman Station (2034), or (ii) the date on which NPPD retires Gerald Gentleman Station from commercial operation. LES will be responsible for decommissioning costs based on its 8% participation share. NPPD started collecting decommissioning funds from LES in 2017.

Pursuant to the Gerald Gentleman Station Participation Agreement, LES pays, on a take-or-pay basis, 8% of the total costs associated with NPPD’s ownership, operation and maintenance of the Gerald Gentleman Station (including capital improvements, financing costs and related reserves, and taxes or payments-in-lieu thereof). LES additionally pays a portion of the cost of fuel based on the ratio of the power scheduled by LES in any given month to the amount of power actually generated by the station in such month. The historical operation for each of the years ended December 31, 2014 through 2017 of the LES share of Gerald Gentleman Station is summarized in the following table.

LES’ SHARE OF GERALD GENTLEMAN STATION

	2014	2015	2016	2017
Net Capability (MW)	109	109	109	109
Net Generation (MWh)	872,950	834,500	756,666	768,817
Capacity Factor (%) ⁽¹⁾	91.26	87.24	78.88	80.30

⁽¹⁾Reduced generation and capacity factor were the result of a scheduled maintenance outage and the resource not being dispatched by SPP IM.

Sheldon Station Participation Power Sales Agreement. LES had a participation power sales agreement with NPPD for Sheldon Station (the “Sheldon Participation Agreement”) in which LES was obligated to purchase 30 percent of the output, or approximately 65 MW. This agreement was, through mutual agreement of LES and NPPD, terminated on December 31, 2017. There are no further obligations under the Sheldon Participation Agreement. Based on load forecasts, LES has excess capacity well into the future, and the termination will not impact the ability to meet the long-term needs of customers.

Other Power Purchase Arrangements

Western Area Power Administration. LES manages allocations from the United States Department of Energy, through WAPA, of firm power under contract from Upper Missouri Basin hydroelectric plants of approximately 56 MW. LES also has an allocation of 72 MW of firm peaking power from WAPA for the six-month summer season and 22 MW for the remaining months. The firm peaking energy can be taken when LES’ projected daily load is expected to be within 72 MW of a summer system peak (22 MW during the winter season), or it can be scheduled up to 8% seasonal load factor. The energy which LES receives associated with the firm peaking power is paid to WAPA at the standard WAPA wholesale rate. The existing WAPA contract expires December 31, 2020, however, LES and WAPA have entered into a new contract that begins on January 1, 2021 and expires in 2050. The terms of the new contract are substantially the same as the existing contract.

Wind Plants. LES participates in three wind plants through direct Power Purchase Agreements (the “PPAs”) with the plant’s developer/owners: Arbuckle Mountain (100 MW) in Oklahoma, Buckeye Wind Energy Center (100 MW) in Kansas, and Prairie Breeze II Wind Energy Center (73 MW) in Nebraska. LES also participates in four Nebraska-based wind plants through Power Sales Agreements with NPPD: Laredo Ridge (10 MW), Broken Bow (10 MW), Elkhorn Ridge (6 MW) and Crofton Bluffs (3 MW). For each of these plants, NPPD has entered into the Wind PPA with the wind plant developer/owner. These wind resources are accredited per SPP’s criteria.

Solar Project. LES has entered into a Power Purchase Agreement with Enerparc, Inc. to support the LES Community Solar Project (5 MW direct current), located on the western edge of the City.

Transmission, Distribution and Interconnections

LES owns a network of transmission lines which interconnect its generating plants to transmission lines of adjacent utilities and to various transmission and distribution substations serving the loads of LES. The LES transmission lines are physically interconnected with the transmission systems of OPPD and NPPD.

A summary of the LES transmission lines is as follows:

Circuit Voltage	Circuit Miles⁽¹⁾
345 kV	75
161 kV	12
115 kV	179

⁽¹⁾Amounts previously reported included lines in LES service territory which are owned by NPPD and OPPD.

LES owns two 345-115 kV substations, a 345 kV switching station, a 161-115 kV substation and 44 substations which reduce transmission voltage to distribution voltage. The distribution system is operated at two primary voltage levels, 12.5 kV and 35 kV. The system includes approximately 2,000 miles of primary distribution lines that interconnect the distribution substations to the lower voltage transformers.

New distribution systems for developments, subdivisions, shopping centers and apartment complexes are generally served by underground 12.5 kV facilities. In the interest of upgrading electric service to some of the older parts of the City, a portion of the older overhead distribution system has been replaced with underground lines. LES plans to continue converting a portion of its existing overhead system to underground lines each year. As of December 31, 2017, approximately 75% of LES' customers were served by underground lines.

LES is also one of six participants in the MINT Project which consists of 105 miles of 345 kV transmission extending from the substation at NPPD's Cooper Nuclear Station to Fairport, Missouri and then to St. Joseph, Missouri. LES exchanged 50% of its rights in the MINT Project with NPPD for rights across NPPD's system to gain access to the line.

Regional Energy Markets

On April 1, 2009, LES joined the SPP Regional Transmission Organization. This action was approved by the Board. At that time, LES withdrew its membership from the Mid-Continent Area Power Pool as all necessary services would be supplied by SPP.

In March 2014, SPP launched the IM to replace the Energy Imbalance Service ("EIS") market that SPP had operated since 2007. The IM revamps the EIS market by creating a day-ahead market along with a real-time energy and operating reserve market. To reduce energy and transaction costs, the new marketplace consolidated 16 balancing authorities into a single SPP-operated balancing authority. The IM also utilizes locational-marginal pricing and includes virtual transactions. In addition, the IM exchanges physical transmission rights for delivery of energy for financial rights. SPP participants are compensated for differences in load costs and generation revenue through the transmission rights process that would have been delivered physically in the previously existing market.

The IM allows generators to submit offers to sell energy and operating reserves, and load serving entities to submit bids to purchase energy. After the day-ahead submissions, SPP clears the offers and bids via security-constrained unit commitment and security-constrained economic dispatch algorithms. The end product is a financially binding schedule that matches sale offers with demand bids and satisfies operating reserve requirements.

An additional feature of the IM is its incorporation of auction revenue rights ("ARR") and the related transmission congestion rights ("TCR") auction. ARR holders are awarded to market participants based on firm transmission rights on the SPP grid. ARR holders can choose to retain their rights and receive a share of the revenue generated in the TCR auction, or ARR holders can convert their ARRs to TCRs. TCRs are tradable and TCR holders are entitled to revenue streams or charges based on the cost of congestion in the hourly day-ahead market associated with the TCRs.

LES' transition into the IM has been successful. LES continues to work with SPP members, through its representation on several SPP committees and working groups, including the Strategic Planning Committee, Finance Committee, Corporate Governance Committee, Market and Operations Policy Committee, Transmission Working Group, Market Working Group and others, to identify ways to improve market operations and overall organizational effectiveness. LES has not experienced any significant

financial impacts due to the transition to the IM, although the market prices for energy continue to be impacted by a variety of forces.

Since early 2017, SPP and a group of utilities known as the Mountain West Transmission Group (MWTG) have been engaged in discussions regarding MWTG joining SPP. MWTG consists of utilities primarily in the states of Montana, Wyoming, Colorado, Arizona, and New Mexico. Negotiating teams from SPP and MWTG reached agreement on a set of high-level policy issues that were approved by SPP's Board of Directors on March 13, 2018. This vote put steps in motion to modify several SPP governing documents, with the expectation to make related regulatory filings in the fall of 2018. The full integration of the MWTG into SPP is currently planned for early 2020. LES has been monitoring and participating in the MWTG process to better understand the potential impacts of MWTG joining SPP. In April 2018, one member of the MWTG announced that it was no longer planning to join SPP. The remaining MWTG members and SPP representatives are determining how this change will impact the proposed MWTG integration process.

Regional Reliability

The Energy Policy Act of 2005 ("EPAAct 2005") authorized the creation of a self-regulated Electric Reliability Organization ("ERO") that spans North America, with Federal Energy Regulatory Commission ("FERC") oversight in the United States. The legislation makes compliance with NERC and regional reliability standards mandatory and enforceable; previously compliance with standards was voluntary in the United States.

NERC was certified as the ERO by FERC on July 24, 2006. NERC's mission is to ensure the reliability of the bulk power system in North America. To achieve that goal, NERC will develop and enforce reliability standards; monitor the bulk power system; perform reliability and adequacy assessments; investigate and perform event analysis; operate the industry's Electricity Sector Information Sharing and Analysis Center; and educate and train industry personnel. LES is represented on the NERC Operating Committee, the NERC Operating Committee Executive Committee, the NERC Critical Infrastructure Protection Committee, the NERC Continuing Education Review Panel and the NERC FAC-003 Standards Drafting Team. LES will continue to actively participate in the development and implementation of NERC operating and reliability standards.

Under the EPAAct 2005, the Regional Entities ("RE") are dedicated to preserving and enhancing the electric service reliability in a given region and other interconnected adjoining regions. While NERC sets minimum reliability standards, the REs are permitted to propose regional standards to accommodate technical differences in the regional grid. RE activities include monitoring and enforcing compliance with standards for all operators and planners within the region; enforcement and sanctioning members and operators for violations of standards; providing education and training to its members and stakeholders; assessing generation adequacy and performance; and collecting and reporting information relevant and required for regional reliability. The Midwest Reliability Organization ("MRO") is an association of more than 100 electric utilities and other electric industry participants currently serving the following states and provinces: Minnesota, Iowa, Nebraska, North Dakota, Saskatchewan and Manitoba and portions of Wisconsin, Montana, and South Dakota. The RE acts on behalf of consumers and end-users as the reliability compliance and enforcement arm of the ERO. In 2017, NERC and SPP Inc. jointly decided to dissolve the Southwest Power Pool Regional Entity ("SPP RE") with its membership being split between the MRO and the SERC Reliability Corporation ("SERC") RE. NERC, SERC and MRO jointly filed a petition with the Federal Energy Regulatory Commission ("FERC") on March 5, 2018 seeking their approval of the dissolution of SPP RE and the associated changes to the SERC and MRO footprints. Once approved (anticipated effective date of July 1, 2018) the MRO membership will be increased to cover Kansas and Oklahoma as well as portions of New Mexico, Texas, Louisiana, Arkansas and Missouri.

LES has taken a multi-level approach in order to stay involved in ongoing reliability and compliance issues. LES is a member of the MRO NERC Standards Review Forum, a forum that reviews the NERC standards under development and provides their comments and recommendations to NERC. LES also has representatives serving on the MRO Standards Committee, MRO Planning Committee, and MRO Operating Committee. At the national level, LES also has a representative on the NERC Critical Infrastructure Protection Committee and a representative that co-chairs the Electricity Sub-Sector Coordinating Council.

Future Power Supply

General. As part of a continual planning process, LES reviews its load and resources and participates in statewide and regional planning efforts to determine the most economical way to meet the needs of its customers. LES utilizes an integrated resource planning methodology to evaluate demand side management (“DSM”), purchases and construction alternatives. LES is expecting to meet its future resource needs with a mix of alternatives which may include DSM, purchases from market participants, additional local generation, or participation in regional renewable energy projects. Based on current projections for resource needs, without accounting for unplanned generating unit retirement, LES anticipates that additional resources for generating capacity will not be needed until 2040.

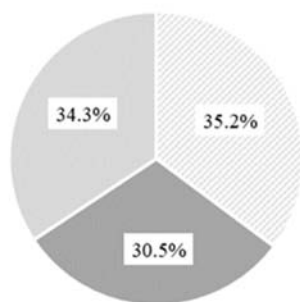
Sustainability Efforts. LES’ Administrative Board has adopted a five-year rolling sustainability target (the “Target”) which seeks to meet LES’ projected demand growth through a combination of sustainable generation and demand reduction resources. The five-year projected demand growth is derived from LES’ annual long-range load forecasts. Based on the 2017 forecast, the projected total demand growth through 2022 is 36 MW. LES has over 102 MW of sustainable generation and demand reduction resources planned through the end of the current five-year target period, as identified below. Future projects primarily consist of anticipated increases in the accredited capacity ratings of newer wind facilities and the continued growth of LES’ Sustainable Energy Program (SEP).

Project	Sustainability Project Projections through 2022 (MW)
Sustainable Generation	50.5
Sustainable Energy Program	39.9
Nebraska Utility Program	11.3
District Energy Corporation & Other	0.6
Total	102.3

LES’ SEP, which provides support to the Target, is an energy-efficiency program that offers LES customers incentives to adopt energy efficient technologies that reduce peak summer demand. Over the past five years, the SEP has reduced peak demand by approximately 15 net MW and reduced annual energy consumption by more than 71,000 MWh. The SEP includes incentives for measures such as: whole-house and facility sealing and insulation, high-efficiency heat pump and air conditioning for residential and small to mid-sized commercial markets, commercial and industrial lighting programs, commercial and industrial energy-efficiency programs (variable frequency drives, installation or upgrade of building automation systems), and a multifamily energy efficiency pilot program. Additionally, LES is expecting to launch a residential smart thermostat demand response program in 2018.

LES has a diverse generation resource portfolio. In 2018, energy production from renewable sources is expected to be equivalent to 49% of LES’ retail sales.

2018 Generation Resource Portfolio (Nameplate)



◀ Gas ■ Coal ■ Renewables

Other System Improvements. LES is considering various system additions and improvements to upgrade and expand transmission and distribution systems.

FACTORS AFFECTING LES AND THE ELECTRIC UTILITY INDUSTRY

General

The electric utility industry, in general, has been, and in the future may be, affected by a number of factors which could impact the financial condition and competitiveness of an electric utility and the level of utilization of generating facilities, such as those of LES. Such factors include, but are not limited to: (i) increases in costs of operation and construction of generating units, (ii) uncertainties in predicting future load requirements, (iii) shifts in availability and relative costs of different fuels, (iv) effects of compliance with rapidly changing environmental, safety, reliability, licensing, regulatory and legislative requirements, (v) other federal and state legislative and regulatory changes, (vi) self-generation by commercial and industrial customers, (vii) changes resulting from conservation and demand side management programs on the timing and use of electric energy, (viii) increased competition from independent power producers, marketers and brokers, (ix) issues related to regional market activities, (x) issues relating to the ability to issue tax exempt obligations, (xi) severe restrictions on the ability to sell to non-governmental entities electricity from generation projects financed with outstanding tax-exempt obligations, (xii) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and strategic alliances of competing electric (and gas) utilities from competitors transmitting less expensive energy from much greater distances over an interconnected system) and new methods of producing low cost electricity, and (xiii) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity. Any of these factors could have an effect on the financial condition of any given electric utility and will likely affect individual utilities in different ways.

LES cannot predict what effects such factors will have on the business operations and financial condition of LES, but the effects could be significant. The following sections provide a brief discussion of certain of these factors. However, this discussion does not purport to be comprehensive or definitive, and these matters are subject to change after the date of this Offering Statement. Extensive information on the electric utility industry is, and is expected to be, available from legislative and regulatory bodies and other sources in the public domain.

Environmental and Other Permits and Approvals

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory, and judicial action regarding such standards and procedures. There is no assurance that LES' facilities will remain subject to the regulations currently in effect, will always be in compliance with future regulations, will always be able to obtain all required operating permits or, that LES can anticipate the outcome of current regulatory and legislative processes. An inability to comply with environmental standards could result in additional capital and operating expenditures to comply, reduced operating levels or the complete shutdown of individual units not in compliance. As necessary, LES will submit applications to the appropriate federal and state authorities for any permits, certifications and renewals required by federal and state law and regulations for the operations of the TBGS, Rokeby, and J Street, and for the construction of capital additions and improvements.

Clean Air Act. The Federal Clean Air Act, as amended (the "Clean Air Act"), regulates emission of air pollutants, establishes national air quality standards for major pollutants, and requires permitting of both new and existing sources of air pollution. Among the provisions of the Clean Air Act that affect operations are (1) the acid rain program, which requires nationwide reductions of SO₂ and NO_x from existing and new fossil fuel electric generating plants, (2) provisions related to toxic or hazardous pollutants, and (3) requirements to address regional haze.

Acid Rain Program. The Clean Air Act established an allowance market system known as the Acid Rain Program. Under the allowance system, each affected generating facility is issued, annually, a number of allowances, for a future year based upon a variety of factors. No utility may emit more tons of SO₂ in a year than is authorized by the total allowances it holds. An "allowance" is an authorization to emit one ton of SO₂ during or after a specified year. The use of allowances is not restricted to a specific unit or plant. Allowances not needed by a utility for its own emissions may be banked for future use, or they may be sold or otherwise transferred. LES has been receiving its pro rata share of allowances issued for generating units in which it has entitlements. All generating units wholly or partially owned by LES have current Acid Rain permits, as required.

Mercury and Air Toxic Standards (MATS) Rule. The Clean Air Act also provides for a comprehensive program for the control of hazardous air pollutants, commonly referred to as Maximum Achievable Control Technology ("MACT"). For electric utility steam generating units, the Clean Air Act directed the U.S. Environmental Protection Agency (the "EPA") to perform a study of the reasonably anticipated risks to public health from the emission of the listed toxic substances from electric utility steam generating units. In February 2012, the EPA published the final MATS rule, which is intended to reduce emissions of toxic air pollutants from power plants. All LES generating units met the compliance deadline for the MATS rule. The MATS rule does not apply to simple-cycle and combined-cycle stationary combustion turbines. Consequently, TBGS, Rokeby, and J Street are not subject to the MATS rule.

Cross-State Air Pollution Rule. In March 2005, the EPA issued the Clean Air Interstate Rule ("CAIR"), which was intended to reduce overall NO_x and SO₂ emissions on a regional basis effective in 2009 and 2010, respectively, with a second phase taking effect in 2015. The goal of CAIR was to reduce air quality problems in states on the eastern side of the country. Of the three states in which LES has generation holdings, Nebraska, Wyoming, and Iowa, only Iowa was impacted by CAIR.

The D.C. Circuit Court vacated the rule, which is now known as the Cross State Air Pollution Rule ("CSAPR") on August 21, 2012.

In April 2014, the U.S. Supreme Court reversed the D.C. Circuit Court's opinion that vacated CSAPR. In November 2014, the EPA issued an interim final rule to revise the compliance date for CSAPR to January 1, 2015.

On September 7, 2016, the EPA finalized an update to CSAPR. The rule provides authority for the EPA to recalculate emission allowance allocations and as such the EPA determined that several eastern states would not be able to meet the standard without a reduction in CSAPR allowances. In 2017, the EPA significantly reduced the available pool of allowances by retiring all held allowances, and replacing those allowances with new allowances at a 3.27 to 1 ratio. While this action did not affect Nebraska or Wyoming facilities, it did impact allowances needed to cover LES' share of emissions from Walter Scott Jr. Energy Center (WSEC) Units #3 and #4. Per the current contract, LES receives allowance allocations from Unit #4, but not from Unit #3. LES purchased all additional allowances needed for operation of LES-owned and contracted resources from the CSAPR allowance market.

Regional Haze Program. As part of the EPA Clean Air Act regulations, each state is required to submit a state implementation plan ("SIP") to improve visibility and air quality in Class I national parks by reducing particulate matter emissions. On November 9, 2011, the EPA agreed in a consent decree with environmental group plaintiffs to a schedule for taking action on each of the 45 Regional Haze SIPs. The consent decree establishes a schedule by which the EPA will promulgate rules under the Regional Haze Program to take one or more of the following actions on each SIP: approve a SIP, disapprove a SIP, approve a SIP in part and disapprove a SIP in part or issue a federal implementation plan.

On December 23, 2011, the EPA issued a proposal to revise rules pertaining to the Regional Haze Program that would approve a trading program as an alternative to determining Best Available Retrofit Technology ("BART") for power plants. As a result, states in the CSAPR region may substitute the trading program in CSAPR for source-specific BART for SO₂ and/or NO_x emissions as specified by CSAPR. A state subject to a trading program established in accordance with CSAPR need not require BART-eligible fossil fuel-fired electric steam generating plants in the state to install, operate, and maintain BART for the pollutant covered by such trading program in the state. A state that chooses to meet the emission reduction requirements of the CSAPR by submitting a SIP revision that establishes a trading program and is approved as meeting the requirements of CSAPR also need not require BART-eligible fossil fuel-fired electric steam generating plants in the state to install, operate, and maintain BART for the pollutant covered by such trading program in the state. This rule now applies as CSAPR has been reinstated.

Regional Haze Program and Nebraska. Under the consent decree, the EPA agreed with respect to the Nebraska Regional Haze SIP to promulgate a proposed rule by February 15, 2012 and promulgate the final rule by June 15, 2012. On July 6, 2012, the EPA finalized a rule for partial approval and partial disapproval of a revision to the SIP for Nebraska, relating to Regional Haze. However, with CSAPR reinstated in 2014, Nebraska, as a CSAPR-affected state, was able to substitute CSAPR compliance for any BART requirements. On January 18, 2017, the EPA issued a proposed draft Federal Implementation Plan (FIP) that would require Gerald Gentleman Station to install SO₂ scrubbers for SO₂ control within five years. The expected cost could be tens of millions of dollars. This proposed regulation was never published in the Federal Register; therefore, it is not a "proposed rule" at this time.

Regional Haze Program and LRS. LRS is subject to the Regional Haze Program. The State of Wyoming submitted its SIP to the EPA in 2011. The SIP required LRS to install low NO_x burners and over fire air systems, which have been installed on all three LRS units. In June 2012, the EPA disapproved the NO_x portion of the Wyoming SIP. Wyoming then revised the SIP to require installation of selective noncatalytic reduction NO_x emission reduction technology. In December 2012, however, the EPA notified the Wyoming Department of Environmental Quality that it must consider selective catalytic reduction ("SCR") NO_x removal technology for three coal plants in Wyoming, including LRS.

On January 10, 2014, the EPA issued its final ruling on the SIP and required installation of SCR systems on all three LRS units. The total estimated cost to install SCR on the three LRS units was estimated to be \$755 million, with annual operating costs of nearly \$16 million, of which LES would be responsible for approximately 11%. In accordance with this ruling, the systems must be operational by January 2019. It was Basin's position that installing SCR technology would not bring about a noticeable improvement in visibility from existing conditions at any national park.

In March 2014, a Petition of Review on the EPA decision for LRS was filed with the 10th Circuit Court of Appeals by Wyoming. A motion was also filed with the court for a stay of compliance pending appeal. In May 2014, a Petition for Reconsideration on the LRS decision was submitted to the EPA Region 8. In September 2014, the 10th Circuit Court of Appeals granted a stay motion for compliance with the regulations while the legal challenge was pending. The deadline for compliance with the Regional Haze Program was extended for the duration of the stay. Legal negotiations continued through 2016 until a tentative agreement was reached on December 30, 2016 (subject to issuance of a final FIP by the EPA). LRS agreed to install non-SCR technology on two units and SCR technology on one unit, rather than all SCR technology. This will result in a significant cost reduction over installing all SCR technology.

Regional Haze and WSEC #4. WSEC #4 is not subject to Regional Haze.

New Source Performance Standards and The Clean Power Plan. The EPA has undertaken rulemaking in preparation for new greenhouse gas regulations for new, modified, reconstructed and existing Electric General Units ("EGU"). In March 2012, the EPA proposed New Source Performance Standards ("NSPS") for CO₂ from new EGUs. The EPA received over 2.5 million comments on the proposal, prompting the EPA to re-propose the NSPS. In January 2014, the EPA published a revised NSPS proposal for new EGUs. In June 2014, the EPA proposed the NSPS for modified and reconstructed EGUs and also proposed emission guidelines for existing sources.

Emission guidelines are the EPA regulations that each state must use to develop plans for reducing emissions from existing sources. The guidelines include targets based on demonstrated controls, emission reductions, costs and expected timeframes for installation and compliance, and can be less stringent than the requirements imposed on new sources. Under existing EPA regulations, states must submit their plans to the EPA within nine months after the guidelines' publication unless the EPA sets a different schedule. Each NSPS must be reviewed at least every eight years and, if appropriate, revised. The EPA's proposed emission guidelines for existing EGUs have commonly been referred to as the Clean Power Plan.

The EPA issued the final Clean Power Plan ("CPP") on August 3, 2015, establishing CO₂ emission guidelines for existing coal- and natural gas-fired electric generating units. On February 6, 2016, the U.S. Supreme Court granted stay motions filed by several states and industry groups that sought to put implementation of the CPP rule on hold pending judicial review. As a result, the Nebraska Department of Environmental Quality indefinitely postponed meetings which had been scheduled to determine how the state would respond to the CPP. Oral arguments on the legal challenges were heard in September 2016 by the U.S. Court of Appeals for the D.C. Circuit. No decisions have been released. In March 2017 President Trump signed an Executive Order on Energy Independence which, among other things, calls for a review of the EPA Clean Power Plan. The EPA has commenced its review in April 2017, but it has not yet released any additional information.

On October 16, 2017, the EPA proposed a rule to repeal the CPP for existing stationary sources. The EPA further issued an Advance Notice of Proposed Rulemaking on December 28, 2017, for replacing the CPP with a limited scope. EPA is expected to make a decision on which direction it will take, repeal or revise, before the end of the year.

The stay of the CPP does not directly impact LES' actions as LES will continue its ongoing practice of analyzing renewable generation options that provide long-term financial benefits to its customers and that would best position LES for compliance with present and future carbon regulations. To assist in its analysis of the rule, LES has developed a Microsoft Excel-based modeling tool that has been widely shared with the industry.

Clean Water Act. The Federal Clean Water Act contains requirements relating to the environmental impact of cooling water intake structures. Section 316(b) of the Clean Water Act ("316(b)") requires that National Pollutant Discharge Elimination System permits for facilities with cooling water intake structures ensure that the location, design, construction, and capacity of the structures reflect the Best Technology Available ("BTA") to minimize harmful impacts on fish and other aquatic life as the result of impingement or entrainment.

The final 316(b) rule will affect LES' analysis of various options to meet future load and resource needs. Any new unit that adds generation capacity at an existing facility will be required to add technology to achieve the national BTA standards for entrainment for new units at existing facilities.

Clean Water Act and LRS. The current water intake flow velocity for LRS is limited to ½ of a foot per second which, under a BTA analysis, could preclude the need for any improvements or further study.

Clean Water Act and WSEC #4. WSEC #4 will not be impacted by 316(b).

Clean Water Act and LES Resources. LES' local generating units are not affected by 316(b).

Hazardous Substances and Wastes. Since the enactment of the Resource Conservation and Recovery Act, the Toxic Substances Control Act, and the Comprehensive Environmental Response Compensation and Liability Act, the electric utility industry has found ever increasing environmental regulations and requirements for dealing with hazardous materials and wastes. LES programs dealing with hazardous materials include audits of all disposal facilities, environmental audits of all properties bought or sold by LES, the development of oil and hazardous materials spill plans, and employee education on the proper handling of hazardous materials.

Renewable Resources. The State of Nebraska does not currently have any form of a renewable portfolio standard. The electric utility industry continues to experience pressure from customers and regulators to incorporate additional renewable generating resources into generation portfolios. Although their intermittent production capability must be considered when assessing the reliability of the system, renewable resources can serve as a hedge against future fossil fuel price volatility and/or environmental regulations. Including hydro, landfill gas, wind and solar, in 2018 LES will source approximately 34% of its installed nameplate generating capacity from renewable resources with the other two-thirds split between natural gas (35%) and coal resources (31%). LES believes this diversity in its generating portfolio, combined with the price certainty of the renewable PPAs, positions LES well to adapt to any potential future challenges in its generation fleet.

North American Electric Reliability Corporation (NERC) Compliance

The MRO serves as the RE under EPCRA 2005 with authority from the ERO to serve as the entity responsible for ensuring the reliability and security of the bulk power system in the upper Midwest portion of North America.

In late 2013, FERC approved the Critical Infrastructure Protection ("CIP") Version 5 reliability standards, which were subsequently updated in February 2016 to Version 6. The CIP Version 5/6 standards

are a suite of over 100 regulatory requirements which detail the physical and cyber protections to be implemented on the cyber assets critical to the operation of the generation and transmission system. Mandatory enforcement of the Version 5/6 CIP standards began on July 1, 2016. Prior to July 1, 2016 LES had virtually no CIP compliance obligations. While the implementation of the Version 5/6 CIP standards greatly added to the security protections already in place at LES, additional CIP requirements will expand those protections even further. Two revised CIP standards became enforceable in 2017 and an additional four underwent further development, they are likely to become enforceable in late 2018 or early 2019. Twenty-three new or revised Operations and Planning standards (non-CIP standards) also became enforceable in 2017 and an additional ten underwent further development. Five new or revised Operations and Planning standards applicable to LES will become either partially or fully enforceable in 2018. NERC also continues to revise and add to their suite of enforceable standards, there are currently twenty-eight Operations and Planning and CIP standards in active development.

On-site audits of the NERC Reliability Standards occur every three years. Typically, these audits are led by RE staff (the MRO for LES). However, due to an initiative at FERC, FERC jointly led LES' last on-site audit (completed in May 2017) with the MRO auditing the Operations and Planning standards and FERC auditing the CIP standards. Even though the on-site audit has concluded for both audits, only the results of the Operations and Planning audit have been provided to LES. The Operations and Planning audit returned no findings of potential violation. FERC's internal report writing process is more time intensive than the MRO's, LES expects to receive our final CIP audit report in mid-2018. Initial indications are that the CIP audit was also very successful, especially when considering that this was LES' first audit of the CIP standards. In preparation for the 2017 audits, LES performed its annual internal review of all enforceable NERC Reliability Standards. This review includes three independent compliance reviews performed by the subject matter expert, applicable management and the LES compliance department. In addition to the triennial on-site compliance audits, LES also has internal-monitoring and self-reporting obligations and the obligation to respond to its regulator's quarterly self-certification requests.

LITIGATION

To the best of LES' knowledge there are no cases pending that are expected to have a materially adverse effect on LES. No litigation is pending concerning the validity of the 2018 Bonds or the Ordinance. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the City's ability to make payments on the 2018 Bonds.

CONTINUING DISCLOSURE

LES, on behalf of the City, has covenanted for the benefit of the holders and beneficial owners of the 2018 Bonds to provide certain financial information and operating data relating to LES by not later than May 31 of each year (the "Annual Report"), commencing with the report for the 2018 Fiscal Year, and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of events will be filed with the Municipal Securities Rulemaking Board ("MSRB"). The specific nature of the information to be contained in the Annual Report or the notices of material events may be found in "APPENDIX D: FORM OF CONTINUING DISCLOSURE UNDERTAKING." These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5) (the "Rule"). LES' disclosure agent filed LES' 2016 Annual Report on a timely basis. However, one CUSIP number was not indexed relating to LES' 2003 Bonds. The disclosure agent indexed the 2016 Annual Report to the relevant CUSIP number promptly upon the discovery of the oversight. To the best of LES' knowledge, LES has not otherwise failed in any material respect to comply with any prior continuing disclosure undertaking of LES.

All Annual Reports and notices of Material Events required to be filed by LES 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.

FINANCIAL ADVISOR

LES has retained PFM Financial Advisors LLC, as Financial Advisor in connection with various matters relating to the delivery of the 2018 Bonds. The Financial Advisor assumes no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Financial Advisor is an independent advisory firm and is not engaged in underwriting or distribution of securities.

UNDERWRITING

The 2018 Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc., U.S. Bancorp Investments, Inc. and J.P. Morgan Securities LLC (collectively, the "Underwriters") for whom Merrill Lynch, Pierce, Fenner, & Smith Incorporated is acting as senior manager pursuant to a Bond Purchase Agreement. The Underwriters have agreed, subject to certain conditions, to purchase the 2018 Bonds from LES at a price of \$140,365,325.60, which is the principal amount of 2018 Bonds (\$121,205,000) plus net original issue premium of \$19,612,551.60 less an underwriting fee of \$452,226.00 (which includes reimbursement of certain expenses) for their services in underwriting the 2018 Bonds. The 2018 Bonds may be offered and sold to certain dealers (including underwriters and other dealers depositing such Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full-service financial institutions engaged in various activities, which may include sale and trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for LES, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and securities, derivatives, loans, commodities, currencies, credit default swaps, and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments (directly, as collateral securing other obligations or otherwise) and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City or LES and/or persons and entities with relationships with the City or LES. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

LES intends to use a portion of the proceeds from the 2018 Bonds to refund a portion of its outstanding Commercial Paper Notes and to pay amounts outstanding under the U.S. Bank Revolving Credit Agreement. To the extent an Underwriter or an affiliate thereof is an owner of Commercial Paper Notes, such Underwriter or its affiliate, as applicable, would receive a portion of the proceeds from the issuance of the 2018 Bonds contemplated herein in connection with such Commercial Paper Notes being

refunded by LES. U.S. Bank, an affiliate of one of the Underwriters, will receive a portion of the proceeds from the 2018 Bonds in payment of the amounts currently outstanding with respect to the U.S. Bank Revolving Credit Agreement. “US Bancorp” is the marketing name of U.S. Bancorp and its subsidiaries including U.S. Bancorp Investments, Inc., which is serving as one of the Underwriters for the Series 2018 Bonds.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the 2018 Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase 2018 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2018 Bonds that such firm sells.

RATINGS

S&P Global Ratings (“S&P”), has assigned the 2018 Bonds the rating of “AA” and Fitch Investors Service, L.P. (“Fitch”) has assigned the 2018 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 S&P, 55 Water Street, New York, New York 10041, telephone (212) 438-2124; and Fitch Investors Service, L.P., One State Street Plaza, New York, New York 10004, telephone (212) 908-0500. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The above ratings are not a recommendation to buy, sell or hold the 2018 Bonds. LES has furnished to each rating agency rating the 2018 Bonds information, including information not included in this Official Statement, about the City, LES and the 2018 Bonds.

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 any or all rating services if they deem circumstances are appropriate. Those circumstances may include, among other things, changes in or unavailability of information relating to the City, LES and the 2018 Bonds. Any downward change in, suspension or withdrawal of any or all ratings may have an adverse effect on the market price of the 2018 Bonds.

TAX MATTERS

In General. In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered at the time of original issuance of the 2018 Bonds, under existing laws, regulations, rulings and judicial decisions, interest on the 2018 Bonds (including original issue discount treated as interest) is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinion described in the preceding sentence assumes the accuracy of certain representations and continuing compliance by LES with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986 (“Code”) that must be met subsequent to the issuance of the 2018 Bonds. Failure to comply with such requirements could cause interest on the 2018 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2018 Bonds. LES has covenanted to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the 2018 Bonds.

Notwithstanding Bond Counsel’s opinion that interest on the 2018 Bonds is not a specific preference item for purposes of the federal alternative minimum tax, for taxable years beginning before January 1, 2018, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporation’s adjusted current earnings over its alternative minimum taxable income

(determined without regard to such adjustment and prior to deduction for certain net operating losses). No federal alternative minimum tax applies to corporations for taxable years beginning after December 31, 2017.

The accrual or receipt of interest on the 2018 Bonds may otherwise affect the federal income tax liability of the owners of the 2018 Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the 2018 Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the 2018 Bonds.

Tax Treatment of Original Issue Premium. Some of the 2018 Bonds were sold at a premium (collectively, the "Premium Bonds"). An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Tax treatment of Original Issue Discount. Some of the 2018 Bonds have an original yield above their respective interest rates (collectively, the "Discount Bonds"), and were sold at an original issue discount. The difference between the initial public offering prices of such Discount Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated in the same manner for federal income tax purposes as interest, as described above.

The amount of original issue discount is treated as having accrued with respect to such Discount Bond or is otherwise required to be recognized in gross income is added to the cost basis of the owner of the bond in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption or payment at maturity). Amounts received on disposition of such Discount Bond that are attributable to accrued or otherwise recognized original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days that are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such Discount Bond for a particular semiannual accrual period is equal to (a) the product of (i) the yield to maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount that would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, (b) less the amount of any interest payable for such Discount Bond during

the accrual period. The tax basis for purposes of the preceding sentence is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts that have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount that would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date, with respect to when such original issue discount must be recognized as an item of gross income and with respect to the state and local tax consequences of owning a Discount Bond. Subsequent purchasers of Discount Bonds that purchase such bonds for a price that is higher or lower than the "adjusted issue price" of the bonds at the time of purchase should consult their tax advisors as to the effect on the accrual of original issue discount.

Recognition of Income Generally. Section 451 of the Code was amended by Pub. L. No. 115-97, enacted December 22, 2017 (sometimes referred to as the Tax Cuts and Jobs Act), to provide that taxpayers using an accrual method of accounting for federal income tax purposes generally will be required to include certain amounts in income, including original issue discount and market discount, no later than the time such amounts are reflected on certain financial statements of such taxpayer. The application of this rule may require the accrual of income earlier than would have been the case prior to the amendment of Section 451 of the Code. The rule generally applies to taxable years after 2017, except that in the case of income from a debt instrument having original issue discount, the rule does not apply until taxable years after 2018. Investors should consult their own tax advisors regarding the application of this rule and its impact on the timing of the recognition of income related to the 2018 Bonds under the Code.

Backup Withholding. As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax exempt obligations such as the 2018 Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. This reporting requirement does not in and of itself affect or alter the excludability of interest on the 2018 Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax exempt obligations.

Exemption Under State Tax Law. In Bond Counsel's further opinion, under existing laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the 2018 Bonds is exempt from all present State of Nebraska income taxes.

Changes in Federal and State Tax Law. From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the 2018 Bonds. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the 2018 Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the 2018 Bonds or the market value thereof would be impacted thereby. Purchasers of the 2018 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the 2018 Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization and issuance of the 2018 Bonds are subject to the approval of Kutak Rock LLP, Omaha, Nebraska, Bond Counsel, whose approving opinion in connection with the issuance of the 2018 Bonds in substantially the form attached hereto as “APPENDIX F: FORM OF OPINION OF BOND COUNSEL” will be delivered to the City. Certain legal matters with respect to the City will be passed upon by the Lincoln City Attorney, certain matters with respect to LES will be passed upon by its General Counsel and certain matters with respect to the Underwriters will be passed upon by Counsel to the Underwriters. Bond Counsel has not reviewed this Official Statement except for (a) the cover page hereof (other than yields or prices), (b) the portions hereof describing the 2018 Bonds and the Ordinance, (c) the sections entitled “DESCRIPTION OF THE 2018 BONDS,” “SECURITY FOR THE 2018 BONDS,” “CONTINUING DISCLOSURE” and “TAX MATTERS” and (d) “APPENDIX C: SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE,” “APPENDIX D: FORM OF CONTINUING DISCLOSURE UNDERTAKING” and “APPENDIX F: FORM OF OPINION OF BOND COUNSEL,” and, except for such portions, Bond Counsel has not participated in the preparation of this Official Statement.

INDEPENDENT AUDITORS

The financial statements as of and for the years ended December 31, 2017 and 2016 included in Appendix B in this Official Statement have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. LES did not request that BKD, LLP perform any updating procedures subsequent to the date of its audit report on the December 31, 2017 and 2016 financial statements, although BKD, LLP did consent to inclusion of the audited financial statements in this Official Statement.

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The issuance of this Official Statement and the signing thereof by LES' Chief Executive Officer has been authorized by the City.

/s/ Kevin G. Wailes

Kevin G. Wailes, Chief Executive Officer of Lincoln
Electric System

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APPENDIX A

GENERAL INFORMATION ON THE CITY

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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 95.09 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 2017 population is 280,364.

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 7,303 acres maintained for public use, nine public swimming pools, and five public golf courses. The City has cooperated actively with the county government in several joint governmental buildings, and in other specific areas of responsibility, including health, planning, civil defense, data processing, tax collection, parks, and jail facilities. There are cooperative agreements with the United States government on parks and flood control, with the University of Nebraska on planning and property transfer, with the area Watershed District on flood control, and with the Lincoln School District on recreation.

Transportation

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

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

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

The average commute in Lincoln is 18 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 26,079 students, Nebraska Wesleyan University, with approximately 2,059 students, Union College, with approximately 893 students, Kaplan University, with approximately 593 students, Bryan LGH College of Health Sciences with approximately 700 students, and Southeast Community College, with more than 9,000 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 41,760 is served by 6 high schools, 12 middle schools, and 39 elementary schools. Lincoln is home to over 30 private and parochial schools. Lincoln's private school offerings range from pre-K to high school institutions. Affiliations include Roman Catholic, Lutheran, SDA, and nondenominational Christians.

Building Permits and Property Values

LAST TEN YEARS

FISCAL YEAR	COMMERCIAL ¹ CONSTRUCTION		RESIDENTIAL ¹ CONSTRUCTION		PROPERTY VALUE ²		TOTALS
	# PERMITS	VALUE	# PERMITS	VALUE	COMMERCIAL	RESIDENTIAL	
2017	1,007	\$ 441,939,943	3,036	\$ 280,532,269	\$ 5,443,342,291	\$ 12,573,902,552	\$ 18,017,244,843
2016	1,038	285,396,259	2,891	248,194,698	5,264,621,434	12,353,764,148	17,618,385,582
2015	1,321	309,759,043	2,346	379,740,291	5,017,666,961	11,584,715,041	16,602,382,002
2014	1,197	264,070,303	2,300	249,343,435	4,962,314,863	11,403,992,418	16,366,307,281
2013	1,341	484,317,980	2,323	250,266,476	4,787,396,700	11,181,988,692	15,969,385,392
2012	1,372	338,918,061	2,319	186,712,560	4,476,953,562	10,745,000,908	15,221,954,470
2011	1,320	223,215,672	2,336	155,181,140	4,477,256,519	10,648,151,681	15,125,408,200
2010	1,234	241,509,266	2,225	116,914,465	4,438,463,100	10,546,474,527	14,984,937,627
2009	1,196	199,331,086	1,794	104,316,385	4,382,749,195	10,839,440,027	15,222,189,222
2008	1,064	274,267,477	2,261	149,678,215	4,246,365,596	10,723,170,809	14,969,536,405

¹ City of Lincoln, Building and Safety Department.

² Lancaster County Assessor.

Police and Fire Protection

Lincoln has fourteen fire stations manned by 287 firefighters and three police stations with 326 police officers.

City Employee Information

For the 2017-2018 fiscal year, contracts have been signed with all but one 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 Lincoln City Employees Association (LCEA) representing supervisory, highly technical, and professional personnel, and the Lincoln M Class Employees Association (LMCEA) representing upper management, administration and professional personnel. The IAF contract has not been negotiated and is operating under the terms of the prior year contract. The LPU contract will expire at the end of August, 2019 and ATU, LMCEA, PAGE and LCEA contracts will expire at the end of August, 2018.

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

	<u>MAY 31, 2017</u>		<u>NOVEMBER 30, 2017</u>	
	<u>Number Employed</u>	<u>Percent of Total</u>	<u>Number Employed</u>	<u>Percent of Total</u>
Industry Manufacturing:				
Durable Goods	8,345	4.4	8,262	4.2
Nondurable Goods	5,119	2.7	5,021	2.6
Total Industry Manufacturing	<u>13,464</u>	<u>7.1</u>	<u>13,283</u>	<u>6.8</u>
Nonmanufacturing:				
Natural Resource & Construction	9,226	4.8	9,226	4.8
Transportation, Warehousing & Utilities	10,229	5.3	10,323	5.3
Wholesale Trade	4,057	2.1	3,972	2.0
Retail Trade	19,633	10.3	20,226	10.4
Information	3,320	1.7	3,462	1.8
Finance, Insurance & Real Estate	14,643	7.6	14,648	7.5
Services (except domestic)	76,686	40.0	78,355	40.3
Government	40,431	21.1	41,085	21.1
Total Nonmanufacturing	<u>178,225</u>	<u>92.9</u>	<u>181,297</u>	<u>93.2</u>
TOTAL	<u><u>191,689</u></u>	<u><u>100.0</u></u>	<u><u>194,580</u></u>	<u><u>100.0</u></u>

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

As of December 2017 the unemployment rate in Lincoln was 2.4%, among the lowest unemployment rates in the United States.

LINCOLN SMSA (LANCASTER COUNTY LABOR FORCE DATA 2016-2007) (For the Calendar Year Indicated)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Civilian Labor Force	177,877	176,317	176,760	177,952	176,563	172,923	171,331	169,553	168,912	166,259
Unemployment	5,144	4,738	5,297	6,223	6,366	6,902	7,202	7,290	5,186	4,639
Percent of Labor Force	2.9	2.7	3.0	3.5	3.6	4.0	4.2	4.3	3.1	2.8
Employment	172,733	171,579	171,463	171,729	170,197	166,021	164,129	162,263	163,726	161,620

STATE OF NEBRASKA

Percent of Labor Force										
Unemployment	3.3	3.1	3.3	3.8	4.0	4.4	5.0	4.6	3.3	3.0

Source: State of Nebraska, Department of Labor

**LINCOLN PRINCIPAL EMPLOYERS
CURRENT YEAR**

Employer	Employees	Rank	Percentage of Total City Employment
State of Nebraska	9,097	1	4.69 %
Lincoln Public Schools	8,400	2	4.33
University of Nebraska-Lincoln	6,487	3	3.34
Bryan Health	3,500	4	1.80
US Government	3,465	5	1.78
City of Lincoln	2,648	6	1.36
Saint Elizabeth Regional Medical Center	2,300	7	1.18
Burlington Northern Railroad	2,000	8	1.03
Madonna Rehabilitation Hospital	1,500	9	0.77
Duncan Aviation	1,200	10	0.62
Total	40,597		20.90 %

**DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

Year	Population ¹	Per Capita Personal Income ²	School Enrollment ³
2017	280,364	\$	41,737
2016	277,348	45,511	40,109
2015	272,996	44,133	39,842
2014	268,738	43,399	39,066
2013	265,404	42,743	37,845
2012	262,341	41,584	36,902
2011	258,379	40,015	36,530
2010	254,001	37,864	35,896
2009	251,624	37,737	34,973
2008	248,744	38,558	34,061

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 2017 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>
2017	83,797	98,600	136,641
2016	82,853	97,639	134,417
2015	82,058	96,680	132,672
2014	81,196	96,368	131,915
2013	80,418	95,480	130,537
2012	79,698	94,592	129,163
2011	79,184	94,231	128,373
2010	78,740	93,916	129,322
2009	77,973	93,679	128,115
2008	77,532	93,419	126,978

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
2017	\$ 58,560,593	81,171,971	20,634,650	26,730,859	13,034,266	23,116,621	13,439,363	45,301,015	281,989,338
2016	54,483,582	77,399,174	20,896,834	25,310,935	14,012,940	22,605,745	12,380,084	43,165,211	270,254,505
2015	50,714,491	75,625,163	19,464,370	24,538,296	14,773,423	23,038,785	15,539,838	38,634,986	262,329,352
2014	51,044,096	72,833,698	21,054,394	25,172,100	13,792,741	22,097,954	14,419,436	36,449,212	256,863,631
2013	42,761,424	72,489,536	18,355,326	22,323,942	12,831,193	21,339,175	11,980,828	31,721,325	233,802,749
2012	39,048,320	70,444,362	18,471,067	22,518,532	14,673,671	22,070,619	10,288,935	31,689,831	229,205,337
2011	36,622,362	69,537,057	18,335,078	21,794,585	15,811,914	21,993,415	15,088,883	26,439,462	225,622,756
2010	35,865,006	64,679,523	19,832,223	21,483,873	15,359,628	21,652,729	12,034,413	17,032,401	207,939,796
2009	34,428,477	63,984,484	16,445,304	22,449,569	11,321,242	20,349,757	9,575,670	16,990,105	195,544,608
2008	35,278,575	61,147,903	16,482,240	21,686,564	14,685,668	21,053,132	10,707,601	14,427,795	195,469,478

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

GENERAL GOVERNMENTAL REVENUES BY SOURCE ¹ LAST TEN FISCAL YEARS

Fiscal Year	Taxes And Special Assessment	Inter-Governmental	Permits And Fees	Reimbursement For Services	Investment Earnings	Other	Totals
2017	\$ 213,096,181	74,133,945	25,823,013	17,102,484	6,868,335	14,794,365	351,818,323
2016	202,860,560	64,711,049	25,704,855	16,807,455	6,249,869	10,542,628	326,876,416
2015	182,765,313	70,694,942	25,327,804	16,083,267	1,006,466	11,026,123	306,903,915
2014	172,251,539	79,378,553	23,794,402	14,283,172	10,571,021	10,985,173	311,263,860
2013	166,316,730	81,340,882	22,936,015	8,341,522	1,732,354	12,037,497	292,705,000
2012	161,333,989	68,267,660	20,239,031	7,850,732	4,744,887	20,209,185	282,645,484
2011	144,632,640	71,532,824	18,524,372	7,521,366	5,454,877	11,279,552	258,945,631
2010	131,562,303	61,640,301	16,432,219	7,004,334	5,197,259	6,467,138	228,303,554
2009	130,360,416	75,099,973	17,119,002	6,600,299	5,791,391	7,818,015	242,789,096
2008	130,094,818	73,830,720	18,013,104	6,511,457	6,806,258	7,667,778	242,924,135

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

**SPECIAL ASSESSMENT COLLECTIONS
LAST TEN YEARS ¹**

Fiscal Year Ended <u>August 31</u>	Special Assessment Collections <u>Including Interest</u>
2017	\$ 1,694,846
2016	1,585,717
2015	1,590,119
2014	1,577,645
2013	1,021,572
2012	1,151,931
2011	1,103,720
2010	1,136,150
2009	1,071,238
2008	1,418,936

¹Special 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 2017 tax levy for the 2017-2018 fiscal year is \$156,576,725 below the legal limit, a tax rate per \$100 valuation of .31648. The assessed value upon which the 2017 levy is based is \$20,516,934,853. By charter, only 90% of the property tax levy may be appropriated.

For the 2017-2018 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 2017-2018 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 2.24%. An additional 1% can be authorized by a 75% vote of the City Council but was not utilized for the 2017-2018 budget. The 2017-2018 budget is \$4,593,280 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.

Fiscal Year Ended August 31	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Accumulated Collections As Of August 31, 2017	
		Amount	Percent	Amount	Percent
2017	\$ 63,023,942	\$ 61,735,542	97.96 %	\$ 61,735,542	97.96 %
2016	58,987,113	57,685,951	97.79	58,963,704	99.96
2015	55,483,999	54,235,009	97.75	55,459,102	99.96
2014	53,884,064	52,616,370	97.65	53,866,904	99.97
2013	52,460,687	51,226,109	97.65	52,432,536	99.95
2012	50,168,325	48,788,943	97.25	50,123,771	99.91
2011	45,957,935	44,206,917	96.19	45,558,148	99.13
2010	45,211,603	43,791,366	96.86	45,183,255	99.94
2009	45,916,232	44,385,970	96.67	45,873,100	99.91
2008	45,245,194	43,526,689	96.20	45,047,050	99.56

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	2017 Assessed Valuations	Percentage Of Total Assessed Valuation
B & J Partnership Ltd.	Building Management	\$ 141,185,400	0.75%
Burlington Northern	Railroad	105,428,414	0.56%
Kawasaki	Manufacturing	75,103,680	0.40%
Nebco	Construction/Development	74,990,499	0.40%
Ameritas Life Insurance Corp	Insurance	59,265,586	0.31%
WEA Gateway LLC	Retail Management	52,978,600	0.28%
Windstream	Telecommunications	44,754,265	0.24%
Assurity Life Insurance Co.	Insurance	40,541,582	0.21%
BryanLGH	Hospital	40,068,600	0.21%
Wal-Mart Real Estate Trust	Retail Management	39,070,700	0.21%
		<u>\$ 673,387,326</u>	<u>3.57%</u>

CITY SALES TAX INFORMATION

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

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

Year Ended August 31	Amount
2017	\$ 75,259,945
2016	71,621,717
2015	68,861,600
2014	66,393,391
2013	63,134,808
2012	61,472,342
2011	57,959,545
2010	54,925,013
2009	54,255,376
2008	55,733,297

**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
2017	\$ 42,669,103	\$ 75,259,945	\$ 33,512	\$ 2,260,572	\$ 9,494,397	\$ 129,717,529
2016	40,564,330	71,621,717	26,396	2,119,674	9,617,902	123,950,019
2015	37,333,435	68,861,600	31,314	2,120,619	11,024,711	119,371,679
2014	37,428,736	66,393,391	31,218	2,042,148	11,184,522	117,080,015
2013	34,599,257	63,134,808	28,713	1,962,330	11,741,366	111,466,474
2012	33,574,992	61,472,342	31,610	1,936,396	12,583,795	109,599,135
2011	31,449,267	57,959,545	30,957	1,755,098	11,699,691	102,894,558
2010	31,486,553	54,925,013	11,895	1,620,431	10,467,534	98,511,426
2009	33,783,984	54,255,376	8,143	1,540,752	10,071,230	99,659,485
2008	32,181,660	55,733,297	18,600	1,511,404	9,670,060	99,115,021

**TAXABLE ASSESSED VALUATION
LAST TEN YEARS ¹**

Tax Year	Real Estate	All Other	Total
2018	\$ 19,579,616,741	\$ 937,318,112	\$ 20,516,934,853
2017	18,017,244,843	853,580,721	18,870,825,564
2016	17,618,385,582	838,933,170	18,457,318,752
2015	16,602,382,002	777,744,371	17,380,126,373
2014	16,366,307,281	744,661,478	17,110,968,759
2013	15,969,385,392	706,811,504	16,676,196,896
2012	15,221,954,470	678,874,343	15,900,828,813
2011	15,125,408,200	755,852,220	15,881,260,420
2010	14,984,937,627	761,515,955	15,746,453,582
2009	15,222,189,222	713,383,515	15,935,572,737

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									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
City of Lincoln	0.3337	0.3196	0.3196	0.3158	0.3158	0.3158	0.2879	0.2879	0.2879	0.2879
School District No. 1	1.2397	1.2429	1.2434	1.2441	1.2447	1.2461	1.2462	1.2537	1.2668	1.2719
Lancaster County	0.2753	0.2783	0.2813	0.2813	0.2843	0.2683	0.2683	0.2683	0.2683	0.2755
Educational Service Unit #18	0.0150	0.0150	0.0150	0.0150	0.0150	0.0150	0.0145	0.0150	0.0150	0.0141
Community Technical College	0.0752	0.0757	0.0598	0.0667	0.0627	0.0627	0.0600	0.0676	0.0722	0.0689
Lower Platte South Natural Res. Dist.	0.0335	0.0345	0.0358	0.0361	0.0378	0.0398	0.0406	0.0410	0.0410	0.0418
Railroad Transportation Safety Dist.	0.0190	0.0160	0.0130	0.0130	0.0100	0.0260	0.0260	0.0260	0.0260	0.0260
Lancaster County Correctional JPA City	0.0153	0.0156	0.0168	0.0172	0.0177	0.0185	0.0189	0.0194	0.0195	-
Lancaster County Correctional JPA County	0.0085	0.0088	0.0094	0.0096	0.0099	0.0105	0.0106	0.0107	0.0106	-
Agricultural Society of Lancaster County	0.0015	0.0015	0.0015	0.0015	0.0015	0.0016	0.0017	0.0016	0.0015	0.0016
Lancaster County Fairgrounds	0.0030	0.0031	0.0033	0.0034	0.0037	0.0037	0.0038	0.0038	0.0038	0.0043
Public Building Commission	0.0170	0.0170	0.0170	0.0170	0.0167	0.0170	0.0170	0.0170	0.0170	0.0170
	<u>2.0367</u>	<u>2.0280</u>	<u>2.0159</u>	<u>2.0207</u>	<u>2.0198</u>	<u>2.0250</u>	<u>1.9955</u>	<u>2.0120</u>	<u>2.0296</u>	<u>2.0090</u>

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, 2017

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

Original Amount	Issued	Issue	Interest Rate	When Due	Date Callable	Interest Date	Outstanding
General Obligation Bonds:							
General Bonds:							
8,295	06/27/07	Stormwater Drainage and Flood Mgmt	4.625 - 5.000	Serial 2008 to 2027	2017	Semiannually	5,075
8,200	02/10/11	Stormwater Bonds	2.000 - 4.500	Serial 2013 to 2030	2020	"	6,340
19,290	06/21/11	Refunding	0.2000 - 5.000	Serial 2011 to 2022	2019	"	7,745
8,090	06/26/12	Refunding	1.000 - 3.000	Serial 2013 to 2023	-	"	3,795
6,385	03/20/13	Stormwater Bonds	2.000 - 4.000	Serial 2014 to 2029	2023	"	5,325
1,515	03/20/13	Stormwater Bonds	3.125	Term 2032	2023	"	1,515
5,720	04/15/15	Stormwater Refunding Bonds	1.000 - 5.000	Serial 2016 to 2025	-	"	4,685
6,300	06/28/16	Stormwater Bonds	2.000 - 3.000	Serial 2017 to 2036	2026	"	6,300
Total General Bonds							\$ 40,780
Tax Allocation Bonds:							
365	08/15/05	Tax Allocation Bonds	4.750	Serial 2006 to 2018	Anytime	Semiannually	19
2,205	04/05/07	Tax Allocation Bonds	5.000 - 5.550	Serial 2009 to 2018	Anytime	"	535
601	06/01/07	Tax Allocation Bonds	5.240	Serial 2008 to 2018	Anytime	"	436
42	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2021	Anytime	"	17
71	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2017	Anytime	"	31
547	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	241
200	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	83
611	06/30/09	Tax Allocation Bonds	7.00	Serial 2011 to 2023	Anytime	"	433
3,375	07/28/09	Tax Allocation Bonds	2.500 - 6.400	Serial 2011 to 2023	Anytime	"	2,070
263	04/01/11	Tax Allocation Bonds	3.990	Serial 2011 to 2022	Anytime	"	137
103	04/15/13	Tax Allocation Bonds	2.370	Serial 2013 to 2025	Anytime	"	69
140	07/01/16	Tax Allocation Bonds	2.200	Serial 2016 to 2028	Anytime	"	130
600	12/01/16	Tax Allocation Bonds	2.300	Serial 2018 to 2021	Anytime	"	600
110	05/01/17	Tax Allocation Bonds	2.740	Serial 2018 to 2024	Anytime	"	110
Total Tax Allocation Bonds							\$ 4,911
Tax Supported Bonds:							
28,095	06/06/12	Highway Allocation Fund Refunding	1.000 - 5.000	Serial 2012 to 2023	na	Semiannually	18,625
14,735	12/15/16	Highway Allocation Fund Refunding	2.000 - 5.000	Serial 2018 to 2027	na	"	14,735
16,515	07/23/13	Limited Tax Arena Bonds	2.000 - 4.500	Serial 2016 to 2031	2023	"	14,720
2,635	07/23/13	Limited Tax Arena Bonds	2.000 - 4.500	Term 2035	2023	"	2,635
5,850	07/23/13	Limited Tax Arena Bonds	2.000 - 4.500	Term 2037	2023	"	5,850
Total Tax Supported Bonds							\$ 56,565
Special Assessment Bonds:							
825	8/18/11	Special Assessment	0.400 - 3.700	Serial 2012 to 2026	2016	Semiannually	525
375	8/18/11	Special Assessment	4.200	Term 2031	2016	"	375
3,000	11/23/11	Special Assessment	2.000 - 3.500	Serial 2012 to 2031	2021	"	2,235
Total Special Assessment Bonds							\$ 3,135
West Haymarket Joint Public Agency							
31,515	9/8/10	Facility Bonds Taxable Build America Bonds	3.500 - 4.45	Serial 2020 to 2030	Anytime	Semiannually	31,515
68,485	9/8/10	Facility Bonds Taxable Build America Bonds	4.750 / 5.000	Term 2035 & 2045	Anytime	"	68,485
15,785	12/01/10	Facility Bonds Taxable Build America Bonds	4.000 - 5.000	Serial 2020 - 2025	Anytime	"	15,785
52,180	12/01/10	Facility Bonds Taxable Build America Bonds	5.400 / 5.800 / 6.000	Term 2030 2035 2039	Anytime	"	52,180
32,035	12/01/10	Recovery Zone Economic Development	6.750	Term 2045	Anytime	"	32,035
44,290	8/24/11	Facility Bonds	3.500 - 5.000	Serial 2021 to 2032	2021	"	44,290
55,710	8/24/11	Facility Bonds	4.250 - 5.000	Term 2036 & 2042	2021	"	55,710
20,850	12/04/13	Facility Bonds	2.000 - 5.000	Serial 2014 to 2038	2023	"	19,220
7,325	12/04/13	Facility Bonds	4.500	Term 2043	2023	"	7,325
Total West Haymarket Joint Public Agency							\$ 326,545
TOTAL GENERAL OBLIGATION BONDS							\$ 431,936
Revenue Bonds:							
16,710	04/18/07	Wastewater Revenue	4.000 - 4.500	Serial 2008 to 2029	2017	Semiannually	\$ 10,980
3,750	04/18/07	Wastewater Revenue	4.375	Term 2032	2017	"	3,750
38,290	05/24/12	Wastewater Revenue Refunding	1.000 - 5.000	Serial 2013 to 2028	2023	"	27,820
12,220	04/09/15	Wastewater Revenue Refunding	1.000 - 4.000	Serial 2016 to 2030	2025	"	10,845
Total Wastewater Bonds							\$ 53,395
10,515	08/04/09	Water Revenue	2.000 - 4.125	Serial 2013 to 2029	2019	Semiannually	8,065
4,905	08/04/09	Water Revenue	4.500	Term 2034	2019	"	4,905
10,895	06/21/12	Water Revenue Refunding	1.000 - 4.000	Serial 2013 to 2022	N/A	"	5,690
28,595	05/30/13	Water Revenue Refunding	1.000 - 5.000	Serial 2013 to 2025	2023	"	19,475
Total Water Bonds							\$ 38,135
7,745	01/27/11	Parking Revenue and Refunding	2.000 - 5.000	Serial 2015 to 2024	2021	Semiannually	6,070
10,775	01/27/11	Parking Revenue and Refunding	5.000 / 5.125 / 5.500	Term 2026 & 2031	2021	"	10,775
9,315	11/29/12	Parking Revenue and Refunding	.400 - 4.000	Serial 2013 to 2027	2022	"	5,725
2,765	11/29/12	Parking Revenue and Refunding	3.00	Term 2032	2022	"	2,765
Total Parking Bonds							\$ 25,335
8,340	02/26/13	Solid Waste Management Revenue and Refunding	.250 - 4.000	Serial 2013 to 2029	2023	Semiannually	5,640
5,520	07/08/15	Solid Waste Management Revenue	2.000 - 5.000	Serial 2016 to 2035	2025	"	5,075
Total Solid Waste Management Bonds							\$ 10,715
93,045	10/01/03	Electric Revenue and Refunding Bonds	3.000 - 5.000	Serial 2004 to 2026	2013	Semiannually	1,150
247,150	08/15/12	Electric Revenue and Refunding Bonds	1.000 - 5.000	Serial 2013 to 2032	2022	"	186,855
30,165	08/15/12	Electric Revenue and Refunding Bonds	3.625 - 5.000	Term 2037	2022	"	30,165
75,525	06/20/13	Electric Revenue and Refunding Bonds	2.700 - 5.000	Serial 2021 to 2025	2023	"	75,525
127,630	03/11/15	Electric Revenue and Refunding Bonds	3.000 - 5.000	Serial 2019 to 2036	2025	"	127,090
40,170	03/11/15	Electric Revenue and Refunding Bonds	4.00	Term 2040	2025	"	40,710
116,645	09/01/16	Electric Revenue Refunding Bonds	3.000 - 5.000	Serial 2017 to 2034	2027	"	116,645
Total Electric Bonds							\$ 578,140
TOTAL REVENUE BONDS							\$ 705,720

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		Capital Leases			
	Principal	Interest	Principal	Interest		
2018	\$ 11,044	19,956	5,416	1,073		
2019	10,927	19,596	5,172	943		
2020	10,956	19,243	4,877	820		
2021	14,668	18,800	4,132	701		
2022	18,130	18,189	4,233	577		
2023-2027	81,437	80,012	13,852	1,259		
2028-2032	69,829	63,933	1,688	108		
2033-2037	77,930	47,174	-	-		
2038-2042	82,950	26,876	-	-		
2043-2047	54,065	5,635	-	-		
	\$ 431,936	319,414	39,370	5,481		

Fiscal Year Ended August 31	Business-Type Activities					
	Revenue Bonds		Loans Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 26,815	29,938	1,967	719	288	24
2019	29,420	28,814	2,005	680	242	19
2020	32,990	27,526	2,043	642	249	14
2021	38,965	26,054	2,083	602	251	8
2022	40,410	24,260	2,123	561	211	2
2023-2027	193,220	94,848	10,451	2,167	-	-
2028-2032	159,415	58,711	10,940	1,021	-	-
2033-2037	137,165	26,727	3,327	85	-	-
2038-2042	47,320	5,245	-	-	-	-
	\$ 705,720	322,123	34,939	6,477	1,241	67

Fiscal Year Ended August 31	Major Enterprise Funds					
	Wastewater System		Water System		Electric System	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 4,840	2,371	4,517	1,749	17,070	25,100
2019	4,918	2,264	4,637	1,607	19,480	24,247
2020	5,027	2,150	4,792	1,438	22,750	23,273
2021	5,156	2,011	4,981	1,240	28,615	22,166
2022	5,316	1,842	4,817	1,076	30,045	20,735
2023-2027	29,351	6,359	14,840	3,350	147,085	82,931
2028-2032	18,052	1,661	8,588	1,547	131,865	54,997
2033-2037	1,538	35	3,899	194	133,910	26,506
2038-2042	-	-	-	-	47,320	5,245
	\$ 74,198	18,693	51,071	12,201	578,140	285,200

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

Net position of \$3,002,622, \$4,195,650, \$1,499,052, and \$1,989,849 is currently available in the debt service funds to service the Tax Allocation Bonds, General Obligation Bonds, Tax Supported 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:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Land	\$ 1,780,066	\$ 199,546
Buildings	25,965,521	1,647,945
Improvements	5,030,532	-
Infrastructure	32,545,948	-
Machinery and Equipment	9,273,107	3,211,847
Construction In Progress	1,090,016	-
Less Accumulated Depreciation, (where applicable)	<u>(17,533,062)</u>	<u>(2,924,267)</u>
Total	\$ <u>58,152,128</u>	\$ <u>2,135,071</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, 2017, 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	\$ <u>483,634,000</u>	100.0 %	\$ <u>483,634,000</u>
Overlapping:			
School District #1	410,447,535	99.5	408,395,000
Public Building Commission	35,655,000	85.4	30,449,000
Lancaster County Correctional Facility	43,875,000	85.4	37,469,000
Lancaster County Fairgrounds	9,300,000	85.4	7,942,000
	<u>499,277,535</u>		<u>484,255,000</u>
Total	\$ <u>982,911,535</u>		\$ <u>967,889,000</u>

The City has no direct liability for the School District, Public Building Commission, Lancaster County Fairgrounds or Lancaster County Correctional Facility debt summarized above. This results in a per capita direct City debt of \$1,725.02; a per capita direct and overlapping debt of \$3,452.26; a ratio of direct City debt to 2017 actual valuation of 2.56 percent; and a ratio of direct and overlapping debt to 2017 actual valuation of 5.13 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, 2017, the Airport Authority had outstanding \$54,905,000 in aggregate principal amount of its general obligation airport bonds. The bonds are secured by a pledge of all revenues and income derived by the Airport Authority directly or indirectly from the ownership, use and operations of the Airport. 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
2017	\$ 10,705,534	\$ 4,074,708	\$ 14,780,242	\$ 281,989,338	5.24 %
2016	11,709,540	4,472,154	16,181,694	270,254,505	5.99
2015	10,134,997	4,812,005	14,947,002	262,329,352	5.70
2014	9,662,748	5,240,713	14,903,461	256,863,631	5.80
2013	8,427,726	4,266,429	12,694,155	233,802,749	5.43
2012	7,485,645	5,123,060	12,608,705	229,205,337	5.50
2011	6,857,978	5,147,840	12,005,818	225,622,756	5.32
2010	7,457,532	5,676,933	13,134,465	207,939,796	6.32
2009	8,036,544	5,814,071	13,850,615	195,544,608	7.08
2008	6,824,828	5,979,172	12,804,000	195,469,478	6.55

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
2017	\$ 105,391,000	\$ 8,221,000	\$ 97,170,000	280,364	\$ 346.59	\$ 18,870,825,564	0.51%	\$ 18,017,244,843	0.54%
2016	116,036,000	8,328,000	107,708,000	277,348	388.35	18,457,318,752	0.58%	17,618,385,582	0.61%
2015	120,451,000	9,143,000	111,308,000	272,996	407.73	17,380,126,373	0.64%	16,602,382,002	0.67%
2014	130,391,000	9,427,000	120,964,000	268,738	450.12	17,110,968,759	0.71%	16,366,307,281	0.74%
2013	139,274,000	15,640,000	123,634,000	265,404	465.83	16,676,196,896	0.74%	15,969,385,392	0.77%
2012	113,958,000	15,142,000	98,816,000	262,341	376.67	15,900,828,813	0.62%	15,221,954,470	0.65%
2011	119,663,000	13,305,000	106,358,000	258,379	411.64	15,881,260,420	0.67%	15,125,408,200	0.70%
2010	118,383,000	13,480,000	104,903,000	254,001	413.00	15,746,453,582	0.67%	14,984,937,627	0.70%
2009	125,181,000	13,604,000	111,577,000	251,624	443.43	15,935,572,737	0.70%	15,222,189,222	0.73%
2008	128,581,000	12,962,000	115,619,000	248,744	464.81	15,653,926,490	0.74%	14,969,536,405	0.77%

¹ Source: Lincoln/Lancaster Planning Department.

² Assessed valuation is 100% of actual

**REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

		Gross Revenue	Direct Operating Expenses	Net Available Revenue	Debt Service Requirements			Coverage
					Principal	Interest	Total	
Wastewater System								
2017	\$	30,516,105	14,726,200	15,789,905	4,761,635	2,619,980	7,381,615	2.14
2016		29,026,442	14,019,061	15,007,381	4,562,314	2,847,529	7,409,843	2.03
2015		28,026,866	13,541,561	14,485,305	3,747,284	3,114,518	6,861,802	2.11
2014		27,049,162	13,337,986	13,711,176	4,053,916	3,077,999	7,131,915	1.92
2013		24,988,275	12,522,159	12,466,116	3,487,906	3,089,698	6,577,604	1.90
2012		24,763,975	12,378,673	12,385,302	3,137,858	3,655,156	6,793,014	1.82
2011		23,546,370	12,543,964	11,002,406	2,865,000	3,647,609	6,512,609	1.69
2010		22,472,095	11,664,593	10,807,502	2,695,000	3,731,444	6,426,444	1.68
2009		22,643,270	11,771,291	10,871,979	2,620,000	3,820,044	6,440,044	1.69
2008		22,347,867	11,393,624	10,954,243	2,415,000	4,030,454	6,445,454	1.70
Water System								
2017	\$	38,494,901	17,893,434	20,601,467	4,408,451	2,021,708	6,430,159	3.20
2016		37,985,431	16,969,116	21,016,315	4,344,979	2,123,747	6,468,726	3.25
2015		34,481,875	16,955,058	17,526,817	4,290,300	2,116,262	6,406,562	2.74
2014		34,933,647	16,308,059	18,625,588	3,923,000	2,044,417	5,967,417	3.12
2013		34,241,815	16,113,390	18,128,425	1,850,000	2,345,562	4,195,562	4.32
2012		35,984,891	15,636,494	20,348,397	5,380,000	2,955,202	8,335,202	2.44
2011		30,629,506	15,455,027	15,174,479	6,310,000	3,191,857	9,501,857	1.60
2010		26,515,467	14,091,292	12,424,175	6,050,000	3,458,097	9,508,097	1.31
2009		27,838,187	14,995,077	12,843,110	5,795,000	3,128,414	8,923,414	1.44
2008		27,257,184	14,425,521	12,831,663	5,555,000	3,376,201	8,931,201	1.44
Parking Facilities ¹								
2017	\$	12,674,910	4,905,848	7,769,062	1,320,000	1,095,315	2,415,315	3.22
2016		10,697,157	4,575,662	6,121,495	1,290,000	1,130,215	2,420,215	2.53
2015		10,419,352	4,577,437	5,841,915	1,260,000	1,148,265	2,408,265	2.43
2014		9,816,550	4,211,473	5,605,077	1,310,000	1,172,465	2,482,465	2.26
2013		8,444,055	3,919,678	4,524,377	1,270,000	1,091,614	2,361,614	1.92
2012		7,382,101	3,823,131	3,558,970	860,000	1,078,688	1,938,688	1.84
2011		7,698,018	3,606,008	4,092,010	580,000	689,717	1,269,717	3.22
2010		6,869,392	3,340,601	3,528,791	1,435,000	558,519	1,993,519	1.77
2009		7,014,250	2,874,768	4,139,482	1,360,000	624,394	1,984,394	2.09
2008		7,134,709	2,912,511	4,222,198	1,305,000	687,194	1,992,194	2.12
Solid Waste Management								
2017	\$	12,696,221	9,460,290	3,235,931	795,000	382,096	1,177,096	2.75
2016		12,371,412	7,896,480	4,474,932	775,000	396,521	1,171,521	3.82
2015		10,074,541	7,519,523	2,555,018	550,000	196,202	746,202	3.42
2014		9,132,756	7,319,215	1,813,541	550,000	198,128	748,128	2.42
2013		7,933,037	7,087,935	845,102	475,000	133,463	608,463	1.39
2012		7,745,565	6,376,120	1,369,445	220,000	124,025	344,025	3.98
2011		7,615,130	6,253,133	1,361,997	210,000	132,425	342,425	3.98
2010		7,377,385	5,768,077	1,609,308	200,000	140,425	340,425	4.73
2009		7,664,336	5,491,789	2,172,547	195,000	148,225	343,225	6.33
2008		8,537,520	5,540,292	2,997,228	190,000	155,825	345,825	8.67

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

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

	<u>F.Y. 2017</u>	<u>F.Y. 2016</u>	<u>F.Y. 2015</u>	<u>F.Y. 2014</u>	<u>F.Y. 2013</u>	<u>F.Y. 2012</u>	<u>F.Y. 2011</u>	<u>F.Y. 2010</u>	<u>F.Y. 2009</u>	<u>F.Y. 2008</u>
Cash & Investment Balance - September 1 of Year Indicate \$	38,315,059	36,190,807	32,471,866	25,932,021	22,789,222	16,942,409	14,597,487	16,286,626	15,738,481	14,632,274
Receipts:										
Property Tax	42,669,103	40,564,330	37,333,435	37,428,736	34,599,257	33,574,992	31,449,267	31,486,553	33,783,984	32,181,660
City Sales & Use Tax	75,259,945	71,621,717	68,861,600	66,393,392	63,134,808	61,472,342	57,959,545	54,925,013	54,255,376	55,733,297
Other Income	37,291,708	37,383,280	38,281,650	36,929,588	36,298,994	36,542,477	33,232,580	27,906,103	27,389,492	26,270,119
Total Receipts	155,220,756	149,569,327	144,476,685	140,751,716	134,033,059	131,589,811	122,641,392	114,317,669	115,428,852	114,185,076
Less Disbursements	153,088,283	147,445,075	140,757,744	134,211,871	130,890,260	125,742,998	120,296,470	116,006,808	114,880,707	113,078,869
Cash & Investment Balance - August 31 of Year Indicated \$	<u>40,447,532</u>	<u>38,315,059</u>	<u>36,190,807</u>	<u>32,471,866</u>	<u>25,932,021</u>	<u>22,789,222</u>	<u>16,942,409</u>	<u>14,597,487</u>	<u>16,286,626</u>	<u>15,738,481</u>

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. 2017</u>	<u>F.Y. 2016</u>	<u>F.Y. 2015</u>	<u>F.Y. 2014</u>	<u>F.Y. 2013</u>	<u>F.Y. 2012</u>	<u>F.Y. 2011</u>	<u>F.Y. 2010</u>	<u>F.Y. 2009</u>	<u>F.Y. 2008</u>
Cash Balance - September 1 of Year Indicated	\$ 3,361,571	3,572,272	3,561,702	3,883,237	3,929,968	2,234,981	2,941,245	3,533,968	4,201,889	4,057,088
Receipts:										
Property Tax	6,298,844	5,829,094	6,214,882	5,558,081	5,594,005	5,773,392	5,337,610	5,517,878	5,689,007	5,709,454
Interest Income	12,163	9,711	8,214	10,126	8,507	13,723	28,331	60,063	131,475	153,977
Bond Proceeds			6,092,475			8,369,497	20,236,484			
Other Income	3,769	98,043	119,376	98,027	104,162	110,962	116,758	124,279	173,446	1,003,173
Total Receipts	<u>6,314,776</u>	<u>5,936,848</u>	<u>12,434,947</u>	<u>5,666,234</u>	<u>5,706,674</u>	<u>14,267,574</u>	<u>25,719,183</u>	<u>5,702,220</u>	<u>5,993,928</u>	<u>6,866,604</u>
Disbursements:										
Bonds Paid	4,590,000	4,730,000	4,355,000	4,240,000	4,225,000	2,390,000	2,720,000	4,110,000	4,320,000	4,260,000
Bonds Defeased										
Interest Paid	1,420,473	1,414,275	1,500,213	1,745,495	1,521,904	1,822,197	1,753,957	2,178,545	2,335,411	2,456,373
Transfer to Trustee			5,990,206			8,242,367	21,746,822			
Other Disbursements	2,674	3,274	578,958	2,274	6,501	118,023	204,668	6,398	6,438	5,430
Total Disbursements	<u>6,013,147</u>	<u>6,147,549</u>	<u>12,424,377</u>	<u>5,987,769</u>	<u>5,753,405</u>	<u>12,572,587</u>	<u>26,425,447</u>	<u>6,294,943</u>	<u>6,661,849</u>	<u>6,721,803</u>
Cash Balance - August 31 of Year Indicated	\$ <u>3,663,200</u>	<u>3,361,571</u>	<u>3,572,272</u>	<u>3,561,702</u>	<u>3,883,237</u>	<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>

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

	F.Y. 2017	F.Y. 2016	F.Y. 2015	F.Y. 2014	F.Y. 2013	F.Y. 2012	F.Y. 2011	F.Y. 2010	F.Y. 2009	F.Y. 2008
Cash & Investment Balance - September 1 of Year Indicated	\$ 2,195,823	2,133,866	2,619,720	2,509,487	2,348,773	759,180	4,302,257	4,161,711	11,148,146	9,991,053
Receipts:										
Special Assessment Collections	1,497,442	1,420,191	1,394,764	1,521,959	941,365	1,049,570	996,209	984,301	954,672	1,235,621
Interest on Special Assessments	180,258	161,882	193,995	53,761	78,642	98,844	106,379	148,383	112,749	179,258
City's Share of Costs	1,422,840	1,509,919	901,883	783,436	1,205,443	621,898	233,615	292,420	34,802	
Developers' Share of Costs										
Bond Proceeds						3,036,003	1,200,000			
Interest on Investments	21,763	18,537	19,392	40,673	41,212	47,349	60,248	135,149	335,273	453,282
Miscellaneous	301,716	188,457	82,000	733			38,456			33,964
Total Receipts	<u>3,424,019</u>	<u>3,298,986</u>	<u>2,592,034</u>	<u>2,400,562</u>	<u>2,266,662</u>	<u>4,853,664</u>	<u>2,634,907</u>	<u>1,560,253</u>	<u>1,437,496</u>	<u>1,902,125</u>
Disbursements:										
Construction Costs	1,294,057	1,829,379	1,880,449	1,213,770	901,811	2,359,096	2,081,765	1,113,691	861,203	742,698
Bonds Paid	180,000	175,000	175,000	175,000	170,000	190,000				
Equity Transfer									7,554,009	
Interest Paid on Bonds & Notes	102,923	106,123	109,122	112,023	114,722	94,911	3,758,342			
Other Refunds & Expenses	<u>1,274,263</u>	<u>1,126,527</u>	<u>913,317</u>	<u>789,536</u>	<u>919,415</u>	<u>620,064</u>	<u>337,877</u>	<u>306,016</u>	<u>8,719</u>	<u>2,334</u>
Total Disbursements	<u>2,851,243</u>	<u>3,237,029</u>	<u>3,077,888</u>	<u>2,290,329</u>	<u>2,105,948</u>	<u>3,264,071</u>	<u>6,177,984</u>	<u>1,419,707</u>	<u>8,423,931</u>	<u>745,032</u>
Cash & Investment Balance - August 31 of Year Indicated	\$ <u><u>2,768,599</u></u>	<u><u>2,195,823</u></u>	<u><u>2,133,866</u></u>	<u><u>2,619,720</u></u>	<u><u>2,509,487</u></u>	<u><u>2,348,773</u></u>	<u><u>759,180</u></u>	<u><u>4,302,257</u></u>	<u><u>4,161,711</u></u>	<u><u>11,148,146</u></u>

APPENDIX B

LES' AUDITOR'S REPORT AND FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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Lincoln Electric System

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016



Lincoln Electric System

Lincoln Electric System
December 31, 2017 and 2016

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Independent Auditor's Report

Administrative Board
Lincoln Electric System
Lincoln, Nebraska

We have audited the accompanying financial statements of Lincoln Electric System, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Lincoln Electric System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Electric System as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of Lincoln Electric System are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities and each major fund of the City of Lincoln, Nebraska, that is attributable to the transactions of Lincoln Electric System. They do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of December 31, 2017 and 2016, the changes in its financial position or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a 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.

BKD, LLP

Lincoln, Nebraska
March 14, 2018

Management's Discussion and Analysis (Unaudited)

2017 SIGNIFICANT EVENTS

- Lincoln Electric System (LES) and Nebraska Public Power District (NPPD) agreed to terminate an agreement at the end of 2017 for electricity produced at NPPD's Sheldon Station. The decision was driven by, but not limited to, LES' unique power supply portfolio, hydrogen-fuel conversion of Sheldon Station not meeting LES' risk profile and integrated resource plan. Based on load forecasts, LES has excess capacity well into the future and the termination will not impact the ability to meet the long-term needs of customers.
- LES completed approximately 30 percent of Phase One construction of its new operations center. A second location will mitigate the risk of all operations being housed in a single location and will enable LES to better meet current and future needs of its customers. Occupancy of the first phase of the project is expected in 2019. Phase Two, which will include construction of an administration building, is expected to be completed in 2021.
- LES completed an integrated resource plan and based on the results, signed an amendment to extend its firm electric service contract with the Western Area Power Administration (WAPA) through 2051.
- LES entered into a revolving credit agreement with US Bank National Association in November 2017 to replace a similar agreement with Wells Fargo Bank, National Association which was scheduled to expire on December 17, 2017. The agreement permits LES to draw up to \$50 million on a variable rate basis.

FINANCIAL REPORT OVERVIEW

The information provided in the Management's Discussion and Analysis (MD&A) section of the Financial Report is provided to explain the activities, plans and events that impacted LES' financial position and operating results for the years ended December 31, 2017, 2016 and 2015. This overview from management is one of the three components of the Financial Report. The other two components are the Financial Statements and Notes to the Financial Statements. The Financial Report should be read in its entirety to understand the events and conditions impacting LES.

Balance Sheet — This statement presents assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Assets and liabilities are each divided to distinguish current and noncurrent. This statement reveals liquidity, financial flexibility and capital structure.

Statement of Revenues, Expenses and Changes in Net Position — Operating results are separated into operating revenue and expense, nonoperating revenue and expense and capital contribution revenue and expense. This statement is useful in analyzing financial health.

Statement of Cash Flows — This statement classifies sources and uses of cash summarized by operating, noncapital financing, capital and related financing and investing activities.

Notes to Financial Statements — The notes provide additional information to support the Financial Statements.



FINANCIAL POSITION AND OPERATING RESULTS

CONDENSED BALANCE SHEETS

	2015	2016	2017
	(Dollars in thousands)		
Current Assets	\$226,260	\$196,108	\$187,173
Noncurrent Assets	28,952	27,577	22,634
Capital Assets	864,990	873,695	904,155
Deferred Outflows of Resources	19,009	17,638	15,455
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$1,139,211	\$1,115,018	\$1,129,417
Current Liabilities	\$173,518	\$168,265	\$175,851
Noncurrent Liabilities	645,659	622,116	626,663
TOTAL LIABILITIES	819,177	790,381	802,514
Net Investment in Capital Assets	140,429	174,987	223,373
Restricted	8,760	6,893	7,319
Unrestricted	170,845	142,757	96,211
TOTAL NET POSITION	320,034	324,637	326,903
TOTAL LIABILITIES AND NET POSITION	\$1,139,211	\$1,115,018	\$1,129,417

Comparison of 2017 to 2016

Total assets and deferred outflows of resources increased \$14,399,000 in 2017 as compared to 2016, or 1.3 percent. Current assets decreased \$8,935,000, primarily due to a reduction in the Revenue Fund for payments for capital construction. Noncurrent assets decreased \$4,943,000, due primarily to the acceleration of amortization for Laramie River Station outage costs. Capital assets increased \$30,460,000, due to capital additions for utility construction and acquisition projects (\$76,470,000), net of depreciation (\$46,010,000). Deferred outflows of resources, which consist of unamortized losses on refunded debt, decreased \$2,183,000 due to amortization of deferred amounts.

Current liabilities increased \$7,586,000, primarily due to an increase in the current portion of bond payments due and accounts payable balance at year end. Noncurrent liabilities increased \$4,547,000, primarily due to an increase in the balance on the US Bank revolving credit facility offset by a reduction in 2016 bond balance due to a payment in 2017.

Total net position increased a net of \$2,266,000 primarily due to an increase in Net Investment of Capital Assets of \$48,386,000 related to construction and acquisition projects, funded by the use of unrestricted funds, which decreased by \$46,546,000 in the same period.

Comparison of 2016 to 2015

Total assets and deferred outflows of resources decreased \$24,193,000 in 2016 as compared to 2015, or 2.1 percent. Current assets decreased \$30,152,000, primarily due to a reduction in the Revenue Fund for payments for capital construction. Noncurrent assets decreased \$1,375,000, due primarily to a reduction in bond reserve requirements as a result of the 2016 bond issuance. Capital assets increased \$8,705,000, due to capital additions for utility construction and acquisition projects (\$49,789,000), net of depreciation (\$41,084,000). Deferred outflows of resources, which consist of unamortized losses on refunded debt, decreased \$1,371,000, due to amortization of deferred amounts.

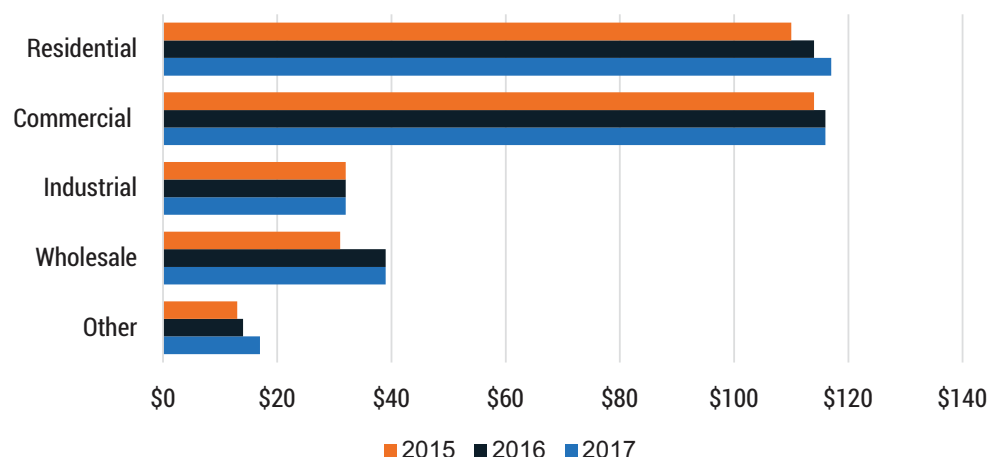
Current liabilities decreased \$5,253,000, primarily due to a reduction in the current portion of long-term debt as a result of the 2016 bond issuance. Noncurrent liabilities decreased \$23,543,000, due to the 2016 bond issuance, partially offset by refunding of previously issued bonds and premium amortization.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2015	2016	2017
	(Dollars in thousands)		
Operating Revenues	\$300,453	\$315,502	\$321,549
Operating Expenses	247,171	267,412	267,474
OPERATING INCOME	53,282	48,090	54,075
Interest Expense	(26,927)	(26,058)	(23,062)
Other Nonoperating Expenses (net)	(7,940)	(17,429)	(28,747)
TOTAL NONOPERATING EXPENSES (NET)	(34,867)	(43,487)	(51,809)
CHANGE IN NET POSITION	\$18,415	\$4,603	\$2,266

OPERATING REVENUES

(DOLLARS IN MILLIONS)

**Comparison of 2017 to 2016**

Operating revenues in 2017 were \$321,549,000, up 1.9 percent from 2016 revenues of \$315,502,000. Retail revenue was \$267,818,000, which was 2.4 percent higher than 2016 revenue of \$261,582,000, primarily due to more customers receiving service. Wholesale revenue was \$38,947,000, down 1.3 percent from 2016 revenue of \$39,478,000, due primarily to reduced sales in the Southwest Power Pool Integrated Marketplace (SPP IM). Other revenue was up 2.3 percent primarily due to the change in unbilled revenues.

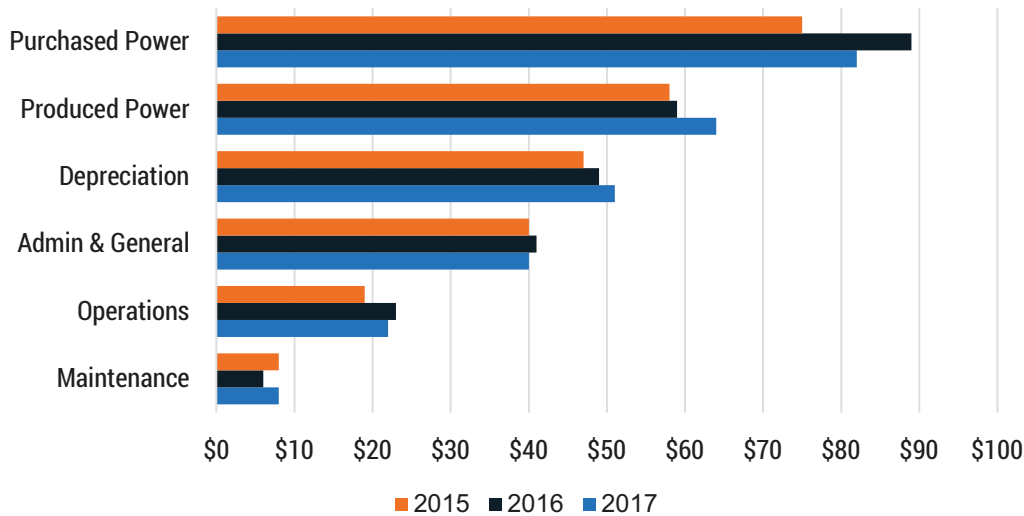
Comparison of 2016 to 2015

Operating revenues in 2016 were \$315,502,000, up 5.0 percent from 2015 revenues of \$300,453,000. Retail revenue was \$261,582,000, which was 2.1 percent higher than 2015 revenue of \$256,172,000, primarily due to a weather-related increase in energy sales. Wholesale revenue was \$39,478,000, up 27.8 percent from 2015 revenue of \$30,886,000, due primarily to increased sales in the SPP IM. Other revenue was up 7.8 percent primarily due to an increase in customer fees.



OPERATING EXPENSES

(DOLLARS IN MILLIONS)



Comparison of 2017 to 2016

Operating expenses in 2017 were \$267,474,000, an increase of less than 1 percent from 2016 expenses of \$267,412,000. Purchased power and produced power expenses were \$146,495,000, down 1.2 percent from 2016 expenses of \$148,348,000, primarily due to reduced purchased power expenses. Depreciation and amortization expense was \$50,954,000, up 3.5 percent from 2016 expense of \$49,209,000, primarily due to utility plant additions as a result of several large projects being completed in 2017. Administrative and general expenses were \$39,925,000, down 1.7 percent from 2016 expenses of \$40,644,000. Operation and maintenance expenses were \$30,100,000, up 3.0 percent from 2016 expenses of \$29,211,000, due to higher transmission expenses. Other non-operating expenses increased \$11,318,000 primarily due to a \$10,500,000 payment made to NPPD for the termination of the Sheldon Generating Station agreement. Overall, net position increased by \$2,266,000 in 2017 over 2016.

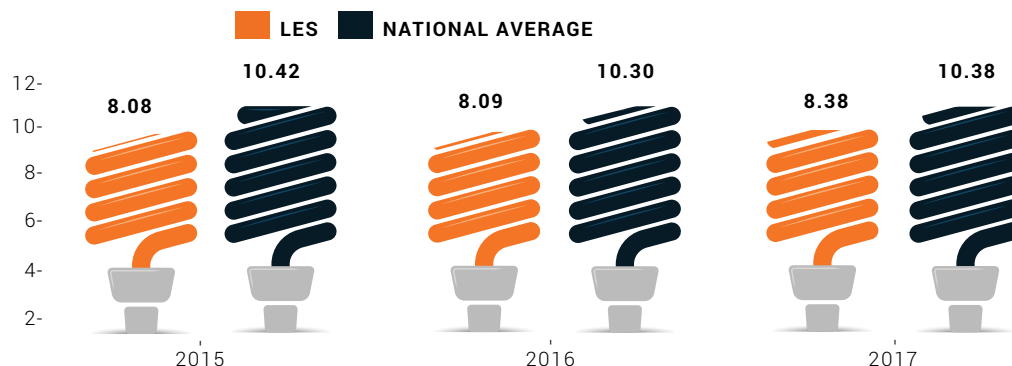
Comparison of 2016 to 2015

Operating expenses in 2016 were \$267,412,000, up 8.2 percent from 2015 expenses of \$247,171,000. Purchased power and produced power expenses were \$148,348,000, up 10.9 percent from 2015 expenses of \$133,737,000, due to increased costs related to purchases from non-owned generation assets. These increases were partially offset by decreased SPP IM expenses as a result of lower market prices. Depreciation and amortization expense was \$49,209,000, up 4.6 percent from 2015 expense of \$47,067,000, primarily due to utility plant additions as a result of several large projects being completed in 2016. Administrative and general expenses were \$40,644,000, up 2.7 percent from 2015 expenses of \$39,583,000. Operation and maintenance expenses were \$29,211,000, up 9.1 percent from 2015 expenses of \$26,784,000, due to higher transmission expenses. Overall, net position increased by \$4,603,000 in 2016 over 2015.

RATES

AVERAGE RETAIL RATES

(CENTS PER KWH)



LES' average retail rates per kWh remain competitive as compared to the national average for retail rates (2017 is preliminary) according to the Energy Information Administration (EIA), U.S. Department of Energy. Average LES customer retail rates were 8.08, 8.09 and 8.38 cents per kWh in 2015, 2016 and 2017, respectively. Based on the preliminary EIA data for 2017, LES' retail rates were 19 percent below the national average.

CASH AND FINANCING ACTIVITIES

CASH FLOWS

	2015	2016	2017
	(Dollars in thousands)		
Cash Flows from Operating Activities	\$97,958	\$91,501	\$107,303
Cash Flows from Noncapital Financing Activities	(24,393)	(19,588)	(20,451)
Cash Flows from Capital and Related Financing Activities	(25,955)	(113,969)	(94,784)
Cash Flows from Investing Activities	(48,289)	32,075	14,836
CHANGE IN CASH AND CASH EQUIVALENTS	(\$679)	(\$9,981)	\$6,904

Cash flows from operating activities contain transactions involving customers, suppliers and employees.

Cash flows from noncapital financing activities primarily include transactions related to the payment in lieu of tax and City Dividend for Utility Ownership.

Cash flows from capital and related financing activities contain transactions involving the acquisition and construction of capital assets and the long-term debt related to those assets.

Cash flows from investing activities contain transactions related to security purchases and maturities and investment income.

Comparison of 2017 to 2016

Cash inflows from operating activities were \$107,303,000, up \$15,802,000 from 2016, due to reduced payments related to power cost, and lower than budgeted spending in operating expense categories. Cash outflows from capital and related financing activities decreased \$19,185,000. This reduction is due to increased capital expenditures, which were offset by proceeds from an issuance of long-term debt and lower principal and interest payments on long-term debt. Cash inflows from investing activities were \$14,836,000, which was \$17,239,000 lower than 2016 due to construction activities.

Comparison of 2016 to 2015

Cash inflows from operating activities were \$91,501,000, down \$6,457,000 from 2015, due to increased payments related to power cost, offset by increased retail and wholesale revenue. Cash outflows from noncapital financing activities decreased \$4,805,000, due to 2015 including payments to Municipal Energy Agency of Nebraska and the County of Los Alamos, New Mexico, for their share of the BNSF legal settlement. Cash outflows from capital and related financing activities increased \$88,014,000, due to the 2016 bond issuance which refunded bonds. Cash inflows from investing activities were \$32,075,000, which was \$80,364,000 greater than 2015 due to investment sales for the reduction of reserves related to the bond issuance and payments for capital additions.

FINANCING

There were no bonds issued in 2017.

During 2016, LES issued \$116,645,000 in tax-exempt bonds. Proceeds from the bond issuance were used to refund existing bonds that were previously issued at higher interest rates.

During 2015, LES issued \$167,800,000 in tax-exempt bonds. Proceeds from the bond issuance were used to refund existing bonds that were previously issued at higher interest rates and to reimburse LES for prior capital investments.

LES uses its Commercial Paper Program to provide liquidity between long-term financings. LES' Commercial Paper Program is authorized for \$150,000,000. LES last issued commercial paper in 2014 in an amount of \$31,000,000. The commercial paper outstanding amount was \$95,500,000 as of December 31, 2017, 2016 and 2015. During 2015, LES amended and restated a revolving credit agreement dated August 1, 2012, with The Bank of Tokyo-Mitsubishi, to extend the agreement to August 27, 2018. The revolving credit agreement supports the Commercial Paper Program. There were no advances outstanding under the revolving credit agreement as of December 31, 2017, 2016 or 2015.

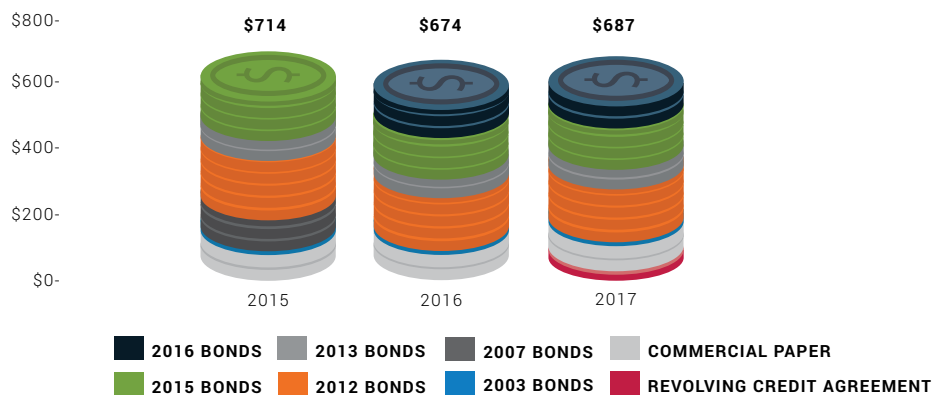
LES entered into a revolving credit agreement with Wells Fargo Bank, National Association dated December 18, 2014. The agreement permitted LES to draw up to \$50,000,000 on a floating rate basis. The Wells Fargo Bank revolving credit agreement was replaced with a similar agreement with US Bank National Association prior to the scheduled termination date of December 17, 2017. There were no advances outstanding under the agreement as of December 31, 2016 and 2015.

LES entered into a revolving credit agreement with US Bank National Association in November of 2017 to replace a similar agreement with Wells Fargo Bank, National Association which was scheduled to expire on December 17, 2017. The agreement permits LES to draw up to \$50 million on a variable rate basis. As of December 31, 2017 LES has drawn \$30 million on this agreement.

The following chart shows outstanding debt as of December 31, 2017, 2016 and 2015.

OUTSTANDING DEBT

(DOLLARS IN MILLIONS)



RATINGS

Among other factors, the bond rating agencies assess an entity's operations, stability of customer base and financial profile when determining an entity's bond rating. Standard & Poor's Ratings Group (S&P) and Fitch Investors Service, L.P. (Fitch) have assigned ratings to LES that are among the highest granted to electric utilities. LES is required to have ratings from two rating agencies upon the issuance of new bonds. The following table provides the current ratings for outstanding debt. LES' ratings have remained unchanged for more than 20 years.

	S&P	Fitch
Revenue Bonds	AA	AA
Commercial Paper	A-1+	F1+

Bond reserves are set in accordance with terms stated upon issuance. All reserves are fully funded.

DEBT SERVICE COVERAGE FOR REVENUE BONDS

2.01
2015

2.05
2016

2.49
2017

LES' bond ordinance establishes a debt service coverage requirement of 1.0. Typically, LES targets year-end debt service coverage of 2.0.

The following table reflects the calculation of the debt service coverage ratio. The ratio reflects LES' year-end funds available to pay its debt service.

DEBT SERVICE COVERAGE RATIO

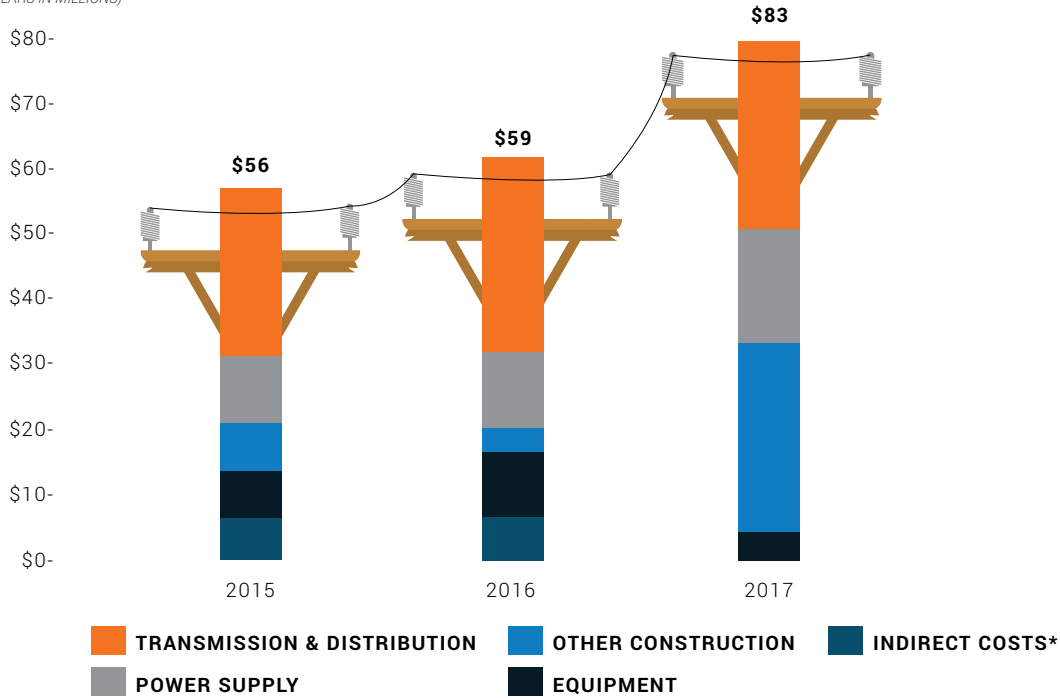
	2015	2016	2017
	(Dollars in thousands)		
OPERATING REVENUES	\$300,453	\$315,502	\$321,549
Power Costs	(133,737)	(148,348)	(146,495)
Operations & Maintenance	(26,784)	(29,211)	(30,100)
Administrative & General	(39,583)	(40,644)	(39,925)
TOTAL OPERATING EXPENSES (EXCLUDING DEPRECIATION)	(200,104)	(218,203)	(216,520)
Net Operating Revenue	100,349	97,299	105,029
Interest Income*	376	1,505	1,214
Other Income**	10,664	-	-
Addition to Rate Stabilization Fund	(10,800)	-	-
AVAILABLE FOR DEBT SERVICE	\$100,589	\$98,804	\$106,243
DEBT SERVICE***	\$49,957	\$48,188	\$42,689
DEBT SERVICE COVERAGE RATIO	2.01	2.05	2.49
*Excludes interest income from the Rate Stabilization Fund.			
**Other income represents LES' share of the BNSF settlement proceeds.			
Settlement proceeds were transferred to the Rate Stabilization Fund as authorized by the LES Administrative Board.			
***The calculation of Debt Service Coverage includes only debt service on Revenue Bonds.			

CAPITAL EXPENDITURES

Capital expenditures for 2015, 2016 and 2017 are shown in the chart below.

CAPITAL EXPENDITURES

(DOLLARS IN MILLIONS)



* Beginning in 2017, all costs are allocated directly to capital projects.

Significant capital projects during 2017 included the following:

- Construction is underway for the LES Operations Center (LOC). Capital expenditures in 2017 for this project totaled \$21,501,000. Phase One of the LOC, which includes a second LES operations center, is expected to be completed in 2019. Phase Two of construction, which will include an administrative building, is planned for completion in 2021.
- LES is a 12.76 percent share owner in the Laramie River Station (10.5 percent available after ownership and participation sales). LES' share of capital improvements for the plant in 2017 was \$9,895,000.
- The Southeast Reliability Project includes the installation of eight miles of overhead transmission lines and construction of a new load serving substation. Capital expenditures in 2017 for this project totaled \$7,836,000. This project was started in 2015 and is planned for completion in 2019.
- Costs for Underground Rebuilds in 2017 totaled \$4,746,000. This project rebuilds existing underground systems due to age, deterioration or other operating problems.
- The Duct Installation Project (DIP), which started in 2012, is a 10-year project to install duct adjacent to distribution cable. The duct allows the 15-kilovolt (kV) underground cable to be replaced quickly when it reaches the end of its useful life. Capital expenditures in 2017 for this project totaled \$4,139,000. This project is now expected to be completed in 2022 with a total project cost of \$30,301,000, a reduction of \$2.7 million from last year's projection.

Significant capital projects during 2016 included the following:

- LES is a 12.76 percent share owner in the Laramie River Station (10.5 percent available after ownership and participation sales). LES' share of capital improvements for the plant in 2016 was \$6,561,000.
- Design and initial land grading work began for the future construction of the LES Operations Center (LOC). Capital expenditures in 2016 for this project totaled \$5,510,000. Phase One of the LOC, which includes a second LES operations center and fleet building, is expected to be completed in 2019. Phase Two of construction, which will include an administrative building and control center is planned for completion in 2021.
- The Duct Installation Project (DIP), which started in 2012, is a 10-year project to install duct adjacent to distribution cable. The duct allows the 15-kilovolt (kV) underground cable to be replaced quickly when it reaches the end of its useful life. Capital expenditures in 2016 for this project totaled \$4,616,000. This project is expected to be completed in 2022 with a total project cost of \$32,955,000.

FACTORS AFFECTING LES AND ELECTRIC UTILITY INDUSTRY

SOUTHWEST POWER POOL (SPP)

LES became an active member of the SPP Regional Transmission Organization on April 1, 2009. On March 1, 2014, SPP launched the SPP IM to replace the Energy Imbalance Service (EIS) market that SPP had operated since 2007. LES' transition into the SPP IM has been successful. Through its representation on various committees, LES continues to work with SPP members to identify ways to improve market operations and overall organizational effectiveness. LES has not experienced a significant financial impact due to the transition to the SPP IM.

RENEWABLE RESOURCES

The State of Nebraska does not have any form of a renewable portfolio standard. The electric utility industry continues to experience significant pressure from customers and regulators to incorporate additional renewable generating resources into generation portfolios. Although their intermittent production capability must be considered when assessing the reliability of the system, renewable resources can serve as a hedge against future fossil fuel price volatility and/or environmental regulations. Including hydro, landfill gas, wind and solar, in 2017 LES sourced approximately 33 percent of its installed nameplate generating capacity from renewable resources, with the other two-thirds split evenly between natural gas and coal.

ENVIRONMENTAL REGULATIONS

The electric utility industry repeatedly has been faced with new and proposed environmental regulations. The increase in legislation has been a major issue facing LES and all electric utility providers. LES continues to work diligently with industry groups and government representatives to help shape legislation and to implement cost-effective means to comply with all regulations.

CLEAN POWER PLAN

The Environmental Protection Agency (EPA) issued the final Clean Power Plan (CPP) August 3, 2015, establishing carbon dioxide (CO₂) emission guidelines for existing coal and natural gas-fired electric generating units. The rule as published would have a significant impact on LES and the industry. Nebraska would be required to reduce its CO₂ emission rate by 40 percent below 2012 emission levels by the year 2030, which is substantial.

On February 9, 2016, the U.S. Supreme Court granted a motion to stay with a 5-4 vote. The stay of the CPP does not directly impact LES' actions as LES will continue its ongoing practice of analyzing power supply resource options that provide long-term financial benefits to its customers and that best position LES for compliance with carbon regulations in whatever form they may take.



Executive Order 13783 on March 28, 2017, required the EPA to review the CPP and other regulations. On October 16, 2017, the EPA proposed a rule to repeal the CPP for existing stationary sources. The EPA issued an advanced notice of proposed rulemaking on December 28, 2017 for replacing the CPP with a limited scope.

PERFORMANCE STANDARDS FOR GREENHOUSE GAS EMISSIONS FROM NEW STATIONARY SOURCES

On October 23, 2015, the EPA issued the final rule for Standards of Performance for Greenhouse Gas (GHG) Emissions from New, Modified, and Reconstructed Stationary Sources: Electric Utility Generating Units. The rule requires a limit on GHG emissions from new, modified and reconstructed fossil fuel resources. The rule would require combined cycle technology for all gas-fired combustion turbines that meet the definition of “new, modified, or reconstructed.” The regulations created by this process have the potential to have a significant impact on LES and the industry in the event additional capacity is needed. Possible exceptions apply in the case of limited capacity turbines burning only clean fuel (i.e., natural gas). Executive Order 13783 also required the EPA to review this rule. As of March 30, 2017, all pending litigation was held in abeyance by the D.C. Circuit. As of December 31, 2017, there has been no update to this status.

CROSS-STATE AIR POLLUTION

The Cross-State Air Pollution Rule (CSAPR) initially issued in 2011, was intended to replace the Clean Air Interstate Rule (CAIR). The CAIR Rule insisted that states comply with ambient air quality standards by limiting downwind pollution. On August 21, 2012, the court vacated CSAPR. The rule was reinstated with an effective date of January 1, 2015. In 2017, Phase 2 emissions budgets became effective.

Under CSAPR facilities must provide allowances for emission of each ton of nitrogen oxide (NO_x) and sulfur dioxide (SO₂). Nebraska is subject to CSAPR annual NO_x and SO₂ allowance programs. Other states, including Iowa are also subject to CSAPR Ozone Season (May to September) NO_x allowance programs. Facilities are allocated some CSAPR allowances by the EPA. A market-based system exists to obtain further allowances.

On September 7, 2016, the EPA finalized an update to CSAPR. The rule provides authority for the EPA to recalculate emission allowance allocations, and as such, the EPA determined that several eastern states would not be able to meet the National Ambient Air Quality standard without a reduction in CSAPR allowances needed for operation of LES owned and contracted resources.

The EPA finalized a reallocation in 2017 for NO_x Ozone season allowances. Previously held allowances were reduced in value by a 3 to 1 ratio and the price of current allowances doubled in price. This action impacted allowances needed to cover LES' share of emissions from Walter Scott Jr. Energy Center (WSEC) Units 3 and 4. Per the current contract, LES receives allowance allocations from Unit 4, but not from Unit 3. LES obtained additional allowances from the CSAPR allowance market.

REGIONAL HAZE RULE

The purpose of the regional haze regulations is to improve visibility by reducing regional haze in 156 national parks and wilderness areas (Class I areas) across the country. The Regional Haze Rule requires states to develop state implementation plans (SIP) and determine Best Available Retrofit Technology (BART) for certain sources that emit NO_x and SO₂ pollutants. This includes setting emission rate limits and specifying emission control technologies. Gerald Gentleman Station (GGS) and Laramie River Station (LRS) are impacted by these regulations.

Wyoming submitted its SIP to the EPA in 2011, which included plans for LRS. In January 2014, the EPA rejected this SIP and issued a Federal Implementation Plan (FIP) requiring installation of Selective Catalytic Reduction (SCR) for NO_x emissions at LRS. Legal negotiations continued through 2016 until an agreement was reached on December 30, 2016. LRS agreed to install non-SCR technology on two units and SCR technology on one unit. This will result in a significant cost reduction over installing all SCR technology.

Nebraska submitted its SIP to the EPA in 2011, which includes plans for GGS. In July 2012, the EPA issued the final rule on the Nebraska SIP, which approved the NO_x portion of the SIP but disapproved the SO₂ portion. EPA's FIP for GGS' control of SO₂ requires compliance with CSAPR due to the “CSAPR equals BART determination”. When CSAPR was reinstated, GGS was considered in compliance with the Regional Haze Rule. However, the

EPA proposed a new FIP on January 18, 2017, that would require GGS to install SO₂ scrubbers for SO₂ control within five years. The expected cost could be tens of millions of dollars. The proposed rule was never published in the Federal Register, therefore it is not actually a “proposed rule” at this time.

ACID RAIN PROGRAM

Implemented in accordance with the Clean Air Act Amendments of 1990, the Acid Rain Program is intended to achieve environmental benefits through reductions in SO₂ and NO_x emissions. Aimed at controlling the impact of acid rain on lakes, streams, trees and sensitive forest soils, it incorporates emissions rate-based limits, caps on total tons of emissions, allowances required for all emissions and active market trading of allowances to meet compliance. All LES-owned and contracted resources operate within the acid rain regulations.

COOLING WATER INTAKE STRUCTURES STANDARDS 316(B)

The EPA developed regulations under Subsection 316(b) of the Clean Water Act that will affect facilities with cooling water intake structures. The regulations are intended to ensure location, design, construction and capacity of the cooling water intake structures reflect the best technology available to minimize harmful impacts on aquatic life as the result of impingement or entrainment.

With the exception of GGS, all units LES owns or contracts with meet the requirements of this rule. To comply, GGS would need to meet Best Technology Available standards for entrainment mortality. Nebraska Department of Environmental Quality (NDEQ) must establish the Best Technology Available standards on a case-by-case basis.

GGS has been exempted from the entrainment study typically required by 316(b) regulations in the site's July 11, 2016 National Pollutant Discharge Elimination System (NPDES) draft permit. An impingement technology performance optimization study will still be required for GGS and that study will take two years to complete after the control technology is installed. NPPD anticipates some level of fish protection equipment technology will need to be installed for impingement at GGS. Until the final compliance options are determined, LES does not know the financial impact of this regulation.

MERCURY & AIR TOXIC STANDARDS

In February 2012, the EPA issued the final Mercury and Air Toxic Standards (MATS) rule, which is intended to reduce emissions of toxic air pollutants from power plants. The EPA expects the emissions rate-based limits of the MATS rule to reduce emissions of heavy metals and acid gases (including mercury, arsenic, chromium, nickel, dioxins, furans, hydrogen chloride and hydrogen fluoride) from new and existing coal and oil-fired generating units. The MATS rule does not apply to simple-cycle and combined-cycle stationary combustion turbines so Terry Bundy Generating Station (TBGS), Rokeby Generation Station (RGS) and 8th & J Generating Station are not impacted.

GGS, Sheldon Station and LRS are subject to MATS and have installed mercury controls to comply with MATS. WSEC Unit 4 uses activated carbon injection to control mercury emissions. WSEC Unit 4 originally was constructed with emissions controls that enable the plant to comply with the MATS rule. Ongoing compliance with MATS must be demonstrated by each affected facility.



CONTACT INFORMATION

This financial report is designed to provide a general overview of LES' financial status for 2017, 2016 and 2015. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Vice President and Chief Financial Officer at 1040 "O" Street, Lincoln, Nebraska 68508 or by email at finance@les.com.

LINCOLN ELECTRIC SYSTEM

BALANCE SHEETS

As of December 31, 2017 and 2016

Assets and Deferred Outflows of Resources	2017	2016
	(Dollars in thousands)	
Current Assets		
Cash and investments	\$ 102,583	\$ 108,946
Restricted cash and investments	17,554	16,982
Accounts receivable, net	20,276	23,121
Unbilled revenues	14,087	11,796
Accrued interest receivable	350	374
Materials, supplies and fuel inventory	12,727	15,277
Plant operation assets	17,002	17,967
Other current assets	2,594	1,645
Total current assets	<u>187,173</u>	<u>196,108</u>
Noncurrent Assets		
Restricted cash and investments	17,916	18,578
Other noncurrent assets	4,718	8,999
Total noncurrent assets	<u>22,634</u>	<u>27,577</u>
Capital Assets		
Utility plant	1,521,767	1,486,425
Accumulated depreciation	(734,545)	(688,535)
Construction work in progress	116,933	75,805
Total capital assets	<u>904,155</u>	<u>873,695</u>
Deferred Outflows of Resources		
Deferred loss on refunded debt	15,455	17,638
Total assets and deferred outflows of resources	<u>\$ 1,129,417</u>	<u>\$ 1,115,018</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 23,507	\$ 19,262
Accrual for payments in lieu of taxes	13,336	13,084
Commercial paper	95,500	95,500
Accrued liabilities	15,801	14,887
Current maturities of long-term debt	19,480	17,070
Accrued interest payable	8,227	8,462
Total current liabilities	<u>175,851</u>	<u>168,265</u>
Noncurrent Liabilities		
Long-term debt, net	625,485	620,679
Developer performance deposits	646	896
Health and dental plan reserves	532	541
Total noncurrent liabilities	<u>626,663</u>	<u>622,116</u>
Total liabilities	<u>802,514</u>	<u>790,381</u>
Net Position		
Net investment in capital assets	223,373	174,987
Restricted for debt service	6,384	5,619
Restricted for employee health insurance claims	935	1,274
Unrestricted	96,211	142,757
Total net position	<u>326,903</u>	<u>324,637</u>
Total liabilities and net position	<u>\$ 1,129,417</u>	<u>\$ 1,115,018</u>



LINCOLN ELECTRIC SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2017	2016
	(Dollars in thousands)	
Years Ended December 31, 2017 and 2016		
Operating Revenues		
Electric retail	\$ 267,818	\$ 261,582
Electric wholesale	38,947	39,478
Other (includes City Dividend for Utility Ownership)	<u>14,784</u>	<u>14,442</u>
Total operating revenues	<u>321,549</u>	<u>315,502</u>
Operating Expenses		
Purchased power	82,080	89,406
Production	64,415	58,942
Operations	21,839	22,356
Maintenance	8,261	6,855
Administration and general	39,925	40,644
Depreciation and amortization	<u>50,954</u>	<u>49,209</u>
Total operating expenses	<u>267,474</u>	<u>267,412</u>
Operating income	<u>54,075</u>	<u>48,090</u>
Nonoperating Revenues (Expenses)		
Interest expense	(23,062)	(26,058)
Allowance for funds used during construction	673	751
Payment in lieu of taxes	(13,009)	(12,709)
City Dividend for Utility Ownership	(7,365)	(7,218)
Investment income	1,456	1,748
Other	<u>(10,502)</u>	<u>(1)</u>
Total nonoperating revenues (expenses)	<u>(51,809)</u>	<u>(43,487)</u>
Income before capital contributions	2,266	4,603
Capital Contributions	936	737
Plant Costs Recovered through Capital Contributions	<u>(936)</u>	<u>(737)</u>
Change in Net Position	2,266	4,603
Net Position – Beginning of Year	<u>324,637</u>	<u>320,034</u>
Net Position – End of Year	<u>\$ 326,903</u>	<u>\$ 324,637</u>

LINCOLN ELECTRIC SYSTEM

STATEMENTS OF CASH FLOWS

	2017	2016
	(Dollars in thousands)	
Years Ended December 31, 2017 and 2016		
Operating Activities		
Received from customers and users	\$ 303,940	\$ 333,253
Paid to suppliers for goods and services	(166,974)	(213,239)
Paid to employees for services	<u>(29,663)</u>	<u>(28,513)</u>
Net cash provided by operating activities	<u>107,303</u>	<u>91,501</u>
Noncapital Financing Activities		
Payment in lieu of taxes	(12,757)	(12,418)
City Dividend for Utility Ownership payments	(7,314)	(7,170)
Other	<u>(380)</u>	<u>—</u>
Net cash used in noncapital financing activities	<u>(20,451)</u>	<u>(19,588)</u>
Capital and Related Financing Activities		
Capital expenditures for utility plant	(80,312)	(55,294)
Net cost/salvage value of retiring plant	(2,414)	(3,805)
Debt issuance costs	-	(1,396)
Capital contributions	936	1,633
Net proceeds from revolving credit agreement	30,000	—
Net transfer to bond refunding agent	-	(3,561)
Principal payments on long-term debt	(17,070)	(23,800)
Interest payments on long-term debt	<u>(25,924)</u>	<u>(27,746)</u>
Net cash used in capital and related financing activities	<u>(94,784)</u>	<u>(113,969)</u>
Investing Activities		
Net (purchases) and sales of investments	13,376	30,549
Interest received	<u>1,460</u>	<u>1,526</u>
Net cash provided by investing activities	<u>14,836</u>	<u>32,075</u>
Change in Cash and Cash Equivalents	6,904	(9,981)
Cash and Cash Equivalents — Beginning of Year	<u>16,538</u>	<u>26,519</u>
Cash and Cash Equivalents — End of Year	<u>\$ 23,442</u>	<u>\$ 16,538</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and investments	\$ 102,583	\$ 108,946
Restricted cash and investments — current	17,554	16,982
Restricted cash and investments — noncurrent	<u>17,916</u>	<u>18,578</u>
Total cash and investments	138,053	144,506
Less: investments not classified as cash equivalents	<u>(114,611)</u>	<u>(127,968)</u>
Total cash and cash equivalents	<u>\$ 23,442</u>	<u>\$ 16,538</u>



LINCOLN ELECTRIC SYSTEM

STATEMENTS OF CASH FLOWS— CONTINUED

Years Ended December 31, 2017 and 2016

	2017	2016
	(Dollars in thousands)	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 54,075	\$ 48,090
Noncash items included in operating income		
Depreciation charged to other accounts	1,180	1,198
Depreciation and amortization	50,954	49,209
Changes in operating assets and liabilities		
Accounts receivable	2,845	(2,754)
Unbilled revenues	(2,291)	813
Materials, supplies and fuel inventories	2,550	146
Plant operation assets	965	(4,634)
Other current assets	(949)	(404)
Other noncurrent assets	4,037	(2,002)
Accounts payable	4,248	1,270
Accrued expenses	(10,302)	536
Health and dental plan reserve	(9)	33
	<u>\$ 107,303</u>	<u>\$ 91,501</u>
Supplemental Noncash Activities		
Allowance for funds used during construction	\$ 673	\$ 751
Adjustment of investments to fair value	\$ 104	\$ 66
Capital asset acquisitions included in accounts payable	\$ 2,471	\$ 225

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Lincoln Electric System (LES) is a municipal utility owned by the city of Lincoln, Nebraska (the City). LES is operated under the direction of the Lincoln Electric System Administrative Board, which is appointed by the Mayor and confirmed by the Lincoln City Council (City Council). The City Council, as required by the City Charter, reserves authority to set the rates and charges, to adopt the annual budget and to incur debt. LES' service area covers approximately 200 square miles, including the city limits of Lincoln, as well as the surrounding communities and residential areas.

In evaluating how to define LES for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) LES' ability to appoint a voting majority of another entity's governing body and to impose its will on that entity; (2) the potential for that entity to provide specific financial benefits to, or impose specific financial burdens on, LES and (3) the entity's fiscal dependency on LES. Based upon the above criteria, LES has determined that it has no reportable component units.

The financial statements present only LES and do not purport to, and do not, present fairly the financial position of the City as of December 31, 2017 and 2016, 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.

Basis of Accounting and Presentation

LES' activities are accounted for on the flow of economic resources measurement focus and use of the accrual basis of accounting. LES' accounting records are maintained in accordance with all applicable pronouncements of the Governmental Accounting Standards Board (GASB) and generally follow the Uniform System of Accounts for Public Utilities and Licenses prescribed by the Federal Energy Regulatory Commission (FERC). LES prepares its financial statements as a business-type activity in conformity with accounting principles generally accepted in the United States of America (GAAP).

LES follows the provisions of GASB Codification Section Re10, *Regulated Operations*, which permits an entity with cost-based rates and Board authorization to include certain revenues or costs in a period other than the period in which revenues or costs would be reported by an unregulated entity to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to its customers. This guidance applies to LES because rates for LES' regulated operations are established and approved by the LES Administrative Board and City Council.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Electric revenues are recorded based on the related period of customer usage. Billings for electric revenues are rendered monthly on a cycle basis. 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.

**Cash Equivalents**

LES considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted of money market funds, commercial paper and certain short-term U.S. agency obligations.

Investments and Investment Income

LES maintains various designated and restricted accounts (see Note 2) that are held for debt service obligations, future health claims and other items. Investments in money market mutual funds are carried at cost, which approximates fair value. Investments in U.S. treasury securities, U.S. agency obligations, commercial paper and other debt securities are carried at fair value. Fair value is determined based on quoted market prices or yields currently available on comparable securities of issuers with similar credit ratings.

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

Accounts Receivable

Accounts receivable are reported net of the allowance for uncollectible accounts of \$816,000 at December 31, 2017 and \$1,000,000 at December 31, 2016.

Inventory

Materials, supplies and fuel inventories are stated at the lower of cost or market. Cost is generally determined on a weighted-average basis.

Jointly-Owned Facilities

Plant operation assets related to the operation of Laramie River Station (LRS) and Walter Scott Energy Center #4 (WSEC #4) (see Note 7) are comprised of operating assets, primarily fuel and supplies inventories and operating cash. These assets are managed by the operating agents of LRS and WSEC #4 and are stated at cost. Operating expenses of LRS and WSEC #4 are included in the corresponding operating expense classifications in the Statements of Revenues, Expenses and Changes in Net Position.

Capital Assets

The costs of additions and betterments to the system are capitalized. Cost includes material, labor, vehicle and equipment usage, related overhead costs, capitalized interest and certain administrative and general costs. LES' capitalization threshold was \$5,000 in 2017 and 2016.

Costs of labor, materials, supervision and other costs incurred in making repairs and minor replacements and in maintaining the plant in efficient operating condition are charged to expense. When plant assets are retired, the original cost and removal cost, less salvage, are charged to accumulated depreciation. Depreciation is computed on a straight-line basis using composite rates ranging between 2 percent and 20 percent, depending on the respective asset type.

An allowance for funds used during construction is calculated for all capital projects exceeding \$500,000 in total cost. The allowance for funds used during construction is based on LES' true interest cost of the most recent borrowing. The rate for 2017 was 2.3 percent. The rate for 2016 was 3.5 percent from January to August and 2.3 percent from September to December.

Deferred Loss on Refunded Debt

Costs incurred in connection with the refinancing of various bond issuances are being amortized over the remaining life of the old bonds or the life of the new bonds, whichever is shorter. Amortization is recorded as a component of interest expense within non-operating expenses. The deferred loss on refunded debt balance was \$15,455,000 and \$17,638,000 as of December 31, 2017 and 2016, respectively.

Recovery of Plant Costs

Capital contributions are received from customers and other third parties primarily to offset the costs associated with expansion of LES' electric system. LES follows FERC guidelines for recording capital contributions. These guidelines direct the reduction of utility plant by the amount of these contributions. In order to comply with GASB Codification Section N50, Non-exchange Transactions, while continuing to follow FERC guidelines, capital contributions are recorded as income and offset by an expense in the same amount representing the recovery of plant costs.

Net Position Classification

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

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

Restricted – This component of net position consists of constraints placed on net position 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. Revenue bond funds and health insurance funds, net of any related liabilities, are included in this classification.

Unrestricted – This component of net position consists of the net amount of the assets and liabilities that do not meet the definition of "restricted" or "net investment in capital assets."

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

Classification of Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with the ongoing operation of the electric system. The principal operating revenues are charges to customers for electric service. Operating expenses include operation and maintenance, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Payment In Lieu of Taxes

LES makes a payment in lieu of taxes, aggregating 5 percent of its electric retail revenues derived from within the city limits of incorporated cities and towns served. Payment in lieu of taxes are transferred to the city of Lincoln, Lancaster County, Lincoln Public Schools and the city of Waverly. At December 31, 2017 and 2016, \$13,336,000 and \$13,084,000, respectively, was accrued for the next payment in lieu of taxes.

City Dividend for Utility Ownership (CDFUO)

In 2011, the Lincoln City Council approved an ordinance requiring LES to pay an annual dividend to the city of Lincoln for the city's ownership of LES. The ordinance states LES shall remit to the city a dividend for utility ownership in the system in an amount equivalent to 2.4 percent of the Total Net Position (Net Assets) of LES as of December 31 based upon the most recent audited year-end financial statements in effect for the February payment provided that, once the amount of the annual dividend for any year exceeds \$7,000,000, the amount of the annual dividend for the following year and each succeeding year thereafter shall be increased annually by



2.0 percent or by the percentage rate by which the Consumer Price Index All Urban Consumers (CPI-U) has increased during the LES fiscal year upon which the dividend is based, whichever is greater. The annual dividend shall be remitted to the city on a semiannual basis on the 20th day of February and August of each year, with each payment representing 50 percent of the annual dividend payment. At December 31, 2017 and 2016, \$2,489,000 and \$2,438,000, respectively, was included in the accrued liabilities for the next CDFUO payment. The CDFUO payment first exceeded \$7,000,000 in 2015.

The CDFUO is assessed on all customer billings and is treated as operating revenue on the Statement of Revenues, Expenses and Changes in Net Position. LES records the estimated liability for the CDFUO as a non-operating expense on the Statement of Revenues, Expenses and Changes in Net Position.

Note 2: Deposits and Investments

Deposits

State statutes require banks to either give a bond or pledge government securities to LES in the amount of utility deposits. The statutes allow pledged securities to be reduced by the amount of the deposit insured by the Federal Deposit Insurance Corporation (FDIC). LES' cash deposits are insured up to \$250,000 by the FDIC.

Investments

LES may invest in U.S. Government securities and agencies, federal instrumentalities, instrumentalities of the United States, repurchase agreements, corporate issues, money market mutual funds, interest bearing time deposits or savings accounts, state and/or local government taxable and/or tax-exempt debt and other fixed term investments as designated in the LES investment policy.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Money market mutual funds are carried at cost, and thus are not included within the fair value hierarchy.

The tables displayed below present the fair value measurements of LES' assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at year-end.

As of December 31, 2017 and 2016, LES had the following investments (dollars in thousands):

December 31, 2017	Fair Value	Maturities in Years		Credit Ratings Moody's/S&P	Fair Value Hierarchy Level
		Less Than 1	1-5		
Money market mutual funds	\$ 19,645	\$ 19,645	\$ -	Aaa/AAAm	N/A
U.S. Treasury securities	13,210	13,210	-	Aaa/AA+	2
U.S. agency obligations	61,072	43,706	17,366	Aaa/AA+	2
Corp. Issues (Commercial Paper)	44,126	44,126	-	P-1/A-1	2
	<u>\$ 138,053</u>	<u>\$ 120,687</u>	<u>\$ 17,366</u>		
December 31, 2016					
Money market mutual funds	\$ 9,399	\$ 9,399	\$ -	Aaa/AAAm	N/A
U.S. Treasury securities	10,969	10,969	-	Aaa/AA+	2
U.S. agency obligations	59,599	27,092	32,507	Aaa/AA+	2
Corp. Issues (Commercial Paper)	64,539	64,539	-	P-1/A-1	2
	<u>\$ 144,506</u>	<u>\$ 111,999</u>	<u>\$ 32,507</u>		

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. It is LES' principal investment strategy to buy and hold securities to maturity, which reduces interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Corporate issues, state and/or local government taxable and/or tax-exempt debt and money market funds are the only current investment types that require a minimum specific rating. All such investments held as of December 31, 2017 and 2016 met minimum credit ratings as required by LES' investment policy.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, LES would not be able to recover the value of its investment securities that are in the possession of an outside party. LES manages this risk by holding all investments in LES' name, as required by LES' investment policy.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with the amount of investments LES has with any one issuer that exceeds 5 percent or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government are excluded from this requirement. LES' investment policy places the following limits on the amount that may be invested in any one type of investment and/or issuer.



Investment Type	Portfolio Composition	Limits of Individual Issuers	Maturity Limitations
U.S. Government securities	100%	None	10 years
U.S. Government agencies	100%	None	10 years
Federal instrumentalities	100%	None	10 years
Instrumentalities of the U.S.	20%	5%	10 years
Interest-bearing time deposit or savings accounts	100%	15%	5 years
Repurchase agreements	50%	15%	90 days
Corporate issues	50%	5%	
Banker's acceptances			180 days
Commercial paper			270 days
Corporate notes			5 years
Money market mutual funds	100%	25%	N/A
State and/or local government taxable and/or tax-exempt debt	30%	5%	3 years
Other fixed term investments	25%	25%	5 years

At December 31, 2017 and 2016, LES had the following investment concentrations:

	2017	2016
U.S.-sponsored agency obligations		
Federal Home Loan Bank	17.89%	23.03%
Federal Home Loan Mortgage Corporation	8.79%	12.82%
Federal Farm Credit Bank	7.53%	1.52%
Federal National Mortgage Association	9.93%	3.77%

Summary of Carrying Values

Deposits and investments were included in the following Balance Sheet captions at December 31, 2017 and 2016:

	2017	2016
	(Dollars in thousands)	
Current assets		
Cash and investments		
Operating cash and investments	\$ 68,752	\$ 75,354
Rate stabilization fund	33,831	33,592
	<hr/>	<hr/>
Total	102,583	108,946
	<hr/>	<hr/>
Restricted cash and investments		
Bond principal and interest funds	14,579	14,068
Segregated funds — customer deposits	1,345	1,246
Health and dental claims funds	1,630	1,668
	<hr/>	<hr/>
Total	17,554	16,982
	<hr/>	<hr/>
Noncurrent assets		
Restricted cash and investments		
Bond reserve funds	16,733	17,140
Segregated funds — developer deposits	651	896
Health and dental claims reserve funds	532	542
	<hr/>	<hr/>
Total	17,916	18,578
	<hr/>	<hr/>
	\$ 138,053	\$ 144,506
	<hr/>	<hr/>

Rate Stabilization Fund

LES maintains a Rate Stabilization Fund (RSF) to provide a method of mitigating risks that may occur from unforeseen or one-time events which may have a significant financial impact to LES. It is not the intent to fund routine rate adjustments with funds from the RSF. Deposits and withdrawals of the RSF are subject to approval of the LES Administrative Board. The target RSF balance is determined by an annual liquidity study which evaluates the probability and financial impact of LES risks as determined through the Enterprise Risk Management program.

The RSF balance was \$33,831,000 and \$33,592,000 as of December 31, 2017 and 2016, respectively.

Note 3: Capital Assets

Capital assets activity for the years ended December 31, 2017 and 2016 was as follows (dollars in thousands):

	January 1, 2017	Increase	Decrease	Transfers	December 31, 2017
Construction work in progress (not depreciated)	\$ 75,805	\$ 82,594	\$ (2,414)	\$ (39,052)	\$ 116,933
Utility plant	1,486,425	—	(3,710)	39,052	1,521,767
Less: accumulated depreciation	(688,535)	(52,134)	6,124	—	(734,545)
Totals	\$ 873,695	\$ 30,460	\$ —	\$ —	\$ 904,155

	January 1, 2016	Increase	Decrease	Transfers	December 31, 2016
Construction work in progress (not depreciated)	\$ 57,484	\$ 59,112	\$ (3,805)	\$ (36,986)	\$ 75,805
Utility plant	1,454,957	—	(5,518)	36,986	1,486,425
Less: accumulated depreciation	(647,451)	(50,407)	9,323	—	(688,535)
Totals	\$ 864,990	\$ 8,705	\$ —	\$ —	\$ 873,695



Note 4: Long-Term Debt and Liabilities

Long-term debt at December 31, 2017 and 2016 was presented on the Balance Sheets as shown below:

	Date Callable	2017	2016
		(Dollars in thousands)	
Serial Bonds			
2003 Electric revenue and refunding, 3.00% - 5.00%, due from Sep. 1, 2004 to 2021; partially refunded in 2012	N/A	\$ 1,150	\$ 1,150
2012 Electric revenue and refunding, 1.00% - 5.00%, due from Sep. 1, 2013 to 2032; partially refunded in 2016	2022	186,855	186,855
2013 Electric revenue and refunding, 2.70% - 5.00%, due from Sep. 1, 2021 to 2025	2023	75,525	75,525
2015 Electric revenue and refunding, 3.00% - 5.00%, due from Sep. 1, 2019 to 2036	2025	127,090	127,090
2016 Electric revenue and refunding, 3.00% - 5.00%, due from Sep. 1, 2017 to 2034	2027	99,575	116,645
Term Bonds			
2012 Electric revenue and refunding, 3.625% - 5.00%, due Sep. 1, 2037	2022	30,165	30,165
2015 Electric revenue and refunding, 4.00%, due Sep. 1, 2040	2025	40,710	40,710
		<u>561,070</u>	<u>578,140</u>
Long-term debt		561,070	578,140
Bond issuance premiums		53,895	59,609
Less: current maturities of long-term debt		(19,480)	(17,070)
Revolving credit agreement		30,000	—
		<u>625,485</u>	<u>620,679</u>
Long-term debt, net		<u>\$ 625,485</u>	<u>\$ 620,679</u>

Long-term debt and liabilities activity for the years ended December 31, 2017 and 2016 were as follows (dollars in thousands):

	January 1, 2017	Increase	Decrease	December 31, 2017	Due Within One Year
Revenue bonds	\$578,140	\$ —	\$ (17,070)	\$561,070	\$19,480
Bond issuance premiums	59,609	—	(5,714)	53,895	—
Revolving credit agreement	—	30,000	—	30,000	—
Developer performance deposits	896	—	(250)	646	—
Health and dental plan reserve	541	—	(9)	532	—
Totals	<u>\$639,186</u>	<u>\$ 30,000</u>	<u>\$ (23,043)</u>	<u>\$646,143</u>	<u>\$19,480</u>
	January 1, 2016	Increase	Decrease	December 31, 2016	Due Within One Year
Revenue bonds	\$618,500	\$116,645	\$(157,005)	\$578,140	\$17,070
Bond issuance premiums	50,451	17,974	(8,816)	59,609	—
Developer performance deposits	—	896	—	896	—
Health and dental plan reserve	508	33	—	541	—
Totals	<u>\$669,459</u>	<u>\$135,548</u>	<u>\$(165,821)</u>	<u>\$639,186</u>	<u>\$17,070</u>

Debt service requirements for LES' revenue bonds as of December 31, 2017 were as follows (dollars in thousands):

Bond Year Ending August 31,	Principal	Interest	Total
2018	\$ 19,480	\$ 24,247	\$ 43,727
2019	22,750	23,273	46,023
2020	28,615	22,166	50,781
2021	30,045	20,735	50,780
2022	31,455	19,328	50,783
2023-2027	139,975	76,632	216,607
2028-2032	137,025	49,837	186,862
2033-2037	111,015	20,583	131,598
2038-2040	40,710	3,299	44,009
Totals	\$ 561,070	\$ 260,100	\$ 821,170

All long-term debt is issued for the construction of additional utility plant, refunding of existing debt or to reimburse LES for prior capital expenditures. All utility revenues, after payment of operation and maintenance expenses, are pledged for the revenue bonds until the bonds are paid or defeased.

Debt service for 2017 and 2016 was \$42,689,000 and \$48,188,000, respectively. Total gross revenues, as defined, for the same periods were \$321,549,000 and \$315,502,000, respectively. On average, annual principal and interest payments are expected to require an estimated 13 percent of gross revenues.

Revenue and Refunding Bonds

In September 2016, LES issued \$116,645,000 of Revenue Refunding Bonds, Series 2016. Proceeds from the issuance of the 2016 bonds were used to refund the remaining Series 2007A and Series 2007B Revenue Bonds and a portion of the 2012 bonds, fund a deposit into the 2016 Debt Service Reserve Fund and pay certain costs and expenses related to the issuance of 2016 bonds. The refunding resulted in debt service savings of approximately \$28,359,000 and net present value savings of approximately \$19,000,000. At December 31, 2017, there were \$24,530,000 of refunded Series 2012 Bonds outstanding.

Revolving Credit Agreement

In November 2017, LES entered into a revolving credit agreement with US Bank National Association to replace a similar agreement with Wells Fargo Bank, National Association which was scheduled to expire on December 17, 2017. The agreement permits LES to draw up to \$50 million on a variable rate basis, as of December 31, 2017 the rate was 1.362 percent and there was \$30 million outstanding under the agreement. The US Bank revolving credit agreement terminates unless extended in accordance with its terms, on November 2, 2020. LES classifies this as a long term liability on the balance sheet, as repayment of amounts drawn under the agreement are not required until the agreement's expiration date.

Note 5: Short-Term Obligations

Commercial Paper

Established by city ordinance, LES may borrow up to \$150,000,000 under a Commercial Paper Program. The payment of the Commercial Paper Notes is subordinated to the payment of the principal of, and interest on, the outstanding bonds. The commercial paper outstanding amount was \$95,500,000 at December 31, 2017 and 2016.



The notes mature at various dates, but not more than 270 days after the date of issuance. The weighted average interest rate was 0.89 percent and 0.41 percent for the year ended December 31, 2017 and 2016, respectively. The outstanding commercial paper notes are secured by a revolving credit agreement with the Bank of Tokyo-Mitsubishi, which terminates on August 27, 2018. There were no advances outstanding under the revolving credit agreement at December 31, 2017 and 2016.

LES uses Commercial Paper Notes as part of its long-term financing strategy. As such, commercial paper is typically renewed as it matures. The weighted average length of maturity of Commercial Paper for 2017 and 2016 was 76 days and 51 days, respectively.

Commercial Paper activity for the years ended December 31, 2017 and 2016 was as follows (dollars in thousands):

	January 1, 2017	Increase	Decrease	December 31, 2017	Due Within One Year
Commercial Paper Notes	\$ 95,500	\$ 477,500	\$ (477,500)	\$ 95,500	\$ 95,500
	January 1, 2016	Increase	Decrease	December 31, 2016	Due Within One Year
Commercial Paper Notes	\$ 95,500	\$ 731,300	\$ (731,300)	\$ 95,500	\$ 95,500

Note 6: Regulatory Assets

Rates for LES' regulated operations are established and approved by the LES Administrative Board and City Council. LES applies the regulated operations provisions of GASB Codification Section Re10, *Regulated Operations*, which provide for the deferral of expenses which are expected to be recovered through customer rates over some future period (regulatory assets) and reductions in earnings to cover future expenditures (regulatory liabilities).

Regulatory assets are included in other noncurrent assets on the Balance Sheets and are being amortized in future rate periods when such costs are included in the revenue requirements to establish electric rates.

The composition of regulatory assets at December 31, 2017 and 2016 was as follows:

	2017	2016
	(Dollars in thousands)	
Improvement costs on projects in which LES participates	\$ 1,528	\$ 1,630
Maintenance costs on projects in which LES has joint ownership	—	3,845
Bond issuance costs	2,258	2,501
Totals	\$ 3,786	\$ 7,976

Note 7: Jointly-Owned Facilities**Laramie River Station (LRS)**

LES is a 12.76 percent share owner of the Missouri Basin Power Project (MBPP) that includes LRS, a three-unit, 1,710-MW coal-fired generating station in eastern Wyoming and a related transmission system. LES has sold approximately 13 percent of its ownership in LRS to Municipal Energy Agency of Nebraska (MEAN). Costs, net of accumulated depreciation and excluding costs allocated to MEAN for its ownership share, associated with LRS of \$30,246,000 and \$26,817,000 are reflected in utility plant at December 31, 2017 and 2016, respectively.

LRS has certain post-retirement obligations which have not yet been billed to the owners as these costs are not due and payable. Thus, LES has not reflected these costs in its financial statements. As a co-owner of LRS, LES' allocation of these post-retirement obligations was \$1,265,000 and \$1,228,000 at December 31, 2017 and 2016, respectively.

LES has a participation power sales agreement with the County of Los Alamos, New Mexico (the County), whereby the County purchases from LES approximately 10 MW of LES' capacity interest in LRS. The section of the agreement which provides for the County to pay LES monthly payments for the capital budget, processing and dispatch costs was amended in September 2016. The monthly payments are subject to true-up, each January 1 based on actual costs (as compared to budget) of LRS. The agreement remains in effect until either the final maturity occurs on any LRS-related debt or LRS is removed from commercial operation. LES billed the County \$3,600,000 and \$3,071,000 in 2017 and 2016, respectively, for demand and energy charges.

Walter Scott Energy Center #4 (WSEC #4)

MidAmerican Energy Company's (MEC) Walter Scott Energy Center includes four coal-fired units. LES maintains ownership interest in 12.66 percent, or 103 MW of WSEC #4. The 811-MW, coal-fired plant was completed in 2007. In order to minimize unit outage risk, LES executed a power purchase and sales agreement with MEC to "swap" capacity and energy from LES' WSEC #4 ownership with capacity and energy from WSEC #3. Under this agreement, LES schedules 50 MW of capacity and energy from WSEC #3 and 53 MW of capacity and energy from WSEC #4. This 20-year agreement can be extended through mutual agreement of the parties. LES is responsible for the operation and maintenance expense and maintains a fuel inventory at the plant site. LES issued debt in conjunction with the construction of WSEC #4 and has capitalized these costs plus interest. Costs, net of accumulated depreciation, associated with WSEC #4 of \$130,912,000 and \$135,295,000 are reflected in utility plant at December 31, 2017 and 2016, respectively.

Note 8: Jointly-Governed Organizations**District Energy Corporation**

The District Energy Corporation (DEC) was formed in 1989 by the city of Lincoln and Lancaster County to own, operate, maintain and finance the heating and cooling facilities utilized by certain city, county and state buildings. The Board of Directors of DEC is comprised of five members: two appointed by the Lancaster County Board of Commissioners, two appointed by the Mayor of Lincoln who must be confirmed by the City Council and one appointed by LES. No participant has any obligation, entitlement or residual interest.

The DEC Board of Directors, under a management agreement, has appointed LES to supervise and manage the system and business affairs of DEC. LES is reimbursed for these management services based on the allocated actual costs of these services. LES also provides electric energy to DEC on an established rate schedule. The total amount of payments to LES for management operations and maintenance services was \$1,221,000 and \$1,042,000 in 2017 and 2016, respectively. The total amount of payments to LES for energy was \$565,000 and \$575,000 in 2017 and 2016, respectively.

Nebraska Utility Corporation

On May 17, 2001, LES, in conjunction with the University of Nebraska Board of Regents, created the Nebraska Utility Corporation (NUCorp). The purpose of NUCorp is to purchase, lease, construct and finance facilities and acquire services to meet energy requirements of the University of Nebraska Lincoln (UNL). The Board of Directors of NUCorp is comprised



of five members: three members appointed by the UNL and two members appointed by LES. No participant has any obligation, entitlement or residual interest. NUCorp is considered a component unit of the University of Nebraska, therefore, financial statements of NUCorp are included in the University of Nebraska's financial statements.

Operations commenced in January 2002. The NUCorp Board of Directors, under a 20-year management agreement, appointed LES to supervise and manage the energy supply and financial affairs of NUCorp. LES is reimbursed for these management services based on the allocated actual costs of these services. LES also provides electric energy to NUCorp on an established rate schedule. The total payments to LES for management services were \$125,000 and \$115,000 in 2017 and 2016, respectively. The total amount of payments to LES for energy were \$9,531,000 and \$9,831,000 in 2017 and 2016, respectively.

Note 9: Employee Benefit Plans

Retirement Plan

LES has a Defined Contribution Retirement Savings Plan, created in accordance with Internal Revenue Code Section 401(k) (401k Plan). Vanguard Fiduciary Trust Company serves as the plan custodian for the 401k Plan. The LES Administrative Board established the 401k Plan under its authority and is responsible for approving all amendments to the 401k Plan. LES' contribution is equal to 200 percent of the employee contributions, up to 5 percent of applicable compensation for eligible employees hired prior to January 1, 2011. The contributory rate for eligible employees hired after that date is equal to 100 percent of the employee contribution, up to 10 percent of applicable compensation. Vesting of LES matching contributions occurs over a three-year period, with LES contributions being 100 percent vested after three years of service. Employees who have not met the vesting criteria forfeit the employer matching contributions at termination, which are used to reduce LES' future matching contribution obligations. Forfeitures reduced LES' contributions by \$46,000 and \$9,000 in 2017 and 2016, respectively. Vested benefits are fully funded. Total contributions of \$164,000 and \$160,000 were accrued in accounts payable as of December 31, 2017 and 2016, respectively.

Contribution information for 2017 and 2016 is shown in the table below:

	2017	2016
	(Dollars in thousands)	
Employer contributions	\$ 4,144	\$ 4,201
Employee contributions	3,483	3,227
Totals	<u>\$ 7,627</u>	<u>\$ 7,428</u>

LES also offers all eligible employees a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457(b) (457 Plan). LES' 457 Plan custodian, Vanguard Fiduciary Trust Company, manages the 457 Plan's assets. The 457 Plan permits the employees to defer a portion of their salary until termination, retirement or death. LES does not match any employee contributions to the 457 Plan.

Assets and liabilities of the 401k Plan and 457 Plan are not included in the LES financial statements as all plan assets are held, managed and administered by the plan custodian.

Employee Health and Dental Insurance

LES has self-funded health and dental insurance programs with claims processed by a third party administrator on behalf of the utility. A separate fund has been established into which accruals are made and from which actual claims and other program costs are paid. As part of the health plan, a reinsurance policy has been purchased that covers claims in excess of \$150,000 per individual. Accruals to the self-insured account in excess of the claims and other costs paid are monitored by LES.

Health care claims and fees incurred (prior to reduction for premium payments from participants) were \$5,597,000 and \$6,430,000 for the years ended December 31, 2017 and 2016, respectively.

As required by Nebraska statute, LES maintains an Incurred But Not Reported (IBNR) claims reserve which is actuarially determined. The balance of the IBNR reserve was \$532,000 and \$542,000 at December 31, 2017 and 2016, respectively. LES established two separate bank accounts for the self-funded employee health and dental insurance plan reserves to ensure compliance with statutory requirements. Although not required by the statute, LES maintains excess insurance that limits the total claims liability for each plan year to not more than 125 percent of the expected claims liability, up to an annual aggregate maximum of \$1,000,000.

Note 10: Derivatives

LES utilizes Auction Revenue Rights (ARRs) and Transmission Congestion Rights (TCRs) to hedge against congestion costs in the Southwest Power Pool Integrated Marketplace (SPP IM). Awarded ARRs provide a fixed revenue stream to offset congestion costs. TCRs can be acquired through the conversion of ARRs or purchases from SPP auctions. ARRs do not meet the definition of a derivative because once awarded, they cannot be sold or assigned to another party. TCRs meet the definition of a derivative, however, LES' TCRs meet the normal purchases and normal sales scope exception because they are used by LES as factors in the cost of transmission. As such, GASB guidance for derivative accounting does not apply. Accrued liabilities included \$54,000 and \$97,000 for ARRs as of December 31, 2017 and 2016, respectively.

Note 11: Risk Management**Insurance**

LES is exposed to various risks of loss related to general liability and property. LES carries commercially available insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. Claims have not exceeded this coverage in any of the three preceding years.

To protect against other risks, LES participates in the city of Lincoln's self-insurance program, administered by the City's Risk Management Division. Premium amounts are paid annually to the City's Risk Management Division. LES continues to identify, evaluate and mitigate inherent business risks as part of its Enterprise Risk Management (ERM) Program. LES has implemented a formalized process to expand the scope of risk identification and awareness. Throughout the organization, divisions and departments are participating in the systematic risk identification and mitigation assessment process.

LES has a Risk Management Committee (RMC), which includes representatives from each functional division. The responsibilities of the RMC include: coordination of risk identification across the organization, communication of ERM requirements to all employees and collecting information from, and presenting findings to, executive management. In addition to providing oversight of the ERM Program, the LES Administrative Board is involved in the identification, assessment and mitigation of enterprise risks. In order to provide guidance to employees in their decision making, the board has adopted the following as the risk appetite statement for LES:

Risks will be managed in a manner that will not materially jeopardize LES' ability to serve its customers, achieve its performance targets and continue its AA-bond rating. LES expects high standards of legal and ethical conduct and maintains zero tolerance toward actions which could detrimentally impact safety or regulatory compliance.



The active participation and engagement of the board and executive management is providing support for LES' successful ERM Program. A report reflecting the status of LES' ERM Program is presented annually to the executive team and board. The enhancements to the ERM Program will be ongoing and will provide increased awareness of risks throughout the organization. The information gathered will provide for improved planning and decision making and eliminate potential duplicative efforts.

LES has a Commercial Risk Management Team (CRMT) to manage the risks associated with operating in the SPP IM. The CRMT provides general oversight of the financial, market and other risk exposures related to operating in the SPP IM. Members of the CRMT include the following LES employees: Energy and Environmental Operations Manager (CRMT Chair), Chief Executive Officer, Vice President – Power Supply, Chief Financial Officer, General Counsel and Supervisor – Energy Management.

Note 12: Commitments and Contingencies

Western Area Power Administration (WAPA)

LES has an allocation from the U.S. Department of Energy, through WAPA, of firm power under contract from Upper Missouri Basin hydroelectric plants of approximately 56 MW. LES has also received an allocation of 72 MW of firm peaking power from WAPA for the six month summer season and 22 MW for the remaining months. In 2017, LES signed an amendment which extends the contract from 2021 through 2051.

Participation Contracts with Nebraska Public Power District (NPPD)

During 2017, LES had participation contracts in two existing NPPD coal-fired power plants that provided for an entitlement to 30 percent (65 MW) of the output of the Sheldon Station power plant (nominally rated 215-MW) and 8 percent (109 MW) of the output of the GGS power plant (nominally rated 1,365-MW). In May, 2017, LES and NPPD agreed to terminate the Sheldon Station participation contract effective December 31, 2017. A termination payment of \$10.5M was made to NPPD on December 29, 2017 and there is no further obligation for Sheldon Station. This payment was included within other nonoperating expenses on the Statement of Revenue, Expenses and Changes in Net Position.

LES is responsible for its respective participating interests in GGS capital additions and improvements. LES recognizes its share of capital acquisition costs and debt service payments as power costs in the period the costs are billed with the exception of costs approved for deferral under GASB Codification Section Re10, *Regulated Operations*. Fixed cost payments under the agreement is on a participation basis whether or not the plant is operating or operable.

The participation contract for Gerald Gentlemen continues until the facilities are removed from commercial operation or the final maturity occurs on the related debt incurred by NPPD to finance the facilities, whichever occurs last. The fixed cost payments to NPPD under this contract, including capital additions and improvements, debt service payments, fixed costs and credits, were \$7,213,000 in 2017.

Through the participation contract, LES may be required to pay costs associated with compliance with environmental regulations for GGS.

Other Power Purchase Agreements

LES participates in three wind plants through direct Power Purchase Agreements with the plant's developer/owner: 100-MW Arbuckle Mountain Wind Farm in Oklahoma, 100-MW Buckeye Wind Energy Center in Kansas and 73-MW Prairie Breeze II Wind Energy Center in Nebraska. These wind energy facilities were placed in commercial operation in 2015. LES also participates in four Nebraska-based wind plants through Power Sales Agreements with NPPD: Laredo Ridge (10 MW), Broken Bow (10 MW), Elkhorn Ridge (6 MW) and Crofton Bluffs (3 MW). For each of these plants, NPPD has the actual Power Purchase Agreement with the wind plant developer/owner.

Commitments for Contracts over One Million Dollars

LES has outstanding contract commitments totaling \$34,256,000 as of December 31, 2017. These are primarily related to construction contracts for the LES Operations Center.

Claims and Judgments

From time to time, LES is party to various claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the financial statements of LES.

Note 13: Environmental Regulations

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that LES' facilities will remain subject to the regulations currently in effect, will meet future regulations without retrofit, that LES can anticipate the outcome of current regulatory and legislative processes or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital and operating expenditures to comply, reduced operating levels or the complete shutdown of individual units not in compliance. As necessary, LES will make application to the appropriate federal and state authorities for any permits, certifications and renewals required by federal and state law and regulations for the operations of its existing plants and for the construction of capital additions and improvements.

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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 of the Ordinance. Summaries of certain definitions contained in the Ordinance are set forth below. Other terms defined in the Ordinance for which summary definitions are not set forth are indicated by capitalization. The summary does not purport to be a complete description of the terms of the Ordinance and, accordingly, is qualified by reference thereto and is subject to the full text thereof. Copies of the Ordinance may be obtained from Lincoln Electric System or its Financial Advisor.

Definitions

The following are summaries of certain definitions in the Ordinance.

“*Accreted Value*” means, with respect to any Capital Appreciation Bond or Capital Appreciation Parity Obligation, 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 or Capital Appreciation Parity Obligation set forth in such Series Ordinance or Parity Instrument, respectively, compounded periodically on each Periodic Compounding Date, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Accreted Value as of the immediately preceding Periodic Compounding Date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Accreted Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in such Series Ordinance or Parity Instrument, Accreted Value accrues in equal daily amounts on the basis of a year consisting of twelve 30-day months.

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

“*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 set forth in the Series Ordinance authorizing such Bonds, compounded periodically on each Periodic Compounding Date, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Appreciated Value as of the immediately preceding Periodic Compounding date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Appreciated Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in the Series Ordinance authorizing such Deferred Income Bonds, Appreciated Value accrues in equal daily amounts on the basis of a year consisting of twelve 30-day months and (ii) as of any date of computation on and after the Current Interest Commencement Date, the Appreciated Value on the Current Interest Commencement Date.

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

“*Board*” means Lincoln Electric System Administrative Board created and established pursuant to Chapter 4.24 of the Municipal Code of the City.

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

“*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 specified in the Series Ordinance authorizing such Capital Appreciation Bonds and (ii) payable only at the maturity, earlier redemption or other payment thereof pursuant to the Ordinance or the Series Ordinance authorizing such Capital Appreciation Bonds.

“*Capital Appreciation Parity Obligations*” means any Parity Obligations the interest with respect to which is (i) compounded periodically on dates that are specified in such Parity Obligation or in the Parity Instrument authorizing such Parity Obligation and (ii) payable only at the maturity, earlier redemption or prepayment or other payment thereof pursuant to the Parity Instrument authorizing such Capital Appreciation Parity Obligation.

“*Costs,*” with respect to the Electric 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 Electric 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 Electric System and costs of the City incidental to such construction or acquisition, the cost of acquisition of fuel or fuel inventory or facilities for the production or transportation of fuel and for additional fuel inventories, 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, 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, administration and general overhead expense and costs of keeping accounts and making reports required by the Ordinance prior to or in connection with the completion of acquisition or construction of such part of the Electric System, amounts, if any, required by the Ordinance to be paid into the Bond Fund to provide, among other things, for interest accruing on Bonds and to provide for such reserves, if any, as may be specified in a Series or Supplemental Ordinance or to be paid into the Electric 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 Electric System and reserves therefor, and all federal, state and local taxes and payments in lieu of taxes in connection with any part of the Electric 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 Commencement Date*” means with respect to any particular Deferred Income Bonds, the date specified in the Series Ordinance authorizing such Deferred Income Bonds (which date must be prior to the maturity date for such Deferred Income Bonds) after which interest accruing on such Deferred Income Bonds shall be payable periodically on dates specified in such Series Ordinance, with the first such payment date being the first such periodic date immediately succeeding such Current Interest Commencement Date.

“*Debt Service*” for any period means, as of any date of calculation and with respect to any Series of Bonds or Parity Obligations, an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series or such Parity Obligations, 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) or from the proceeds of such Parity Obligations and (ii) that portion of each Principal Installment for such Series or Parity Obligation 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 such Series or Parity Obligation (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 or Parity Obligation, whichever date is later). Such interest and Principal Installments for such Series or Parity Obligations 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, (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, and (z) no Principal Installment with respect to any Parity Obligation will be paid except by reason of the payment of such Principal Installment on the due date thereof.

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

“*Derivative Obligations*” means, to the extent permitted by law, any financial arrangement entered into by the City for the purposes of moderating interest rate fluctuations or otherwise and may include any interest rate swap agreement, currency swap agreement, forward payment conversion agreement, future, or contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, or a contract to exchange cash flows or a series of payments, or any other exchange or rate protection transaction agreement, including, without limitation, interest rates floors, caps or collars, options, rates or call to a hedge payment, currency, rate, spread, or similar exposure or any similar contract (however designated).

“*Derivative Payment*” means any payment required to be made by the City with respect to a Derivative Obligation.

“Electric 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 (a) the generation, transmission, distribution and sale of electric power and energy or (b) such other activities and transactions as the Board and the City shall from time to time determine, and shall be broadly construed to encompass and include all Projects, and all electric production, transmission, distribution, conservation, load management, general plant and other related facilities, equipment or property and any mine, well, pipeline, plant, structure or other facility for the development, production, manufacture, storage, fabrication or processing of fossil, nuclear or other fuel of any kind or any facility or rights with respect to the supply of water, in each case for use, in whole or in major part, in any of the City’s electric generating plants, 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 Electric 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 Electric System, including without limitation a contract right or other contractual arrangement for the long-term or short-term interconnection, interchange, exchange, pooling, wheeling, transmission, purchase or sale of electric power and energy and other similar arrangements with entities having generation and transmission capabilities and located within or without the City or the State of Nebraska. Without limiting the generality of the foregoing, the term *“Electric System”* shall include (1) the properties and assets for the generation, transmission and distribution and sale of electric power and energy owned by the City on the date of passage of the Ordinance and (2) all additions, extensions, expansions, improvements, betterments and equipments hereafter made thereto. *“Electric System”* shall not include any properties or interests in properties of the City which the Board and the City, in accordance with the provisions of the Ordinance, determines shall not constitute a part of the Electric 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.

“General Ordinance” means Ordinance No. 17879 adopted by the Council on July 23, 2001.

“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 electric light and power facilities and systems similar in size to the Electric System.

“Lincoln Electric System” means all assets, properties and employees under the jurisdiction and control of the Board as set forth in Chapter 4.24 of the Municipal Code.

“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 with respect to such obligations has been given irrevocable instructions concerning their calling and redemption;

(b) the municipal obligations are secured by Federal Securities, which Federal Securities, except for provisions relating to surplus moneys not required for the payment of the municipal obligations and the substitution of such Federal Securities for other Federal Securities

satisfying all criteria for Federal Securities, may be applied only to interest, principal and premium payments of such municipal obligations;

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

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

“*Net Revenues*” shall mean Revenues less Operation and Maintenance Expenses paid from Revenues.

“*Operation and Maintenance Expenses*” shall mean all of the costs and expenses for operation, maintenance, and ordinary repairs, renewals and replacements of the Electric System, including all costs of purchasing, producing and delivering electric power and energy from the Electric System and reserves for items of Operation and Maintenance Expenses the payment of which is not immediately required, and shall include, without limiting the generality of the foregoing, costs of purchased power, fuel costs, costs of transmission service, generating capacity reserve service, regulation, or other interchange and coordination services, rents, administrative and general expenses, engineering expenses, legal, accounting and financial advisory expenses, payments to pension, retirement, health and hospitalization funds, taxes, payments in lieu of taxes and other governmental charges, insurance and surety bond premiums including obligations to a stock mutual or reciprocal insurance company or exchange, and any other current expenses or obligations required to be paid by the City under the provisions of the Ordinance or by law or regulation, all to the extent properly allocable to the Electric System, and any fees and expenses incurred in the administration the Bonds, Parity Obligations and Subordinated Indebtedness. Operation and Maintenance Expenses shall include obligations of the City for a defined purchase price, lease obligations and Derivative Payments to the extent the same are treated as operation and maintenance expenses pursuant to generally accepted accounting principles for electric utilities. Operation and Maintenance Expenses shall not include any allowance for depreciation.

“*Option Bonds*” shall mean 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.

“*Ordinance*” means the General Ordinance, as amended, modified or supplemented from time to time by any Series Ordinance or Supplemental Ordinance.

“*Outstanding*” means (1) when used as of any particular time with reference to Bonds, all Bonds theretofore, or thereupon being, authenticated and delivered by the Registrar under the Ordinance except (a) Bonds theretofore canceled by the Paying Agent or surrendered to the Paying Agent for cancellation (or in the case of Book Entry Bonds, to the extent provided in the Ordinance, portions thereof deemed to have been canceled); (b) Bonds (or in the case of Book Entry Bonds, to the extent provided in the Ordinance, portions thereof with respect to which all liability of the City shall have been discharged in accordance with the Ordinance); (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Registrar pursuant to the Ordinance; and (d) Bonds no longer deemed to be outstanding hereunder as provided in the Series Ordinance pursuant to which such Bonds were issued; (2) when used as of any particular time with reference to Prior Lien Bonds, all Prior Lien Bonds deemed outstanding within the meaning of the respective Prior Lien Bond Ordinances; and (3) when used as of any particular time with reference to Parity Obligations, all Parity Obligations deemed outstanding or not satisfied within the meaning of the Parity Instrument authorizing such Parity Obligations.

“*Owner*,” whenever used in the Ordinance with respect to a Bond, means the person in whose name such Bond is registered.

“*Parity Instrument*” means an instrument pursuant to which the City shall have provided for the issuance of Parity Obligations.

“*Parity Obligations*” means any indebtedness or other obligation of the City, including, but not limited to Derivative Payments, and all other payments or other obligation of the City, with respect to the Electric System and in each case having a lien and charge upon, or being payable from, the Net Revenues on a parity with the Bonds.

“*Paying Agent*” means the financial institution, selected by the CEO to act as Paying Agent with respect to a Series of Bonds in accordance with the provisions of the Ordinance.

“*Payment Date*” means, with respect to a Series of Bonds or Parity Obligations, 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 or Parity Obligations.

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

“*Prior Lien Bonds*” means the bonds issued and outstanding pursuant to the Prior Lien Bond Ordinances.

“*Prior Lien Bond Ordinances*” shall mean Bond Ordinance Nos. 11902, 11904, 12202, 14556, 16188, 16416, 16417 and 17288 of the City.

“*Project*” means any electric generation, transmission, distribution and general plant facilities, together with any other property necessary, desirable or advisable for such activities as the Board is authorized to undertake, 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 electric power and energy, and in the supplying of electric power and energy to all those contracting with the City therefor and such other activities as the Board is authorized to undertake, 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 electric generation, transmission, distribution or general plant facility in which the City shall participate as an owner in common with others, a contract right or other contractual arrangement for the short-term or long-term provision of electric power and energy, transmission and other services to the City on a prepaid basis and the acquisition of water and fuel of any kind for such purposes, including the acquisition of water rights, fuel deposits and facilities for the development, production, processing, manufacture, fabrication, transportation and storage of water and fuel.

“*Prudent Utility Practice*” means any of the practices, methods and acts which, in the exercise of reasonable judgment, in the light of the facts (including, but not limited to, any practices, methods and acts engaged in or approved by a significant portion of the electrical utility industry prior thereto) known at the time the decision was made, could have been expected to accomplish the desired result at reasonable cost consistent with reliability, safety and expediency. In applying the standard of Prudent Utility Practice to any matter under the Ordinance, equitable consideration shall be given to the circumstances, requirements and obligations of the City, and there shall be taken into account the fact that the City is a political subdivision of the State of Nebraska 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.

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

“*Revenues*” means (i) all revenues, income, rents and receipts derived by the City from or attributable to the ownership and operation of the Electric System, including all revenues attributable to the Electric System or to the payment of the costs thereof received by the City under any contract for the sale of power, energy, transmission or other service from the Electric System or any part thereof or any contractual arrangement with respect to the use of the Electric System or any portion thereof or the services, output or capacity thereof, (ii) the proceeds of any insurance covering business interruption loss relating to the Electric System and (iii) interest received on any moneys or securities held pursuant to the Ordinance; provided, however, that Revenues shall not include (i) any revenues, receipts, rents, money or funds in aid of construction and income to the City when acting in the capacity of project manager with respect to a Project, (ii) customer deposits, or (iii) amounts received upon the sale, exchange or disposition of assets pursuant to the provisions of the General Ordinance.

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

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

“*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, subordinate to the lien thereon of the Prior Lien Bonds pursuant to the Prior

Lien Bond Ordinances, and (ii) the other funds, assets and security described under the General Ordinance and under the Series Ordinance creating that Series. In the General Ordinance, the City pledges and places a charge upon all Net Revenues, subordinate only to the lien thereon of the Prior Lien Bonds pursuant to the Prior Lien Bond Ordinances, to secure the payment of the principal, Accreted Value and Appreciated Value of, premium, if any, and interest on the Bonds and Parity Obligations in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the General Ordinance, permitting the application thereof for the purposes and on the terms and conditions set forth herein, 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 and Parity Obligations subordinate only to the lien thereon of the Prior Lien Bonds pursuant to the Prior Lien Bond Ordinances. The City 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, subject only to the provisions of the Ordinance permitting the application thereof for the purposes and on the terms and conditions set forth herein. The pledge of Net Revenues herein made shall remain in effect until there are no Bonds or Parity Obligations Outstanding.

Application of Revenues

Net Revenues are pledged by the City to payment of principal of and interest and redemption premium on the Bonds of all series and Parity Obligations, subject to the provisions of the Ordinance permitting application for other purposes. For the application of Revenues, the Ordinance establishes an Electric Revenue Fund, a Bond Fund and a Construction Fund held by the City.

The Ordinance establishes with the City the Electric Revenue Fund into which all Revenues of the Electric System shall be deposited; provided, however, that for so long as (1) any Prior Lien Bonds are Outstanding and (2) any Notes are Outstanding, the City shall (i) continue and maintain all funds and accounts established by the Prior Lien Bond Ordinances or the Note Ordinance, as appropriate, and (ii) except as provided in a Series Ordinance authorizing the issuance of a Series of Bonds and providing for the deposit of a portion of the proceeds of such Series of Bonds into one or more of the funds established by the Ordinance, deposit Revenues into the Electric Revenue Fund and make deposits to the funds and accounts as provided by the Ordinance only after the deposits and payments required to be made by the Prior Lien Bond Ordinances and the Note Ordinance, as appropriate, have been made.

Not less than three (3) Business Days prior to any Payment Date for a Series of Bonds the City shall pay from the Electric Revenue Fund into the Bond Fund the Debt Service due on such Series of Bonds on such Payment Date; provided that, for the purposes of computing the amount to be deposited in the Bond Fund, there shall be excluded from such deposit the amount, if any, set aside in the Bond Fund from the proceeds of Bonds, Parity Obligations, Subordinated Indebtedness or other evidences of indebtedness of the City (including amounts, if any, transferred thereto from the Construction Fund) for the payment of interest on such Series of Bonds; provided, however, that so long as there shall be held in the Bond Fund an amount sufficient to pay in full all Outstanding Bonds in accordance with their terms (including the maximum amount of principal, mandatory sinking fund payments, Accreted Value, Appreciated Value or applicable Redemption Price and all interest which could become payable thereon), no transfers shall be required to be made to the Bond Fund.

Construction Fund

The General Ordinance establishes a Construction Fund to be held by the City. There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of the General Ordinance and any Series Ordinance, and there may be paid into the Construction Fund, at the option of the Board, any moneys received for or in connection with the Electric System by the City from any other source, unless

required to be applied otherwise as provided by the Bond Ordinance. Amounts in the Construction Fund shall be applied to the Costs of the Electric System in the manner provided in the Ordinance.

The Board 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 a resolution of the Board.

To the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Bonds when due. Amounts credited to the Construction Fund which the Board at any time determines to be in excess of the amounts required for the purposes thereof shall be transferred to the Electric Revenue Fund; provided, however, that the amount of any such credit to the Electric Revenue Fund shall not constitute or be deemed to constitute Revenues for any purpose of the Ordinance.

Bond Fund

The Board 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.

Debt Service Reserve Fund

The City may, but shall not be required to, establish a debt service reserve fund or account for a Series of Bonds issued pursuant to a Series Ordinance, each of which shall be for the benefit and security such Series of Bonds, in the manner and to the extent provided in the Series Ordinance establishing each such fund or account. The entity that shall hold any such account or fund, the amounts to be deposited therein, and any other matters and things relative to such account or fund which are not contrary to or inconsistent with the General Ordinance as theretofore in effect, shall be set forth in such resolution or Series Ordinance establishing such account or fund or any Series Ordinance thereafter adopted in connection therewith.

Investment of Funds and Accounts

Unless limited by the provisions of a Series Ordinance, all amounts held in any fund or account established under the General Ordinance may be invested and reinvested as shall be provided in the applicable policies established from time to time by the Board 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 Board, 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 General Ordinance or paid into the Electric Revenue Fund.

Obligations purchased as an investment of moneys in any fund or account created under the provisions of the Ordinance shall be deemed at all times to be a part of such fund or account and any profit realized from the liquidation of such investment shall be credited to such fund or account and any loss resulting from the liquidation of such investment shall be charged to such fund or account.

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

Covenant as to Rates, Fees and Charges

Subject to any rate regulation by any state or federal regulatory authority, the City and the Board will fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric System and to the extent legally permissible, 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, after deducting amounts expended during the Fiscal Year from the Net Revenues for the payment of debt service requirements of the Prior Lien Bonds, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Bonds and Parity Obligations; and
- (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric System reasonably anticipated to be paid from Revenues.

If the Revenues in any Fiscal Year are less than the aggregate amount described above, the City and the Board 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 the requirements set forth in this paragraph or (b) obtain a written report from an Independent Consultant after a review and study of the operations of the Electric 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 the provisions set forth under the heading "Covenant as to Rates, Fees and Charges" and such adjustments and revisions to electric rates and charges are promptly implemented and enacted in accordance with such Independent Consultant's report.

Certain Other Covenants

Creation of Liens; Sale and Lease of Property. (a) The City shall not issue any bonds, notes, debentures, or other evidences of indebtedness of similar nature, other than the Bonds or Parity Obligations, payable out of or secured by a security interest in or pledge or assignment of the Net Revenues or other moneys, securities or funds held or set aside by the City, the Board or by any Paying Agent under the Ordinance and shall not create or cause to be created any lien or charge on the Net Revenues or such moneys, securities or funds; provided, however, that nothing contained in the Ordinance shall prevent the City from issuing, if and to the extent permitted by law (i) evidences of indebtedness (A) payable out of moneys in the Construction Fund as part of the costs of the Electric System, or (B) payable out of, or secured by a security interest in or pledge or assignment of, Net Revenues to be received on and after such date as the pledge of the Net Revenues provided in the Ordinance shall be discharged and satisfied as provided in Article X of the General Ordinance, or (ii) Subordinated Indebtedness.

(b) To the extent and in the manner provided by law, the Board may sell, exchange or otherwise dispose of property, facilities and assets of the Electric System at any time and from time to time having a fair market value not to exceed \$5,000,000 annually, as such amount shall be indexed based on the Consumer Price Index for All Urban Consumer (CPI-U) for the U.S. City Average for All items, 1982-84 = 100 (the "CPI") in effect on the date of adoption of the General Ordinance. Furthermore, the Board, to the extent and in the manner provided by law, may lease, contract, or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties and facilities of the Electric System. The proceeds of any such sale, exchange or disposal of property or facilities shall be used (i) to provide for the payment and redemption of Bonds or Parity Obligations or (ii) to acquire capital assets for any Electric System purpose.

Maintenance of Insurance. (a) The Board shall at all times use its best efforts to keep or cause to be kept the properties of the Electric System which are of an insurable nature and of the character usually insured by those operating properties similar to the Electric System insured against loss or damage by fire and from other causes customarily insured against and in such relative amounts as are usually obtained. The Board shall at all times use its best efforts to maintain or cause to be maintained insurance or reserves against loss or damage from such hazards and risks to the person and property of others as are usually insured or reserved against by those operating properties similar to the properties of the Electric System. The Board shall only be required to obtain such insurance if the same is available at reasonable rates and upon reasonable terms and conditions.

In lieu of obtaining policies for insurance as provided above, the City may self-insure against risks, accidents, claims or casualties described above, or such risks, accidents, claims or casualties may be covered under one or more blanket insurance policies maintained by the City or the Board.

Reconstruction; Application of Insurance Proceeds. If any useful portion of the Electric System shall be damaged or destroyed, the Board 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 Board. The proceeds of insurance covering such property, together with any other funds available for such purpose as the Board 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 Electric System.

Records and Accounts. The Board 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 Electric System and each fund and account established under the Ordinance, and which, together with all other books and papers of the Board or the City, including insurance policies, relating to the Electric 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 and Parity Obligations then Outstanding or their representatives duly authorized in writing.

Amendment of General Ordinance

The General Ordinance and the rights and obligations of the Board or the City and of the Owners of the bonds may be amended by a Supplemental Ordinance with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Ordinance is only applicable to a Series of Bonds, the Bonds of that Series) then Outstanding; provided that if such

modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under this paragraph.

No such modification or amendment may (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 General Ordinance prior to or on a parity with the lien created by the General Ordinance, or deprive the Owners of the Bonds of the lien created by the General Ordinance on such Net Revenues and other assets (in each case, except as expressly provided in the General Ordinance), without the consent of the Owners of all of the Bonds then Outstanding.

Without the consent of the Owners, the City may adopt a Supplemental Ordinance which (1) adds covenants and agreements of the City or the Board; (2) cures any ambiguity, omission, defect or inconsistent provision in the General Ordinance; (3) permits the qualification of the General Ordinance under the Trust Indenture Act of 1939 or any similar federal statute and 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) authorizes Bonds of an additional series; (5) maintains 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) makes any modification which is to be effective only after all Bonds of each series Outstanding as of the date of the adoption of such Supplemental Ordinance cease to be Outstanding; (7) authorizes Subordinated Indebtedness; (8) authorizes the establishment such funds or accounts as the Board may determine to be necessary, desirable, advisable or in the best interests of the Board and the City, and, in connection therewith, to specify and determine the matters and things referred to in the General Ordinance or to modify any such matters and things in any other respect whatsoever; or (9) any other purpose which, in the determination of the Board, does not materially and adversely affect the interest of the Owners of any of the Bonds.

Defeasance

Except as may be provided in any Series Ordinance authorizing 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 General 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 General 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 the General Ordinance 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 General Ordinance and the continuing duties of the Registrar and Paying Agent.

Whenever in the General 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 General 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 of the General Ordinance or provision satisfactory to the Paying Agent 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) non-callable Federal Securities or Municipal Obligations, 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 the General Ordinance or provision satisfactory to the shall have been made for the giving of such notice.

Events of Default; Remedies

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

(a) Default by the City or the Board 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 or the Board 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 or the Board to observe and perform any of its other covenants, conditions or agreements under the Ordinance or in the Bonds for a period of 90 days after written notice from the Owners of 25% 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 and

the Board to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;

(d) (1) Failure of the Board generally to pay its debts as the same become due, (2) commencement by the Board 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 Board to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for the Board, the Electric System or any substantial part of the Board's property, or to the taking possession by any such official of the Electric System or any substantial part of the Board's property, (4) making by the Board of any assignment for the benefit of creditors, or (5) taking of corporate action by the Board 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 Board 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 Board, the Electric System or any substantial part of the City's property, or (3) order for the termination or liquidation of the City, the Board, the Electric System or affairs of any of them;

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

(g) Any Event of Default under the Prior Lien Bond Ordinances shall occur and shall not be cured as provided by the Prior Lien Bond Ordinances.

Remedies Upon Occurrence of an Event of Default. 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 and the Board with a copy to the Receiver and notice of such appointment shall be mailed to the Owners of the Bonds. After the appointment of a Receiver under the Ordinance, no further Receivers may be appointed; however, the Owners of a majority of the Bond Obligation may remove the Receiver initially appointed and appoint a successor and subsequent successors at any time. If the default for which the Receiver was appointed is cured or waived pursuant to the Ordinance, the appointment of the Receiver shall terminate with respect to such default.

After a Receiver has been appointed pursuant to the foregoing, the Receiver may proceed, and upon the written request of Owners of twenty-five percent (25%) of the Bond Obligation shall proceed, to protect and enforce the rights of the Owners under the laws of the State of Nebraska, including the Act, and under the Ordinance, by such suits, actions or special proceedings in equity or at law, or by regulatory or administrative proceedings in the office of any board, body or officer having jurisdiction, either for the specific performance of any covenant or agreement contained therein or in aid of execution of any power herein granted 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 or the Board, under the Ordinance the Receiver shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due from the City or the Board, for principal, interest or other sums due under any provisions of the Ordinance or of such Bonds and unpaid, with interest on overdue payments of principal and, if permitted by law, at the rate or rates of interest specified in such Bonds, together with any and all reasonable costs and expenses of collection and of all proceedings under the Ordinance and under such Bonds without prejudice to any other right or remedy of the Receiver or of the Owners, and to recover and enforce any judgment or decree against the City or the Board, but solely as provided therein 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 Electric Revenue Fund, as the case may be, and any other moneys available for such purpose) in any manner provided by law, the moneys adjudged or decreed to be payable.

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

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

(i) Unless the principal of all the Bonds and Parity Obligations 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 and the interest component of Parity Obligations 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 and Parity Obligations then due.

(ii) If the principal of all the Bonds and Parity Obligations 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 Parity Obligations, 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 or Parity Obligations over any other Bonds or Parity Obligations, 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 Bond and Parity Obligations.

(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 the Board, to any Owner or to

any other person for any delay in applying any such moneys, so long as the Receiver acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Ordinance as may be applicable at the time of applicable by the Receiver. Whenever the receiver shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an interest payment date unless the Receiver shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue, the Accreted Value of Capital Appreciation Bonds shall cease to accrete and the Appreciated Value of any Deferred Income Bond. The Receiver shall give such notice as it may deem appropriate of the fixing of any such date, and shall not be required to make payment to the Owner of any Bond unless such Bond shall be presented to the Receiver for appropriate endorsement or for cancellation if fully paid.

Restrictions on Actions by Individual Owners. No Owner shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Ordinance or for any other remedy thereunder unless such Owner previously shall have given to the Receiver written notice of the event of default on account of which such suit, action or proceeding is to be taken, and unless the Owners of not less than twenty-five percent (25%) of the Bond Obligation shall have made written request of the Receiver after the right to exercise such powers or right of action, as the case may be, shall have accrued and shall have afforded the Receiver a reasonable opportunity either to proceed to exercise the powers granted in the Ordinance or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Receiver reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, including the reasonable fees of its attorneys (including fees on appeal), and the Receiver shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Receiver, to be conditions precedent to the execution of the powers and trusts of the Ordinance or for any other remedy under the Ordinance. It is understood and intended that no one or more Owners of the Bonds secured by the Ordinance shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Ordinance, or to enforce any right under the Ordinance, except in the manner provided in the Ordinance, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Ordinance and for the benefit of all Owners, and that any individual rights of action or any other right given to one or more of such Owners by law are restricted by the Ordinance to the rights and remedies provided in the Ordinance.

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

2017 ORDINANCE

The following is a summary of certain provisions of the 2017 Ordinance as they apply to the 2018 Bonds. Summaries of certain definitions contained in the 2017 Ordinance are set forth below. Other terms defined in the 2017 Ordinance for which summary definitions are not set forth are indicated by capitalization. The summary does not purport to be a complete description of the terms of the 2017 Ordinance and, accordingly, is qualified by reference thereto and is subject to the full text thereof. Copies of the 2017 Ordinance may be obtained from Lincoln Electric System or its Financial Advisor.

Tax Covenants. (a) The City covenants in the 2017 Ordinance to comply with each applicable requirement of the Internal Revenue Code of 1986, as amended (the “Code”) necessary to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2018 Bonds. The City covenants not to use or permit the use of any proceeds the 2018 Bonds or any other funds of the City nor take or permit any other action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the 2018 Bonds. The City will, in addition, adopt such other ordinances or resolutions and take such other actions as may be necessary to comply with the Code and with all other applicable future laws, regulations, published rulings and judicial decisions, in order to ensure that the interest on each Series of 2018 Bonds will remain excluded from federal gross income, to the extent any such actions can be taken by the City.

(b) The City covenants and agrees that (1) it will comply with all requirements of Section 148 of the Code to the extent applicable to each Series of 2018 Bonds, (2) it will use the proceeds of each Series of 2018 Bonds as soon as practicable and with all reasonable dispatch for the purposes for which such Series of 2018 Bonds are issued, and (3) it will not invest or directly or indirectly use or permit the use of any proceeds of any Series of 2018 Bonds or any other funds of the City in any manner, or take or omit to take any action, that would cause any Series of 2018 Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Code.

(c) The City shall make any and all payments required to be made to the United States Department of Treasury in connection with the 2018 Bonds pursuant to Section 148(f) of the Code from amounts on deposit in the funds and accounts established under the Ordinance and available therefore.

(d) The City covenants and agrees that it will not use any portion of the proceeds of any Series of 2018 Bonds, including any investment income earned on such proceeds, directly or indirectly, in a manner that would cause any 2018 Bond to be a “private activity bond.”

(e) The covenants contained under the heading “Tax Covenants” shall survive the payment of the 2018 Bonds and the interest thereon, including any payment or defeasance thereof pursuant to the General Ordinance.

2018 Debt Service Reserve Fund. (a) The City shall establish a 2018 Debt Service Reserve Fund to be held by the Board into which an amount equal to \$2,936,593.75 shall be deposited upon the issuance of the 2018 Bonds. The 2018 Debt Service Reserve Fund shall be maintained in an amount equal to six (6) months’ interest on the 2018 Bonds Outstanding on the date of such computation, as such amount may be reduced from time to time. All amounts deposited into the 2018 Debt Service Reserve Fund shall be held and administered in accordance with the provisions set forth below.

(b) If any withdrawal from the 2018 Debt Service Reserve Fund is made for the purpose of subsection (c)(i) below, the amount of such withdrawal shall be restored by the Board 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) Any money on deposit in the 2018 Debt Service Reserve Fund shall be applied as follows:

(i) On the date of each required payment from the Bond Fund, moneys in the 2018 Debt Service Reserve Fund shall be applied to cure any deficiency in the Bond Fund with respect to the 2018 Bonds.

(ii) Any amount in the 2018 Debt Service Reserve Fund in excess of the Reserve Requirement relative to the 2018 Bonds shall be transferred to the Bond Fund and credited against the payments of the principal and interest next becoming due on the 2018 Bonds.

(iii) On the interest payment date immediately preceding the final maturity date of 2018 Bonds, money held in the 2018 Debt Service Reserve Fund shall be deposited into the Bond Fund and credited against the deposits required to be made into the Bond Fund with respect to the 2018 Bonds but only to the extent that, immediately following such crediting and transfer, the amount on deposit in the 2018 Debt Service Reserve Fund is equal to the lesser of (A) the Reserve Requirement and (B) the amount of principal and interest due in respect of the 2018 Bonds on such final maturity date.

(d) The City and the Board shall be permitted to substitute a letter of credit, surety bond or other credit enhancement (each, a “credit facility”) for funds on deposit in either the 2018 Debt Service 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 or Parity Obligations 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 the 2018 Debt Service Reserve Fund which, when added to the face amount of the credit facility, exceed the Reserve Requirement on the Outstanding 2018 Bonds for which such 2018 Debt Service Reserve Fund was established, shall be applied as provided in subsection (c)(ii) above. Thereafter, the credit facility shall be considered a part of such 2018 Debt Service Reserve Fund and the amount available thereunder shall be included in any calculations of the amount required to be retained in such 2018 Debt Service Reserve Fund; provided that, (A) if the sum of the amount available under the credit facility and the amount of moneys on deposit in such 2018 Debt Service Reserve Fund exceed the amount required to be on deposit pursuant to subsection (a) above, the Board 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, unless such Debt Service Reserve Fund is otherwise terminated in accordance with the provisions set forth under heading “2018 Debt Service Reserve Fund,” the Board shall be obligated to restore the difference between the Reserve Requirement and the value of such 2018 Debt Service Reserve Fund computed without regard to the credit facility prior to the expiration or termination date of such credit facility.

(e) The Board shall have the option to terminate the 2018 Debt Service Reserve Fund and to have transferred to the Bond Fund all amounts held therein if the Net Revenues for each of the three preceding Fiscal Years are not less than 140% of Debt Service in such Fiscal Year on all Bond and Parity Obligations then Outstanding, based on the audited financial statements for such Fiscal Year. Upon receipt of the audits described in the preceding sentence, the Board shall transfer all amounts held in such Debt Service Reserve Fund to the Bond Fund and use the same to pay debt service on the 2018 Bonds.

(f) If, after the City and the Board have elected to terminate the 2018 Debt Service Reserve Fund in accordance with (e) above, the Net Revenues for any Fiscal Year are less than 140% of Debt Service in such Fiscal Year on all Bonds and Parity Obligations then Outstanding, the Board shall with thirty (30) days of such determination deposit into the 2018 Debt Service Reserve Fund an amount equal to the Reserve Requirement.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE UNDERTAKING

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by The City of Lincoln, Nebraska (the “City”), acting by and through Lincoln Electric System (“LES”), in connection with the issuance of \$121,205,000 The City of Lincoln, Nebraska, Lincoln Electric System Revenue Bonds, Series 2018 (the “Bonds”). The Bonds are being issued pursuant to Ordinance No. 17879 and Ordinance No. 20583 adopted July 23, 2001 and November 20, 2017, respectively, by the City Council (collectively, the “Ordinance”). LES covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by LES for the benefit of the Registered and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) (the “Rule”) promulgated by the Securities and Exchange Commission (the “SEC”). It being the intention of LES that there be full and complete compliance with the Rule, this Disclosure Certificate shall be construed in accordance with the written interpretative guidance and no-action letters published from time to time by the SEC and its staff with respect to the Rule and in accordance with amendments to the Rule adopted or effective after the date hereof.

Section 2. Nature of the Undertaking. LES, in accordance with the Rule, hereby covenants to provide or cause to be provided:

(a) to the Municipal Securities Rulemaking Board (the “MSRB”) in an electronic format as prescribed by the MSRB, (i) annual financial information and operating data of the type described in Section 3 below for each fiscal year ending on or after December 31, 2018, not later than the following May 31, and (ii) when and if available, audited financial statements of LES for each fiscal year ending on or after December 31, 2018.

(b) to the MSRB in a timely manner not in excess of 10 business days after the occurrence of the event, notice of (i) any event described in Section 4, (ii) LES’ failure to provide an Annual Report on or prior to the date specified above, and (iii) any change in the accounting principles applied in the preparation of its annual financial statements or any change in its fiscal year.

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

(a) The audited financial statements of LES for the prior fiscal year, prepared in accordance with generally accepted accounting principles and accounting practices prescribed by the Federal Energy Regulatory Commission. If LES’ audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 2(a)(i), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) LES statistical and operating data consisting of the following information:

- (i) Rating Agency Update Report;
- (ii) EIA 412 Substitute Report; and

(iii) Financial information and operating data with respect to LES of the type included in the Official Statement with respect to the Bonds under the headings: “—LES’ Share of Laramie River Generating Station,” “—LES’ Share of Walter Scott Energy Center #4,” “—LES Local Resources,” “—LES’ Share of Gerald Gentleman Station” and “—Historical Resource Summary.” Such financial information and operating data is expected to be contained in the Rating Agency Update Report.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of LES or related public entities, which are available to the public on the MSRB’s internet website or which have been filed with the SEC. LES shall clearly identify each such other document so included by reference.

Each filing with the MSRB shall prominently state the date, title and CUSIP number of the Bonds and such additional identifying information as specified by the MSRB.

Section 4. Reporting of Significant Events. LES shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults, if material;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions, 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 of determinations with respect to the tax status of the Bonds or other material events affecting the tax-exempt status of the Bonds;
- (g) Modifications to rights of holders of the Bonds, if material;
- (h) Bond calls, if material, and tender offers;
- (i) Defeasances;
- (j) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) Rating changes;
- (l) Bankruptcy, insolvency, receivership or similar events relating to LES;
- (m) The consummation of a merger, consolidation, or acquisition involving LES or the sale of all or substantially all of the assets of LES, 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

(n) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Section 5. Termination of Reporting Obligation. The obligations of LES under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

Section 6. Dissemination Agent. LES may, at any time during the term of the disclosure obligation contained herein, appoint or engage a Dissemination Agent or third-party consultant to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, LES may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived as may be necessary or appropriate to achieve compliance with any applicable federal securities law or rule, to cure any ambiguity, inconsistency or formal defect or omission, and to address any change in circumstances arising from a change in legal requirements, change in law, or change in the identity, nature, or status of LES, or type of business conducted by LES. Any such amendment shall be made only in a manner consistent with the Rule and any amendments and interpretations thereof by the SEC. In the event of any amendment or waiver of a provision of this Disclosure Certificate, LES shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by LES. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent LES from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate, or including any other information in any Annual Report or notice of occurrence of an event listed in Section 4, in addition to that which is required by this Disclosure Certificate. If LES chooses to include any information in any Annual Report or notice of occurrence of a listed event specified in Section 4 in addition to that which is specifically required by this Disclosure Certificate, LES shall not have any obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a listed event specified in Section 4.

Section 9. Default. In the event of a failure of LES to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause LES to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Ordinance, and the sole remedy under this Disclosure Certificate in the event of any failure of LES to comply with this Disclosure Certificate shall be an action to compel performance.

Dated:

LINCOLN ELECTRIC SYSTEM

By: _____
Chief Executive Officer

APPENDIX E
BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

The information relating to the Book-Entry System under this heading have been furnished by The Depository Trust Company and have not been independently verified by LES or the Underwriters. Neither the Underwriters nor LES makes any representation whatsoever as to the accuracy, adequacy or completeness of such information.

General

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2018 Bonds. The 2018 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond Certificate will be issued for each maturity of each series of the 2018 Bonds in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC and Its Direct and Indirect Participants

DTC, the world’s largest depository, is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, 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. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of the Depository Trust & Clearing Corporation (“DTCC”). DTCC 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 Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests

Purchases of the 2018 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2018 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2018 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 confirmation 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 2018 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 the 2018 Bonds, except in the event that use of the book-entry system for the 2018 Bonds is discontinued.

Transfers and Exchanges of Beneficial Ownership Interests

To facilitate subsequent transfers, all 2018 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 2018 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee does not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2018 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2018 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.

Notices and Consents

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 2018 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2018 Bonds, such as redemptions, tenders, defaults and proposed amendments to the 2018 Bonds documents. For example, Beneficial Owners of 2018 Bonds may wish to ascertain that the nominee holding the 2018 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 shall be sent to DTC. If less than all of the securities 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 2018 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to LES 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 2018 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of Principal, Interest and Redemption Price

Principal, redemption proceeds and interest payments on the 2018 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 District or the Bond Fund Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (or its nominee), the Paying Agent or LES, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption proceeds (if applicable) and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of LES or the Paying Agent, disbursement of such payments to

Direct Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of Direct and Indirect Participants.

The Beneficial Owners of the 2018 Bonds will rely on DTC's Direct or Indirect Participants for timely payments and other notices and for otherwise making available to the Beneficial Owner the rights of a Bondholder. No assurances can be provided that in the event of bankruptcy or insolvency of DTC or a Direct or Indirect Participant through which a Beneficial Owner holds beneficial interests in the 2018 Bonds, payment will be made by DTC or the Direct or Indirect Participant on a timely basis.

Discontinuance of DTC Services

DTC may discontinue providing its services as depository with respect to the 2018 Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, 2018 Bond certificates are required to be printed and delivered.

LES may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depository). In that event, 2018 Bond certificates will be printed and delivered.

LES and the Paying Agent will not have any responsibility or obligation to Direct or Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC or any Direct or Indirect Participant; (ii) the payment by DTC or any Direct or Indirect Participant of any amount with respect to the principal or redemption price of, or interest on, the 2018 Bonds; (iii) any notice which is permitted or required to be given to Bondholders under the Resolution; (iv) the selection by DTC or any Direct or Indirect Participant of any person to receive payment in the event of a partial redemption of the 2018 Bonds; or (v) any consent given or other action taken by DTC as Bondholder.

The information included in this Appendix E, other than in this paragraph and the preceding bold face paragraphs, has been provided by DTC. No representation is made by LES, the Paying Agent or the Underwriters as to the accuracy or adequacy of such information provided by DTC or as to the absence of material adverse changes in such information subsequent to the date thereof.

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APPENDIX F

FORM OF OPINION OF BOND COUNSEL

[CLOSING DATE]

The City of Lincoln, Nebraska
Acting for and on behalf of:
Lincoln Electric System
1040 “0” Street
Lincoln, NE 68508

Merrill Lynch, Pierce, Fenner & Smith
Incorporated, as Senior Manager of the
Underwriters
12th Floor
One Bryant Park
New York, NY 10036

\$121,205,000
The City of Lincoln, Nebraska
Lincoln Electric System Revenue Bonds
Series 2018

Ladies and Gentlemen:

We have examined proceedings relating to the issuance by the City of Lincoln, Nebraska (the “Issuer”) of its Lincoln Electric System Revenue Bonds, Series 2018 (the “2018 Bonds”). The 2018 Bonds are issued pursuant to Ordinance No. 17879 (the “General Ordinance”) adopted on July 23, 2001, by the City Council (the “Council”) and Ordinance No. 20583 adopted on November 20, 2017, by the Council (the “Eighth Series Ordinance”). The General Ordinance and the Eighth Series Ordinance are hereinafter collectively referred to as the “Ordinance.” Capitalized terms used and not otherwise defined in this opinion have the meanings assigned to those terms in the Ordinance.

The 2018 Bonds recite that they are issued under and pursuant to and in full compliance with the Constitution and laws of the State of Nebraska, including the Charter of the Issuer (the “Charter”), and the Ordinance.

We have examined the Constitution and statutes of the State of Nebraska, applicable provisions of the Charter, and a certified transcript of the proceedings of the Issuer authorizing or relating to the issuance of the 2018 Bonds. We have also reviewed such other documentation and certificates as we deem relevant and necessary in rendering this opinion. The Issuer has covenanted in the Ordinance and the tax compliance certificate of the Issuer dated the date hereof (the “Tax Certificate”) to comply with all necessary provisions of the Internal Revenue Code of 1986 (the “Code”) and the related regulations, rulings and judicial decisions in order to preserve the exclusion of interest on the 2018 Bonds from gross income for federal income tax purposes. Noncompliance by the Issuer with such restrictions may cause the interest on the 2018 Bonds to be subject to federal income taxation retroactive to their date of issue. We have assumed that the Issuer and others will comply with the covenants, agreements, representations and certifications included in the

items examined. As to questions of fact material to our opinion, we have relied upon the certifications and representations of public officials and others in the items examined without undertaking to verify the same by independent investigation.

Based on such examination, we are of the opinion that:

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 2018 Bonds.

2. The 2018 Bonds have been duly authorized, executed and delivered by the Issuer and are valid and legally binding special obligations of the Issuer.

3. The 2018 Bonds are payable solely from the net income and revenues derived by the Issuer from the operation of the Lincoln Electric System, after providing for the costs of operation and maintenance thereof. The 2018 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 2018 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 2018 Bonds on a parity with all Bonds issued pursuant to the General Ordinance outstanding on the date hereof. Additional Bonds and certain other obligations of the Issuer ranking on a parity with the 2018 Bonds may be issued under the conditions set forth in the Ordinance.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the 2018 Bonds is not includable in gross income for federal income tax purposes. Interest on the 2018 Bonds does not constitute an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations by the Code. However, for the purpose of computing the alternative minimum tax imposed on certain corporations for taxable years beginning before January 1, 2018, interest on the 2018 Bonds will be included in the "adjusted current earnings" of such corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses). The opinions set forth in this paragraph are subject to continuing compliance by the Issuer with covenants regarding federal tax law contained in the Ordinance and the Tax Certificate. Failure to comply with such covenants could cause interest on the 2018 Bonds to be included in gross income retroactive to the date of issue of the 2018 Bonds. Although we are of the opinion that interest on the 2018 Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the 2018 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deduction. We express no opinion regarding any such consequences.

6. Under existing laws, regulations and judicial decisions, interest on the 2018 Bonds is exempt from all present Nebraska state income taxes as long as it is exempt for purposes of the federal income tax.

We express no opinion regarding the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the 2018 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 obligations of the Issuer contained in the 2018 Bonds and the Ordinance, and the enforceability thereof, are subject to general principles of equity which may permit the exercise of judicial discretion, the reasonable exercise in the future by the State of Nebraska and its governmental bodies of the police power inherent in the sovereignty of the State, applicable bankruptcy, insolvency, moratorium or similar laws relating to or affecting creditors' rights generally and the exercise by the United States of America of the powers delegated to it by the Constitution of the United States of America.

The scope of our engagement has not extended beyond the examinations and the rendering of the opinions expressed herein. This letter is issued to and for the sole benefit of the above addressees and is issued for the sole purpose of the transaction specifically referred to herein. No person other than the above addressees may rely upon this letter without our express prior written consent. This letter may not be utilized by you for any other purpose whatsoever and may not be quoted by you without our express prior written consent. We have not assumed any responsibility with respect to the creditworthiness of the security for the 2018 Bonds, and our engagement as bond counsel with respect to the transaction referred to herein terminates upon the date of this letter. We assume no obligation to review or supplement this letter subsequent to its date, whether by reason of a change in the current laws, by legislative or regulatory action, by judicial decision or for any other reason.

Very truly yours,

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