

**NEW ISSUE
BOOK-ENTRY ONLY**

**RATING: MOODY'S "Aaa"
NOT BANK QUALIFIED**

In the opinion of Special Tax Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended, the Interest Portion of Basic Rent Payments paid by the City and distributed to the registered owners of the Series 2017 Certificates (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal and Nebraska income tax purposes, except as described in this Official Statement, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Series 2017 Certificates have not been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS."

**OFFICIAL STATEMENT
\$3,450,000
CERTIFICATES OF PARTICIPATION
Series 2017
Evidencing Proportionate Interests of the Owners
Thereof in Basic Rent Payments to be Made by
THE CITY OF LINCOLN, NEBRASKA**

as Lessee pursuant to a Lease Purchase Agreement with Union Bank and Trust Company, as Lessor

Dated: date of delivery

Due: October 15, as shown below

The Series 2017 Certificates will be executed and delivered in fully registered form in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series 2017 Certificates. Purchases of the Series 2017 Certificates will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof as described above. Purchasers will not receive certificates representing their interests in Series 2017 Certificate purchases. So long as Cede & Co. is the registered owner of the Series 2017 Certificates, as nominee of DTC, references herein to the Registered Owners shall mean Cede & Co. and shall not mean the Beneficial Owners (herein defined) of the Series 2017 Certificates. Interest Portions of Basic Rent represented by the Series 2017 Certificates are payable semiannually on April 15 and October 15 of each year, to and including the date of maturity or prepayment, whichever is earlier, commencing on April 15, 2018.

The Series 2017 Certificates evidence the ownership of proportionate interests in, and rights to receive payments under, a Lease Purchase Agreement dated October 12, 2017 (the "Lease"), between Union Bank and Trust Company, a state banking corporation (the "Trustee"), as lessor, and The City of Lincoln, Nebraska (the "City"), as lessee. The Series 2017 Certificates are executed and delivered pursuant to a Declaration of Trust dated October 12, 2017 (the "Declaration of Trust"), made by the Trustee. Neither the Series 2017 Certificates nor the Basic Rent Payments are obligations of the Trustee, and the Trustee does not have any obligations under or with respect to the Series 2017 Certificates or the Basic Rent Payments.

The Series 2017 Certificates are subject to optional prepayment prior to maturity as described herein. See "THE SERIES 2017 CERTIFICATES OF PARTICIPATION – Optional Prepayment."

The Series 2017 Certificates constitute interests in Basic Rent Payments to be made by the City. The Basic Rent Payments are payable from the City's General Fund, which includes the City's sales tax revenue and ad valorem taxes levied by the City against all taxable property in the City. See "NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION."

MATURITY SCHEDULE

<u>Maturity (October 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP (534266)</u>	<u>Maturity (October 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP (534266)</u>
2018	\$295,000	3.000%	1.000%	102.001%	GW5	2023	\$350,000	4.000%	1.550%	114.003%	HB0
2019	305,000	3.000	1.050	103.865	GX3	2024	365,000	4.000	1.690	115.206	HC8
2020	315,000	3.000	1.140	105.485	GY1	2025	375,000	3.000	1.840	107.594*	HD6
2021	325,000	3.000	1.230	106.901	GZ8	2026	390,000	2.000	2.100	99.183	HE4
2022	335,000	4.000	1.400	112.533	HA2	2027	395,000	2.000	2.220	98.035	HF1

*Yield to first optional call date of October 15, 2024.

The Series 2017 Certificates are offered when, as and if executed and delivered by the Trustee, subject to the approval of their validity by Gilmore & Bell, P.C., Special Tax Counsel, as described herein. Certain legal matters will be passed upon for the City by Jeffery R. Kirkpatrick, City Attorney. It is expected that the Series 2017 Certificates in definitive form will be available for delivery at The Depository Trust Company in New York, New York, on or about October 12, 2017.

AMERITAS INVESTMENT CORP.
Has Acted as Municipal Advisor with respect to the Series 2017 Certificates

The date of this Official Statement is September 27, 2017.

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

Christopher J. Beutler, Mayor

City Council Members

Roy Christensen (Chair)

Jon Camp
Carl Eskridge
Leirion Gaylor Baird

Cyndi Lamm
Jane Raybould
Bennie Shobe

City Department Heads

Brandon A. Kauffman..... Finance Director
Jeffery R. Kirkpatrick City Attorney
David Cary Planning Director
Lynn Johnson Parks and Recreation Director
Kevin Wailes..... LES Administrator and CEO
David Landis Urban Development Director
Pat Leach..... Library Director
Miki Esposito Public Works and Utilities Director
Thomas Casady Public Safety Director
Charlotte Burke Acting Health Director
Douglas J. McDaniel..... Personnel Director
Chad Blahak..... Building and Safety Director
Jeff Bliemeister Police Chief
Michael Despain Fire Chief

Peggy Tharnish, City Controller

Municipal Advisor

Ameritas Investment Corp.

Special Tax Counsel

Gilmore & Bell, P.C.

Lessor and Trustee

Union Bank and Trust Company

Independent Auditors

BKD LLP

REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, sales representative or other person has been authorized by the City or the Underwriter to give any information or to make any representations with respect to the Series 2017 Certificates other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2017 Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Underwriter. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

In connection with this offering, the Underwriter may over allot or effect transactions that stabilize or maintain the market price of the Series 2017 Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Series 2017 Certificates have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended, or under any state securities or “blue sky” laws. The Series 2017 Certificates are offered pursuant to an exemption from registration with the Securities and Exchange Commission. The securities described herein have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

FORWARD-LOOKING STATEMENTS

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

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OFFICIAL STATEMENT

\$3,450,000

CERTIFICATES OF PARTICIPATION

SERIES 2017

Evidencing Proportionate Interests of the Owners

Thereof in Basic Rent Payments to be Made by

THE CITY OF LINCOLN, NEBRASKA

as Lessee pursuant to a Lease Purchase Agreement with

Union Bank and Trust Company, as Lessor

INTRODUCTION

This introduction is only a brief description and summary of certain information contained in this Official Statement and is qualified in its entirety by reference to more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement.

Purpose of the Official Statement

This Official Statement, including the cover page and the appendices hereto (the **“Official Statement”**), is provided to furnish information with respect to the sale and delivery of certificates of participation in the aggregate principal amount of \$3,450,000 (the **“Series 2017 Certificates”**), representing the proportionate interests of the owners thereof (the **“Certificate Owners”**) in basic rent payments (the **“Basic Rent Payments”**) to be made by The City of Lincoln, Nebraska (the **“City”**), as the rental payments and purchase price of the interest of Union Bank and Trust Company, a state banking corporation, as lessor (the **“Trustee”**), in the hereinafter defined Equipment, pursuant to a Lease Purchase Agreement, dated October 12, 2017 (the **“Lease”**), entered into between the Trustee and the City, as lessee. See **“THE EQUIPMENT.”**

The City

The City is a city of the primary class and political subdivision organized and existing under the laws of the State of Nebraska. The City is located in the geographic center of Lancaster County, Nebraska, and is the state capital, as well as the county seat. See **“APPENDIX A: THE CITY OF LINCOLN, NEBRASKA”** and **“APPENDIX B: FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED AUGUST 31, 2016, TOGETHER WITH AUDITOR’S REPORT THEREON.”**

Plan of Financing

The proceeds received from the sale of the Series 2017 Certificates will be used to (a) purchase and install light poles and related equipment, such as light fixtures, wiring, and other items necessary to complete the installation of new street lights in the City (collectively, the **“Equipment”**) and (b) pay certain costs related to the execution and delivery of the Series 2017 Certificates.

Pursuant to the terms and conditions of the Lease and the Declaration of Trust, as defined below, the Trustee and the City have agreed that the Trustee will pay, from proceeds of the sale of the Series 2017 Certificates, the cost of the Equipment.

The Series 2017 Certificates are payable solely from the Basic Rent Payments to be paid by the City under the Lease and, to the extent received by the Trustee, net proceeds of certain insurance policies, condemnation awards or proceeds from the liquidation of interests in the Equipment.

The Financing Documents

The Trustee will lease the Equipment, with the option to purchase upon final payment of all amounts due thereunder, to the City pursuant to the Lease. The Lease provides, among other things, for a term that commences on the date of delivery of the Series 2017 Certificates, and ends on October 15, 2027, the date of the final maturity of the Series 2017 Certificates. The City is authorized to enter into the Lease pursuant to Ordinance No. 20532, passed by the Council on August 28, 2017 and approved by the Mayor on August 31, 2017 (the “**Ordinance**”).

The Series 2017 Certificates are being executed and delivered pursuant to a Declaration of Trust dated the date of delivery (the “**Declaration of Trust**”), made by the Trustee. Neither the Certificates nor the Basic Rent Payments are obligations of the Trustee, and the Trustee has no liability or obligation under or with respect to the Certificates or the Basic Rent Payments.

Under the Declaration of Trust, the Trustee will hold all of its estate, right, title and interest in the Lease for the benefit of the Certificate Owners.

Financial Statements

The audited financial statements of the City for Fiscal Year ended August 31, 2016, are included in **APPENDIX B** hereto. The financial statements in **APPENDIX B** have been audited by BKD, LLP, Lincoln, Nebraska, independent auditors, whose report thereon is also included in **APPENDIX B** hereto. The City did not request BKD, LLP to perform any updating procedures subsequent to the date of its audit report on the August 31, 2016 financial statements.

Continuing Disclosure

The City agrees in a Continuing Disclosure Undertaking dated the date of delivery (the “**Disclosure Certificate**”) to provide certain annual financial information and operating data relating to the City by not later than May 1 of each year (the “**Annual Report**”), commencing May 1, 2018, and to provide notices of the occurrence of certain enumerated events. See “**CONTINUING DISCLOSURE.**”

Definitions and Descriptions; Inspection of Documents

Certain capitalized terms used in this Official Statement and not otherwise defined herein shall have the meanings given to such terms in “**APPENDIX C: DEFINITIONS AND SUMMARIES OF CERTAIN PRINCIPAL DOCUMENTS.**” Summaries of the Lease and the Declaration of Trust are also included in **APPENDIX C**. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Lease, the Declaration of Trust and the Disclosure Certificate are qualified in their entirety by reference to such documents, copies of which may be viewed at the principal corporate office of the Municipal Advisor with respect to the Series 2017 Certificates, 390 N. Cotner Blvd., Lincoln, Nebraska 68505 or will be provided by the Municipal Advisor with respect to the Series 2017 Certificates to any prospective purchaser requesting the same, upon payment by such prospective

purchaser of the cost of complying with such request. All references to the Series 2017 Certificates are qualified in their entirety by the definitive terms thereof and the information with respect thereto included in the Lease, the Declaration of Trust and the Disclosure Certificate. Information concerning the City has been supplied by the City, and has not been verified by the Trustee, and the Trustee makes no representation or warranty, express or implied, as to the accuracy or completeness of such information.

THE SERIES 2017 CERTIFICATES OF PARTICIPATION

General Provisions

The Series 2017 Certificates are dated the date of delivery thereof, and will mature on October 15, in the amounts and in the years stated on the cover page hereof unless prepaid prior thereto.

Payment of Basic Rent and Prepayment Price

The Series 2017 Certificates will be delivered in the denomination of \$5,000 each or any integral multiple thereof in book-entry form. Purchases of the Series 2017 Certificates will be made in book-entry only form in the denomination of \$5,000 or any integral multiple thereof. Purchasers of the Series 2017 Certificates will not receive certificates representing their interests in the Series 2017 Certificates purchased. Each Series 2017 Certificate represents a proportionate interest in the Principal Portions and Interest Portions of the Basic Rent Payments to be paid by the City to the Trustee for the benefit of the Series 2017 Certificate Owners. Principal Portions of Basic Rent will be payable on October 15 of each year beginning October 15, 2018. Interest Portions of Basic Rent shall be payable semiannually on April 15 and October 15 of each year (each, a “**Basic Rent Payment Date**”), beginning on April 15, 2018, to and including the date of maturity or prepayment, whichever is earlier. Under the Declaration of Trust, the Trustee is designated as the initial paying agent for the Series 2017 Certificates.

While the Series 2017 Certificates remain in book-entry form, payments to Beneficial Owners (defined herein) are governed by the rules of DTC as described in “**BOOK-ENTRY ONLY SYSTEM.**” In the event that DTC ceases to act as securities depository for the Series 2017 Certificates, payment may be made as described below. Under the Declaration of Trust, the Trustee is designated as the initial paying agent for the Series 2017 Certificates.

Interest Portions of Basic Rent represented by the Series 2017 Certificates shall be payable by check or draft of the Trustee mailed to the Series 2017 Certificate Owners at the address of each Series 2017 Certificate Owner shown on the registration books maintained by the Trustee as of the close of business on the fifteenth day (whether or not a Business Day) prior to each Basic Rent Payment Date (the “**Record Date**”), or at the written request of any Owner of Series 2017 Certificates in the aggregate Principal Portion of at least \$500,000, by electronic transfer to the bank for credit to the ABA routing number and account number filed with the Trustee no later than 15 days prior to the record date.

The Principal Portion of the Basic Rent or Prepayment Price represented by the Series 2017 Certificates will be payable (whether at maturity or upon prepayment or acceleration) by check or draft to the Owners of such Series 2017 Certificates upon presentation and surrender of such Series 2017 Certificates at the designated corporate trust office of the Trustee.

Transfer and Exchange

While the Series 2017 Certificates remain in book-entry form, transfers of ownership by Beneficial Owners may be made as described under “**BOOK-ENTRY ONLY SYSTEM.**” In the event that DTC

ceases to act as securities depository for the Series 2017 Certificates, transfers may be effected as described below.

Books for the registration and transfer of the Series 2017 Certificates are to be kept by the Trustee, as registrar. Upon surrender for transfer of any Series 2017 Certificate at the principal payment office of the Trustee and satisfaction of the conditions and restrictions of such transfer, the Trustee is to execute and deliver in the name of the transferee a new Series 2017 Certificate of the same maturity or maturities, interest rate and tenor as the Series 2017 Certificates surrendered. Series 2017 Certificates may be exchanged at the principal payment office of the Trustee for an equal aggregate principal amount of Series 2017 Certificates of the same maturity or maturities, interest rate and tenor as the Series 2017 Certificate surrendered. All Series 2017 Certificates presented for transfer or exchange must be accompanied by a written instrument of transfer or authorization for exchange, in form and with guaranty of signature satisfactory to the Trustee, duly executed by the Owner or by his attorney duly authorized in writing.

The Trustee is not required to transfer or exchange any Series 2017 Certificate after such Series 2017 Certificate has been called for prepayment.

The person in whose name any Series 2017 Certificate is registered is deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of either the Principal Portion or the Interest Portion of the Basic Rent Payments represented by any Series 2017 Certificate will be made only to or upon the written order of the registered owner thereof or his legal representative.

The Series 2017 Certificates are payable in lawful money of the United States of America which at the time of payment is legal tender for the payment of public and private debt. Series 2017 Certificates may be transferred at the principal payment office of the Trustee. Series 2017 Certificates may be exchanged for Series 2017 Certificates of the same maturity of other authorized denominations in accordance with the terms of the Declaration of Trust. For every such exchange or transfer of Series 2017 Certificates, the Trustee shall make a charge to the Series 2017 Certificate Owner sufficient to reimburse it for any tax, fee or other governmental charges required to be paid with respect to such exchange or transfer.

Optional Prepayment

Optional Prepayment. The Series 2017 Certificates maturing on October 15, 2025, and thereafter are subject to optional prepayment at the option of the City, as a whole or in part, at any time on or after October 15, 2024, at the prepayment price of 100% of the Principal Portion of Basic Rent being prepaid set forth below, plus Interest Portions of Basic Rent accrued to the prepayment date.

Notice of Prepayment. Unless otherwise provided in the Declaration of Trust, notice of prepayment shall be given by the Trustee not less than 30 days nor more than 60 days prior to the Prepayment Date to the City and the Owner of each Series 2017 Certificate affected at the address shown on the registration books of the Registrar on the date such notice is mailed. Each notice of prepayment shall state the Prepayment Date, the place of prepayment, the Prepayment Price and, if less than all, the numbers of the Series 2017 Certificates to be prepaid. Such notice will also state that the Interest Portion of the Basic Rent represented by the Series 2017 Certificates designated for prepayment will cease to accrue from and after such Prepayment Date and that on said date the Prepayment Price will become due and payable on each of such Series 2017 Certificates.

So long as the book-entry only system is used for the Series 2017 Certificates, the Trustee will give any notice of prepayment or any other notices required to be given to owners only to DTC. Any failure of DTC to advise any DTC Participant or of any DTC Participant to notify the Beneficial Owner of any such

notice and its content or effect will not affect the validity of the prepayment of the Series 2017 Certificates so called for prepayment. Beneficial Owners may desire to make arrangements with a DTC Participant so that all notices of prepayment or other communications to DTC which affect such Beneficial Owners, including notification of all interest payments, will be forwarded in writing by such DTC Participant. See **“BOOK-ENTRY SYSTEM.”**

The Trustee is also directed to comply with any mandatory or voluntary standards then in effect for processing prepayments of municipal securities established by the Securities and Exchange Commission. Failure to comply with such standards shall not affect or invalidate the prepayment of any Series 2017 Certificates to be prepaid.

Effect of Prepayment. Notice of prepayment having been duly given as provided, and upon funds sufficient for payment of the Prepayment Price of such Series 2017 Certificates being held by the Trustee, on the Prepayment Date designated in such notice, the Series 2017 Certificates so called for prepayment shall become due and payable at the Prepayment Price specified in such notice and the Interest Portion of Basic Rent represented by the Series 2017 Certificates so called for prepayment shall cease to accrue, said Series 2017 Certificates shall cease to be entitled to any benefit or security under the Declaration of Trust and the Owners of such Series 2017 Certificates shall have no rights in respect thereof except to receive payments of the Prepayment Price.

Book-Entry Only System

General. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2017 Certificates. The ownership of one fully registered Series 2017 Certificate for each maturity, as set forth on the cover of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as the nominee for DTC. Ownership interests in the Series 2017 Certificates will be available to purchasers only through a book-entry system maintained by DTC (the **“Book-Entry System”**). A description of DTC, the Book-Entry System and definitions of initially capitalized terms used herein are found in **“APPENDIX D: BOOK-ENTRY SYSTEM”** to this Official Statement.

Risk Factors. Beneficial Owners of the Series 2017 Certificates may experience some delay in their receipt of distributions of the principal or redemption price of and interest on the Series 2017 Certificates because such distributions will be forwarded by the Registrar to DTC, credited by DTC to its Direct Participants, and then credited to the accounts of the Beneficial Owners either directly or indirectly through Indirect Participants.

Because transactions in the Series 2017 Certificates can only be effected through DTC, DTC Participants and certain banks, the ability of a Beneficial Owner to pledge Series 2017 Certificates to persons or entities that do not participate in the Book-Entry System, or otherwise to take actions in respect of such Series 2017 Certificates, 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 AND SOURCES OF PAYMENT FOR THE SERIES 2017 CERTIFICATES

The City has contracted in the Lease to pay the Rental Payments which are general obligations of the City payable from the City’s General Fund, and are not subject to annual appropriation by the Council. The City’s General Fund includes sales tax revenue together with ad valorem taxes which the City is

authorized to levy, subject to certain budget and levy limitations, in amounts sufficient to make the Rental Payments. In the Lease, the City has covenanted that the Rental Payments and any additional rent payable under the Lease do not exceed any limitation imposed by law, and that the Rental Payments are not such as may reasonably be expected to require the City to levy taxes in excess of any levy or budget limitation. The City shall continue to be responsible to raise funds to pay and to take all actions required to provide funds to make the Rental Payments required in the Lease from any power and source lawfully available. The City has further covenanted and agreed that throughout the term of the Lease it will observe all budget and spending limitations now or hereafter imposed by law in such a manner that a sufficient portion of its tax levy or other money shall be lawfully available to pay the Rental Payments and any additional rent due under the Lease. Any property taxes levied by the City to make Rental Payments are subject to the budget and levy limitations described under **“NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION.”**

NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION

In recent years, the Nebraska Legislature (the **“Legislature”**) has enacted and amended legislation intended to reduce the level of property taxation and political subdivision expenditures in the State of Nebraska (the **“State”**). The two statutory sections of principal importance are Section 13-519, Reissue Revised Statutes of Nebraska, as amended (as enacted and amended from time to time, **“Section 13-519”**), which provides for an overall limitation on general fund budget expenditures for all governmental units within the State, and Section 77-3442, Reissue Revised Statutes of Nebraska, as amended (as enacted and amended from time to time, **“Section 77-3442”**), which reduces the rate of taxation for general property taxes authorized for all governmental units within the State.

Section 13-519 provides that for all fiscal years beginning on or after July 1, 1998, no governmental unit (including the City) may adopt a budget containing a total of budgeted restricted funds more than the last prior year’s total of budgeted restricted funds plus allowable growth, plus a basic allowable growth percentage (initially 2½% until adjusted by the Legislature). Restricted funds generally include property taxes, excluding any amounts refunded to taxpayers, payments in lieu of property taxes, local option sales taxes, state aid, transfers of surpluses from any user fee, permit fee, or regulatory fee if the fee surplus is transferred to fund a service or function not directly related to the fee and the costs of the activity funded from the fee, any funds excluded from restricted funds for the prior year because they were budgeted for capital improvements but which were not spent and are not expected to be spent for capital improvements, and any excess tax collections returned to the county by a governmental unit as a result of overpayment due to clerical error or mistake. Allowable growth includes the percentage increase in taxable valuation in excess of the base limitation established under Section 77-3446, Reissue Revised Statutes of Nebraska, as amended, if any, due to improvements to real property as a result of new construction, additions to existing buildings, any improvements to real property which increase the value of such property and any increase in valuation due to annexation and any personal property valuation over the prior year. Such budget limitations may be exceeded by up to an additional 1% upon the affirmative vote of at least 75% of the governing body of the governmental unit, and larger increases are permitted with the approval of a majority of legal voters voting on the issue of such increase at a special election held for such purposes.

For the 2013-2014 fiscal year, the City was permitted to increase its appropriation of restricted funds under the budget limitations by 2.5%. Unused restricted fund authority from prior years can be carried over into future fiscal years to use in addition to the annual increases allowed. As of August 31, 2016, the City had accumulated \$7,163,429 of unused restricted funds authority which would be available for future fiscal years.

Under Section 77-3442, the rates for levying property taxes are limited for each type of governmental unit in the State. The rate for cities is no more than 45¢ per \$100 of taxable valuation plus an additional 5¢ per \$100 of taxable valuation may be levied to provide financing for a city's share of revenue required under an agreement executed pursuant to the Interlocal Cooperation Act, Chapter 13, Article 8, Reissue Revised Statutes of Nebraska, as amended, or the Joint Public Agency Act, Chapter 13, Article 25, Reissue Revised Statutes of Nebraska, as amended. A political subdivision may exceed the levy limitations provided in Section 77-3442 or a final levy allocation determination as provided in Section 77-3443 by an amount not to exceed a maximum levy approved by a majority of registered voters. The limitations of Section 13-519 do not apply to restricted funds pledged to retire bonded indebtedness, and the limitations of Section 77-3442 do not apply to property taxes levied for bonded indebtedness approved according to law and secured by a levy on property. The limitations of Section 13-519 and Section 77-3442 apply to any property taxes levied by the City to pay Rental Payments under the Lease. The City's total levy (excluding bond levy) for the current fiscal year is \$0.29964 per \$100 of taxable valuation, which is expected to produce \$56,544,542 in collected taxes.

ADDITIONAL CERTIFICATES

The Trustee may, at any time upon compliance with certain terms and conditions set forth in the Declaration of Trust, deliver Additional Certificates for any purpose specified in the Declaration of Trust. Any Additional Certificates will be equally and ratably secured by the Declaration of Trust on a parity with the Series 2017 Certificates. Concurrently with the delivery of any such Additional Certificates, the Trustee and the City shall deliver an amendment to the Lease obligating the City to make payments of principal thereof and interest thereon in amounts and at times sufficient to provide for the timely payment of principal of and interest on such Additional Certificates. See **“APPENDIX C: DEFINITIONS AND SUMMARIES OF CERTAIN PRINCIPAL DOCUMENTS - DECLARATION OF TRUST - Additional Certificates.”**

THE TRUSTEE

The Trustee is not liable for the payment of Basic Rent Payments, and the Owners have no right to look to the Trustee for any payments of the Series 2017 Certificates or for any other payments other than from funds held under the Declaration of Trust.

RISK FACTORS

Inability to Liquidate

The enforceability of the Series 2017 Certificates and the Lease is subject to applicable bankruptcy laws, equitable principles affecting the enforcement of creditors rights generally and liens securing such rights, and the police powers of the State and its political subdivisions. The Equipment is appropriate for use only as part of a street lighting system. Because of such limited use, and the delays inherent in obtaining the remedies involving such property, a potential purchaser of the Series 2017 Certificates should not anticipate that remedies could be accomplished rapidly, if at all. Any delays in the ability of the Trustee to exercise its remedies under the Lease or the Declaration of Trust may result in the payment of the Series 2017 Certificates or nonpayment of the Series 2017 Certificate.

Effects on the Tax Exemption of the Series 2017 Certificates Upon a Termination

Special Tax Counsel expresses no opinion with respect to the applicability of the registration requirements of the Securities Act of 1933, as amended to any Series 2017 Certificates in the event of a termination of the Lease by reason of an Event of Default. If the Lease is terminated by reason of such event, there is no assurance that the Series 2017 Certificates may be transferred by an Owner thereof without compliance with the registration provisions of the Securities Act of 1933, as amended, or the availability of an exemption therefrom.

Special Tax Counsel expresses no opinion as to the treatment for federal income tax purposes of any moneys received by an Owner of the Series 2017 Certificates other than payments by the City made pursuant to the Lease, upon an Event of Default. There can be no assurance that such moneys received by the Owners of the Series 2017 Certificates in such event will be excludable from gross income for federal income tax purposes.

Limitation of Rights Upon Insolvency

The United States Bankruptcy Code enables debtors (including municipalities such as the City) that are insolvent to obtain relief through a petition and plan that may result in the modification or delay of payments to creditors, including registered owners of the Series 2017 Certificates. In the event the City becomes insolvent, the registered owners of the Series 2017 Certificates would be treated as general creditors of the City along with all other unsecured claimants. The extent to which the exception from limitations upon overall tax rates provided for in existing legislation might entitle registered owners of the Series 2017 Certificates to be treated as a separate class or otherwise given priority over other unsecured claimants is a matter that would be subject to future determinations of state and federal courts interpreting and applying both state law and the provisions of the United States Bankruptcy Code. Procedures under the United States Bankruptcy Code or other insolvency laws could result in delays in payment and modifications of payment rights.

The State of Nebraska has authorized its political subdivisions to seek relief under the United States Bankruptcy Code; provided, however, recent limitations have been imposed by the State. In 2017, the Nebraska Legislature (the “**Legislature**”) passed and the Governor approved Legislative Bill 72 (“**LB 72**”), which prohibits a city or village in the State from filing for bankruptcy if its defined benefit retirement plan, if any, is below certain funding levels at the time of the filing of the bankruptcy petition as follows:

<u>Period of Petition Filing</u>	<u>Funded Ratio of Actuarial Value of Assets</u>
January 1, 2020 to January 1, 2023	Less than 51.65%
January 1, 2023 to January 1, 2026	Less than 54.41%
January 1, 2026 to January 1, 2029	Less than 58.21%
January 1, 2029 to January 1, 2032	Less than 63.41%
January 1, 2032 to January 1, 2035	Less than 70.71%
January 1, 2035 to January 1, 2038	Less than 80.61%
After January 1, 2038	Less than 90.00%

The City’s funded ratio for its only defined benefit retirement plan, the Police and Fire Pension Plan, based on the actuarial value of assets as of August 31, 2016, and as discussed more fully in Footnote 13 to the City’s audited financial statements attached hereto, was 78.74%. The City expects that its funded ratio will increase over time, and does not believe that the limitation imposed by LB 72 would prohibit the City from filing for bankruptcy.

THE EQUIPMENT

Description of the Equipment

The Equipment consists of light poles and related equipment, such as light fixtures, wiring, and other items necessary to complete the installation of new street lights in the City.

ESTIMATED SOURCES AND USES OF FUNDS

The sources and application of funds in connection with the execution of the Series 2017 Certificates, exclusive of accrued interest, are estimated, based upon certain assumptions regarding the investment of such funds, as follows:

Sources of Funds:

Par Amount of the Series 2017 Certificates	\$3,450,000.00
Net Original Issue Premium	<u>221,424.60</u>
Total Sources of Funds	<u>\$3,671,424.60</u>

Applications of Funds:

Costs of Equipment	\$3,600,954.97
Costs of Issuance*	50,100.00
Underwriter's Discount	<u>20,369.63</u>
Total Applications of Funds	<u>\$3,671,424.60</u>

*Includes legal fees, rating agency fees, municipal advisor fees and other miscellaneous expenses.

SCHEDULE OF LEASE PAYMENTS

The following table sets forth the scheduled amortization of the Series 2017 Certificates:

Period Ending October 15,	<u>Series 2017 Certificates</u>		<u>Total</u>
	<u>Principal Portion</u>	<u>Interest Portion</u>	
2018	\$ 295,000	\$107,034.58	\$ 402,034.58
2019	305,000	97,300.00	402,300.00
2020	315,000	88,150.00	403,150.00
2021	325,000	78,700.00	403,700.00
2022	335,000	68,950.00	403,950.00
2023	350,000	55,550.00	405,550.00
2024	365,000	41,550.00	406,550.00
2025	375,000	26,950.00	401,950.00
2026	390,000	15,700.00	405,700.00
2027	<u>395,000</u>	<u>7,900.00</u>	<u>402,900.00</u>
Totals	<u>\$3,450,000</u>	<u>\$587,784.58</u>	<u>\$4,037,784.58</u>

SUMMARY OF THE LEGAL DOCUMENTS

Attached hereto as **APPENDIX C** are summaries of certain provisions of the Lease and the Declaration of Trust, as well as certain defined terms used therein. The summaries do not purport to be complete, and reference is made to the full text of the Lease and the Declaration of Trust, respectively, for a complete recital of their terms, as well as a complete recital of the defined terms used therein. Copies of all documents relating to the Series 2017 Certificates can be obtained from the Trustee upon payment by such prospective purchaser requesting the same of the cost of complying with such request.

CONTINUING DISCLOSURE

The City has determined that no financial or operating data concerning the Trustee is material to an evaluation of the offering of the Series 2017 Certificates or to any decision to purchase, hold or sell the Series 2017 Certificates, and the City will not provide any such information. The City has no responsibility to any person with respect to the provision of any information about the Trustee.

The City is executing and delivering the Disclosure Certificate for the benefit of the Owners and Beneficial Owners of the Series 2017 Certificates and in order to assist the Underwriter in complying with Rule 15c2-12 of the Securities and Exchange Commission (the “**Rule**”). The City is the only “obligated person” with responsibility for continuing disclosure.

The City believes it has complied in all material respects with its prior undertakings under the Rule in the past five years.

Annual Reports

Pursuant to the Disclosure Certificate, the City shall, not later than **May 1** of each year, commencing May 1, 2018, provide to the Municipal Securities Rulemaking District (“**MSRB**”) the following financial information and operating data (the “**Annual Report**”):

(a) The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles. If audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement relating to the Series 2017 Certificates, and the audited financial statements shall be filed in the same manner as the Annual Report promptly after they become available.

(b) Updates as of the end of the fiscal year of such financial and operating data as the City customarily prepares of the type included in **Appendix A** of this Official Statement in substantially the same format contained in this Official Statement.

Material Event Notices

Pursuant to the Disclosure Certificate, not later than 10 business days after the occurrence of any of the following events, the City shall also give, or cause a dissemination agent to give, notice of the occurrence of any of the following events with respect to the Series 2017 Certificates (“**Material Events**”):

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions; the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2017 Certificates, or other material events affecting the tax status of the Series 2017 Certificates;
- (7) modifications to rights of owners of the Series 2017 Certificates, if material;
- (8) bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution or sale of property securing repayment of the Series 2017 Certificates, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the City;
- (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) appointment of a successor or additional trustee or the change of name of the trustee, if material.

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

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

Notwithstanding any other provision of the Disclosure Certificate, the City may amend the Disclosure Certificate and any provision of the Disclosure Certificate may be waived, provided Special Tax Counsel or other counsel experienced in federal securities law matters provides the City with its opinion that the undertaking of the City, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to the Disclosure Certificate.

In the event of a failure of the City to comply with any provision of the Disclosure Certificate, any Owner or Beneficial Owner of the Series 2017 Certificates may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an Event of Default under the Lease Agreement or the Declaration of Trust, and the sole remedy under the Disclosure Certificate in the event of any failure of the City to comply with the Disclosure Certificate shall be an action to compel performance.

Electronic Municipal Market Access System (EMMA)

All Annual Reports and notices of Material Events required to be filed by the City or the dissemination agent pursuant to the Disclosure Certificate must be submitted to the MSRB through the MSRB's Electronic Municipal Market Access system (“EMMA”). EMMA is an internet-based, online portal for free investor access to municipal bond information, including offering documents, material event notices, real-time municipal securities trade prices and MSRB education resources, available at www.emma.msrb.org. Nothing contained on EMMA relating to the City or the Series 2017 Certificates is incorporated by reference in this Official Statement.

RATING

Moody's Investors Service, Inc. has assigned the Series 2017 Certificates a rating of “Aaa.” Such rating reflects only the views of such organization, and an explanation of the significance of such rating may be obtained from Moody's Investors Service, 7 World Trade Center, 350 Greenwich Street, 23rd Floor, New York, New York 10007, telephone (212) 553-0300.

Generally, a rating agency bases its rating on such information and materials and investigations, studies and assumptions furnished to and obtained and made by the rating agency. The rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment as to market price or suitability for a particular investor. There is no assurance that the above rating will remain for any given period of time or that it may not be lowered, suspended or withdrawn entirely by such rating agency if it deems circumstances are appropriate. Any downward change in, suspension or withdrawal of such rating may have an adverse effect on the market price of the Series 2017 Certificates.

LITIGATION

The Transcript of Proceedings will contain a certificate of non-litigation dated as of the closing date and executed by the City to the effect that there is no controversy, suit or proceeding of any kind pending or, to the knowledge of the City, threatened wherein or whereby any question is raised, or may be raised, questioning, disputing or affecting in any way the legal organization of the City, or the legality of any official act shown to have been done regarding the execution and delivery of the Lease or the Series 2017 Certificates or the constitutionality or validity of the obligation represented by the Series 2017 Certificates or the means provided for the Basic Rent Payments under the Lease.

TAX MATTERS

The following is a summary of the material federal and State of Nebraska income tax consequences of holding and disposing of the Series 2017 Certificates. This summary is based upon laws, regulations, rulings and judicial decisions now in effect, all of which are subject to change (possibly on a retroactive basis). This summary does not discuss all aspects of federal income taxation that may be relevant to investors in light of their personal investment circumstances or describe the tax consequences to certain types of owners subject to special treatment under the federal income tax laws (for example, dealers in securities or other persons who do not hold the Series 2017 Certificates as a capital asset, tax-exempt organizations, individual retirement accounts and other tax deferred accounts, and foreign taxpayers), and, except for the income tax laws of the State of Nebraska, does not discuss the consequences to an owner under any state, local or foreign tax laws. The summary does not deal with the tax treatment of persons who purchase the Series 2017 Certificates in the secondary market. Prospective investors are advised to consult their own tax advisors regarding federal, state, local and other tax considerations of holding and disposing of the Series 2017 Certificates.

Opinion of Special Tax Counsel

In the opinion of Gilmore & Bell, P.C., Special Tax Counsel, under the law existing as of the issue date of the Series 2017 Certificates:

Federal and Nebraska Tax Exemption. The Interest Portion of Basic Rent Payments on the Series 2017 Certificates (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal and Nebraska income tax purposes.

Alternative Minimum Tax. The Interest Portion of Basic Rent Payments on the Series 2017 Certificates is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Bank Qualification. The Series 2017 Certificates have not been designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

Special Tax Counsel’s opinions are provided as of the date of the original issue of the Series 2017 Certificates, subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2017 Certificates in order that the Interest Portion of Basic Rent Payments be, or continue to be, excludable from gross income for federal and Nebraska income tax purposes. The City has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the inclusion of such Interest Portion of Basic Rent

Payments on the Series 2017 Certificates in gross income for federal and State of Nebraska income tax purposes retroactive to the date of issuance of the Series 2017 Certificates. Special Tax Counsel is expressing no opinion regarding other federal, state or local tax consequences arising with respect to the Series 2017 Certificates but has reviewed the discussion under the heading “**TAX MATTERS.**”

Other Tax Consequences

Original Issue Discount. For federal income tax purposes, original issue discount (“**OID**”) is the excess of the stated redemption price at maturity of a Series 2017 Certificate over its issue price. The issue price of a Series 2017 Certificate is the first price at which a substantial amount of the Series 2017 Certificates of that maturity have been sold (ignoring sales to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers). Under Section 1288 of the Code, OID on tax-exempt securities accrues on a compound basis. The amount of OID that accrues to an owner of a Series 2017 Certificate during any accrual period generally equals (1) the issue price of that Series 2017 Certificate, plus the amount of OID accrued in all prior accrual periods, multiplied by (2) the yield to maturity on that Series 2017 Certificate (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (3) any interest payable on that Series 2017 Certificate during that accrual period. The amount of OID accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excludable from gross income for federal income tax purposes, and will increase the owner’s tax basis in that Series 2017 Certificate. Prospective investors should consult their own tax advisors concerning the calculation and accrual of OID.

Original Issue Premium. If a Series 2017 Certificate is issued at a price that exceeds the stated redemption price at maturity of the Series 2017 Certificate, the excess of the purchase price over the stated redemption price at maturity constitutes “premium” on that Series 2017 Certificate. Under Section 171 of the Code, the purchaser of that Series 2017 Certificates must amortize the premium over the term of the Series 2017 Certificate using constant yield principles, based on the purchaser’s yield to maturity. As premium is amortized, the owner’s basis in the Series 2017 Certificate and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the owner. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the Series 2017 Certificate prior to its maturity. Even though the owner’s basis is reduced, no federal income tax deduction is allowed. Prospective investors should consult their own tax advisors concerning the calculation and accrual of certificate premium.

Sale, Exchange or Retirement of Series 2017 Certificates. Upon the sale, exchange or retirement (including redemption) of a Series 2017 Certificate, an owner of the Series 2017 Certificate generally will recognize gain or loss in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale, exchange or retirement of the Series 2017 Certificate (other than in respect of accrued and unpaid interest) and such owner’s adjusted tax basis in the Series 2017 Certificate. To the extent a Series 2017 Certificate is held as a capital asset, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the Series 2017 Certificate has been held for more than 12 months at the time of sale, exchange or retirement.

Reporting Requirements. In general, information reporting requirements will apply to certain payments of principal, interest and premium paid on the Series 2017 Certificates, and to the proceeds paid on the sale of the Series 2017 Certificates, other than certain exempt recipients (such as corporations and foreign entities). A backup withholding tax will apply to such payments if the owner fails to provide a taxpayer identification number or certification of foreign or other exempt status or fails to report in full dividend and interest income. The amount of any backup withholding from a payment to an owner will be allowed as a credit against the owner’s federal income tax liability.

Collateral Federal Income Tax Consequences. Prospective purchasers of the Series 2017 Certificates should be aware that ownership of the Series 2017 Certificates may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with “excess net passive income,” foreign corporations subject to the branch profits tax, life insurance companies, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Series 2017 Certificates. Special Tax Counsel expresses no opinion regarding these tax consequences. Purchasers of Series 2017 Certificates should consult their tax advisors as to the applicability of these tax consequences and other federal income tax consequences of the purchase, ownership and disposition of the Series 2017 Certificates, including the possible application of state, local, foreign and other tax laws.

LEGAL MATTERS

All legal matters incident to the authorization, execution and delivery of the Series 2017 Certificates are subject to the approval of legality by Special Tax Counsel. Special Tax Counsel has participated in the preparation of this Official Statement but the factual and financial information appearing herein has been supplied or reviewed by the City, its officials and counsel. Certain legal matters will be passed upon for the City by its counsel, Jeffery R. Kirkpatrick, City Attorney, Lincoln, Nebraska.

ADDITIONAL INFORMATION

Additional information with respect to the City and the Series 2017 Certificates may be obtained upon request from the City.

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Official Statement is not to be construed as a contract or agreement between the City and Series 2017 Certificate Owners.

This Official Statement has been approved by the City and is submitted only in connection with the sale of the Series 2017 Certificates and may not be reproduced or used in whole or in part for any other purpose.

* * * * *

APPENDIX A

THE CITY OF LINCOLN, NEBRASKA

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 94.90 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 2016 population is 277,348.

City Government

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

City government has a broad range of responsibilities, including electric, water, and sanitary sewer systems, and an impressive park and playground system of over 6,814 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 25,897 students, Nebraska Wesleyan University, with approximately 2,100 students, Union College, with approximately 893 students, Kaplan University, with approximately 548 students, Bryan LGH College of Health Sciences with approximately 700 students, and Southeast Community College, with 9,212 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 40,935 is served by 6 high schools, 11 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	
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
2007	994	293,968,408	2,820	202,786,768	4,236,340,817	10,402,515,684	14,638,856,501

¹ City of Lincoln, Building and Safety Department.

² Lancaster County Assessor.

Police and Fire Protection

Lincoln has fourteen fire stations manned by 281 firefighters and three police stations with 321 police officers.

City Employee Information

For the 2016-2017 fiscal year, contracts have been signed with three of our unions. Unions include: the Lincoln Police Union (LPU) representing police officers; the International Association of Firefighters (IAF) representing firefighters, the Amalgamated Transit Union (ATU) representing transit workers, the Public Association of Government Employees (PAGE) representing labor, trades, and clerical personnel, the City Employees Association (CEA) representing supervisory, highly technical, and professional personnel, and the Lincoln M Class Employees Association (LMCEA) representing upper management, administration and professional personnel. The IAF, PAGE, and LMCEA contracts have not been negotiated and are operating under the terms of their prior year contracts. The LPU contract will expire at the end of August, 2019 and ATU 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

	MAY 31, 2016		NOVEMBER 30, 2016	
	Number Employed	Percent of Total	Number Employed	Percent of Total
Industry Manufacturing:				
Durable Goods	8,808	4.7	8,576	4.5
Nondurable Goods	5,026	2.7	4,827	2.5
Total Industry Manufacturing	13,834	7.4	13,403	7.0
Nonmanufacturing:				
Natural Resource & Construction	9,126	4.8	9,172	4.8
Transportation, Warehousing & Utilities	10,869	5.8	11,068	5.8
Wholesale Trade	4,033	2.1	4,070	2.1
Retail Trade	18,787	10.0	19,452	10.2
Information	2,557	1.4	2,645	1.4
Finance, Insurance & Real Estate	14,704	7.8	14,776	7.7
Services (except domestic)	72,906	38.8	74,864	39.2
Government	41,231	21.9	41,733	21.8
Total Nonmanufacturing	174,213	92.6	177,780	93.0
TOTAL	188,047	100.0	191,183	100.0

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

As of December 2016 the unemployment rate in Lincoln was 2.7%, among the lowest unemployment rates in the United States.

LINCOLN SMSA (LANCASTER COUNTY LABOR FORCE DATA 2015-2006) (For the Calendar Year Indicated)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Civilian Labor Force	177,289	177,324	178,143	176,664	172,923	171,331	169,553	168,912	166,259	165,013
Unemployment	4,648	5,257	6,209	6,361	6,902	7,202	7,290	5,186	4,639	4,668
Percent of Labor Force	2.6	3.0	3.5	3.6	4.0	4.2	4.3	3.1	2.8	2.8
Employment	172,641	172,067	171,934	170,303	166,021	164,129	162,263	163,726	161,620	160,345

STATE OF NEBRASKA

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

Source: State of Nebraska, Department of Labor

**LINCOLN PRINCIPAL EMPLOYERS
CURRENT YEAR**

Employer	Employees	Rank	Percentage of Total City Employment
State of Nebraska	9,182	1	4.80 %
Lincoln Public Schools	8,170	2	4.27
University of Nebraska-Lincoln	6,427	3	3.36
Bryan Health	3,500	4	1.83
US Government	3,252	5	1.70
City of Lincoln	2,601	6	1.36
Saint Elizabeth Regional Medical Center	2,300	7	1.20
Burlington Northern Railroad	2,000	8	1.05
Madonna Rehabilitation Hospital	1,500	9	0.78
Duncan Aviation	1,325	10	0.69
Total	40,257		21.04 %

**DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

Year	Population ¹	Per Capita Personal Income ²	School Enrollment ³
2016	277,348	\$	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
2007	241,167	37,684	33,466

Sources:

¹ Lincoln/Lancaster Planning Department.

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

Per Capita Income is based on Lincoln Metropolitan Statistical Area, which includes all of Lancaster and Seward Counties. Per Capita Income for 2016 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>
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
2007	76,816	93,301	124,878

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
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
2007	33,946,258	60,953,651	17,430,452	21,719,544	11,670,315	20,378,863	14,877,357	11,589,720	192,566,160

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

GENERAL GOVERNMENTAL REVENUES BY SOURCE ¹ LAST TEN FISCAL YEARS

Fiscal Year	Taxes And Special Assessment	Inter-Governmental	Permits And Fees	Reimbursement For Services	Investment Earnings	Other	Totals
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
2007	125,328,388	63,928,043	19,126,239	6,491,112	10,371,565	7,052,107	232,297,454

¹ Includes 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>
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
2007	1,448,146

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

Authority to Levy Taxes

Article IX, Section 3 of the Home Rule Charter of the City provides that the City shall have power to levy a tax each year for general revenue purposes upon all property subject to taxation; provided that the maximum amount of taxes that can be levied by the City in any one year for general revenue purposes shall not exceed an amount known as the City tax limit. The City tax limit is a tax ceiling established by using the September 1, 1966 City dollar tax limit as an initial tax limit, and increasing that tax limit each year following 1966 by 7% so that in each fiscal year thereafter, the amount of the City tax limit shall be the amount of the city tax limit for the previous year, plus 7% thereof. In addition, the City also has the power to levy taxes each year sufficient to pay any judgment existing against the City and the interest on bonded debt and the principal on any bonded debt maturing during the fiscal year or within six months thereafter, as well as taxes authorized by state law. The City is also authorized to receive all taxes collected and distributed pursuant to state law and in lieu of tax payments imposed by law. The 2016 tax levy for the 2016-2017 fiscal year is \$145,337,630 below the legal limit, a tax rate per \$100 valuation of .33366. The assessed value upon which the 2016 levy is based is \$18,870,825,564. By charter, only 90% of the property tax levy may be appropriated.

For the 2016-2017 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 2016-2017 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 2016-2017 budget. The 2016-2017 budget is \$4,698,337 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, 2016	
		Amount	Percent	Amount	Percent
2016	\$ 58,979,731	\$ 57,685,951	97.81 %	\$ 57,685,951	97.81 %
2015	55,475,335	54,235,009	97.76	55,472,209	99.99
2014	53,893,483	52,616,370	97.63	53,891,713	100.00
2013	52,464,811	51,226,109	97.64	52,440,696	99.95
2012	50,182,575	48,788,943	97.22	50,133,466	99.90
2011	45,620,336	44,206,917	96.90	45,566,976	99.88
2010	45,210,589	43,791,366	96.86	45,192,067	99.96
2009	45,885,354	44,385,970	96.73	45,881,621	99.99
2008	45,235,971	43,526,689	96.22	45,055,233	99.60
2007	43,339,708	41,815,295	96.48	43,314,653	99.94

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.

<u>Taxpayers</u>	<u>Type of Business</u>	<u>2015 Assessed Valuations</u>	<u>Percentage Of Total Assessed Valuation</u>
B & J Partnership Ltd.	Building Management	\$ 127,817,700	0.69%
Burlington Northern	Railroad	97,411,314	0.53%
Kawasaki	Manufacturing	79,811,695	0.43%
Nebco	Construction/Development	70,822,225	0.38%
Ameritas Life Insurance Corp	Insurance	58,790,576	0.32%
WEA Gateway LLC	Retail Management	52,978,600	0.29%
Windstream	Telecommunications	48,598,528	0.26%
BryanLGH	Hospital	42,814,500	0.23%
Assurity Life Insurance Co.	Insurance	41,260,319	0.22%
Wal-Mart Real Estate Trust	Retail Management	39,070,700	0.21%
		<u>\$ 659,376,157</u>	<u>3.56%</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
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
2007	53,960,485

**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
2016	\$ 41,564,330	\$ 71,621,717	\$ 26,396	\$ 2,119,674	\$ 9,617,902	\$ 124,950,019
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
2007	31,454,763	53,960,485	10,492	1,399,939	9,596,588	96,422,267

**TAXABLE ASSESSED VALUATION
LAST TEN YEARS ¹**

Tax Year	Real Estate	All Other	Total
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
2008	14,969,536,405	684,390,085	15,653,926,490

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									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
City of Lincoln	0.3196	0.3196	0.3158	0.3158	0.3158	0.2879	0.2879	0.2879	0.2879	0.2833
School District No. 1	1.2429	1.2434	1.2441	1.2447	1.2461	1.2462	1.2537	1.2668	1.2719	1.2764
Lancaster County	0.2783	0.2813	0.2813	0.2843	0.2683	0.2683	0.2683	0.2683	0.2755	0.2655
Educational Service Unit #18	0.0150	0.0150	0.0150	0.0150	0.0150	0.0145	0.0150	0.0150	0.0141	0.0141
Community Technical College	0.0757	0.0598	0.0667	0.0627	0.0627	0.0600	0.0676	0.0722	0.0689	0.0689
Lower Platte South Natural Res. Dist.	0.0345	0.0358	0.0361	0.0378	0.0398	0.0406	0.0410	0.0410	0.0418	0.0416
Railroad Transportation Safety Dist.	0.0160	0.0130	0.0130	0.0100	0.0260	0.0260	0.0260	0.0260	0.0260	0.0246
Lancaster County Correctional JPA City	0.0156	0.0168	0.0172	0.0177	0.0185	0.0189	0.0194	0.0195	-	-
Lancaster County Correctional JPA County	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	0.0016	0.0017	0.0016	0.0015	0.0016	0.0016
Lancaster County Fairgrounds	0.0031	0.0033	0.0034	0.0037	0.0037	0.0038	0.0038	0.0038	0.0043	0.0037
Public Building Commission	0.0170	0.0170	0.0170	0.0167	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170
	<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>	<u>1.9967</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, 2016

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	5,475
8,200	02/10/11	Stormwater Bonds	2.000 - 4.500	Serial 2013 to 2030	2020	"	6,725
19,290	06/21/11	Refunding	0.2000 - 5.000	Serial 2011 to 2022	2019	"	10,080
8,090	06/26/12	Refunding	1.000 - 3.000	Serial 2013 to 2023	-	"	4,385
6,385	03/20/13	Stormwater Bonds	2.000 - 4.000	Serial 2014 to 2029	2023	"	5,680
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	-	"	5,210
6,300	06/28/16	Stormwater Bonds	2.000 - 3.000	Serial 2017 to 2036	2026	"	6,300
Total General Bonds							\$ 45,370
Tax Allocation Bonds:							
365	08/15/05	Tax Allocation Bonds	4.750	Serial 2006 to 2018	Anytime	Semiannually	56
288	10/01/06	Tax Allocation Bonds	5.100	Serial 2008 to 2016	Anytime	"	14
2,205	04/05/07	Tax Allocation Bonds	5.000 - 5.550	Serial 2009 to 2018	2012	"	785
601	06/01/07	Tax Allocation Bonds	5.240	Serial 2008 to 2018	Anytime	"	465
42	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2021	Anytime	"	20
71	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2017	Anytime	"	37
474	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2022	Anytime	"	46
547	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	283
200	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	99
611	06/30/09	Tax Allocation Bonds	7.00	Serial 2011 to 2023	Anytime	"	474
3,375	07/28/09	Tax Allocation Bonds	2.500 - 6.400	Serial 2011 to 2023	Anytime	"	2,310
263	04/01/11	Tax Allocation Bonds	3.990	Serial 2011 to 2022	Anytime	"	160
103	04/15/13	Tax Allocation Bonds	2.370	Serial 2013 to 2025	Anytime	"	77
140	07/01/16	Tax Allocation Bonds	2.200	Serial 2016 to 2028	Anytime	"	140
Total Tax Allocation Bonds							\$ 4,966
Tax Supported Bonds:							
27,000	12/05/06	Highway Allocation Fund	4.000 - 5.000	Serial 2008 to 2027	2016	Semiannually	17,405
28,095	06/06/12	Highway Allocation Fund Refunding	1.000 - 5.000	Serial 2012 to 2023	na	"	20,875
16,515	07/23/13	Limited Tax Arena Bonds	2.000 - 4.500	Serial 2016 to 2031	2023	"	15,620
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							\$ 62,385
Special Assessment Bonds:							
825	8/18/11	Special Assessment	0.400 - 3.700	Serial 2012 to 2026	2016	Semiannually	575
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	"	2,365
Total Special Assessment Bonds							\$ 3,315
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	"	19,770
7,325	12/04/13	Facility Bonds	4.500	Term 2043	2023	"	7,325
Total West Haymarket Joint Public Agency							\$ 327,095
TOTAL GENERAL OBLIGATION BONDS							\$ 443,131
Tax Supported Bonds:							
11,080	3/13/02	Antelope Valley Project	1.500 - 5.000	Serial 2002 to 2016	2012	Semiannually	\$ 2,020
Revenue Bonds:							
16,710	04/18/07	Wastewater Revenue	4.000 - 4.500	Serial 2008 to 2029	2017	Semiannually	\$ 11,675
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	"	30,055
12,220	04/09/15	Wastewater Revenue Refunding	1.000 - 4.000	Serial 2016 to 2030	2025	"	11,565
Total Wastewater Bonds							\$ 57,045
10,515	08/04/09	Water Revenue	2.000 - 4.125	Serial 2013 to 2029	2019	Semiannually	8,585
4,905	08/04/09	Water Revenue	4.5000	Term 2034	2019	"	4,905
10,895	06/21/12	Water Revenue Refunding	1.000 - 4.000	Serial 2013 to 2022	N/A	"	6,765
28,595	05/30/13	Water Revenue Refunding	1.000 - 5.000	Serial 2013 to 2025	2023	"	21,670
Total Water Bonds							\$ 41,925
7,745	01/27/11	Parking Revenue and Refunding	2.000 - 5.000	Serial 2015 to 2024	2021	Semiannually	6,645
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	4.00 - 4.000	Serial 2013 to 2027	2022	"	6,470
2,765	11/29/12	Parking Revenue and Refunding	3.00	Term 2032	2022	"	2,765
Total Parking Bonds							\$ 26,655
8,340	02/26/13	Solid Waste Management Revenue and Refunding	.250 - 4.000	Serial 2013 to 2029	2023	Semiannually	6,210
5,520	07/08/15	Solid Waste Management Revenue	2.000 - 5.000	Serial 2016 to 2035	2025	"	\$ 5,300
Total Solid Waste Management Bonds							\$ 11,510
93,045	10/01/03	Electric Revenue and Refunding Bonds	3.000 - 5.000	Serial 2004 to 2026	2013	Semiannually	1,150
183,230	05/15/07	Electric Revenue and Refunding Bonds	4.000 - 5.000	Serial 2009 to 2035	2016	"	100,195
81,850	05/15/07	Electric Revenue and Refunding Bonds	4.500 / 4.750	Term 2034 & 2037	2016	"	32,280
247,150	08/15/12	Electric Revenue and Refunding Bonds	1.000 - 5.000	Serial 2013 to 2032	2022	"	211,385
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
Total Electric Bonds							\$ 618,500
TOTAL REVENUE BONDS							\$ 755,635

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

Fiscal Year Ended August 31	Governmental Activities					
	General Obligation Bonds		Tax Supported Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 10,535	20,380	2,020	51	5,570	1,130
2018	11,032	20,040	-	-	4,885	1,047
2019	10,840	19,660	-	-	4,632	925
2020	10,900	19,281	-	-	4,327	810
2021	14,628	18,822	-	-	4,133	701
2022-2026	85,025	83,529	-	-	16,838	1,760
2027-2031	70,876	67,045	-	-	2,935	184
2032-2036	75,620	50,783	-	-	-	-
2037-2041	81,700	31,246	-	-	-	-
2042-2046	71,975	9,198	-	-	-	-
	<u>\$ 443,131</u>	<u>339,984</u>	<u>2,020</u>	<u>51</u>	<u>43,320</u>	<u>6,557</u>

Fiscal Year Ended August 31	Business-Type Activities					
	Revenue Bonds		Loans Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 33,355	32,479	1,930	756	436	32
2018	34,735	31,045	1,967	719	288	24
2019	36,180	29,524	2,005	680	242	19
2020	37,520	27,898	2,043	642	249	14
2021	38,965	26,200	2,083	602	251	8
2022-2026	207,775	104,036	10,436	2,382	211	2
2027-2031	138,720	65,891	11,058	1,259	-	-
2032-2036	120,690	38,374	5,347	193	-	-
2037-2041	107,695	10,953	-	-	-	-
	<u>\$ 755,635</u>	<u>366,400</u>	<u>36,869</u>	<u>7,233</u>	<u>1,677</u>	<u>99</u>

Fiscal Year Ended August 31	Major Enterprise Funds					
	Wastewater System		Water System		Electric System	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 4,762	2,470	4,409	1,887	23,800	27,397
2018	4,839	2,371	4,518	1,750	24,990	26,207
2019	4,918	2,265	4,637	1,607	26,240	24,957
2020	5,027	2,151	4,791	1,439	27,280	23,645
2021	5,156	2,010	4,981	1,240	28,615	22,312
2022-2026	28,398	7,335	18,113	3,959	159,595	90,247
2027-2031	21,861	2,416	8,287	1,819	106,070	60,788
2032-2036	3,998	145	5,744	388	114,215	37,889
2037-2041	-	-	-	-	107,695	10,953
	<u>\$ 78,959</u>	<u>21,163</u>	<u>55,480</u>	<u>14,089</u>	<u>618,500</u>	<u>324,395</u>

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

Net position of \$2,963,014, \$3,822,761, \$3,739,518, and \$1,990,300 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:

	Governmental Activities	Business-Type Activities
Land	\$ 1,780,066	\$ 210,000
Buildings	25,944,791	1,647,945
Improvements	5,923,581	-
Infrastructure	22,918,430	-
Machinery and Equipment	6,120,540	3,211,847
Construction In Progress	13,100	-
Less Accumulated Depreciation, (where applicable)	(14,751,762)	(2,547,215)
Total	\$ 47,948,746	\$ 2,522,577

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, 2016, 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	\$ 500,161,000	100.0 %	\$ 500,161,000
Overlapping:			
School District #1	400,872,535	99.5	398,868,000
Public Building Commission	38,500,000	85.4	32,879,000
Lancaster County Correctional Facility	46,680,000	85.4	39,865,000
Lancaster County Fairgrounds	9,300,000	85.4	7,942,000
	<u>495,352,535</u>		<u>479,554,000</u>
Total	\$ 995,513,535		\$ 979,715,000

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 \$1,803.37; a per capita direct and overlapping debt of \$3,532.44; a ratio of direct City debt to 2016 actual valuation of 2.71 percent; and a ratio of direct and overlapping debt to 2016 actual valuation of 5.31 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, 2016, the Airport Authority had outstanding \$55,480,000 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
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
2007	5,617,536	4,986,687	10,604,223	192,566,160	5.51

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
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%
2007	133,413,000	11,574,000	121,839,000	241,167	505.21	15,342,163,788	0.79%	14,638,856,501	0.83%

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	
<u>Wastewater System</u>							
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
2007	21,158,743	11,462,964	9,695,779	2,005,000	3,081,481	5,086,481	1.91
<u>Water System</u>							
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
2007	29,386,495	14,351,136	15,035,359	5,340,000	3,612,001	8,952,001	1.68
<u>Parking Facilities</u>¹							
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
2007	6,645,013	2,781,952	3,863,061	1,240,000	746,374	1,986,374	1.94
<u>Solid Waste Management</u>							
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
2007	8,020,390	5,290,802	2,729,588	185,000	160,825	345,825	7.89

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

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

	<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>	<u>F.Y. 2007</u>
Cash & Investment Balance - September 1 of Year Indicated \$	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	13,475,643
Receipts:										
Property Tax	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	31,454,763
City Sales & Use Tax	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	53,960,485
Other Income	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	27,663,641
Total Receipts	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	113,078,889
Less Disbursements	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	111,922,258
Cash & Investment Balance - August 31 of Year Indicated \$	<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>	<u>14,632,274</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. 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>	<u>F.Y. 2007</u>
Cash Balance - September 1 of Year Indicated	\$ 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	2,761,491
Receipts:										
Property Tax	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	5,460,690
Interest Income	9,711	8,214	10,126	8,507	13,723	28,331	60,063	131,475	153,977	84,935
Bond Proceeds		6,092,475			8,369,497	20,236,484				
Other Income	<u>98,043</u>	<u>119,376</u>	<u>98,027</u>	<u>104,162</u>	<u>110,962</u>	<u>116,758</u>	<u>124,279</u>	<u>173,446</u>	<u>1,003,173</u>	<u>1,927,112</u>
Total Receipts	<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>	<u>7,472,737</u>
Disbursements:										
Bonds Paid	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	3,950,000
Bonds Defeased										
Interest Paid	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	2,217,610
Transfer to Trustee		5,990,206			8,242,367	21,746,822				
Other Disbursements	<u>3,274</u>	<u>578,958</u>	<u>2,274</u>	<u>6,501</u>	<u>118,023</u>	<u>204,668</u>	<u>6,398</u>	<u>6,438</u>	<u>5,430</u>	<u>9,530</u>
Total Disbursements	<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>	<u>6,177,140</u>
Cash Balance - August 31 of Year Indicated	\$ <u><u>3,361,571</u></u>	<u><u>3,572,272</u></u>	<u><u>3,561,702</u></u>	<u><u>3,883,237</u></u>	<u><u>3,929,968</u></u>	<u><u>2,234,981</u></u>	<u><u>2,941,245</u></u>	<u><u>3,533,968</u></u>	<u><u>4,201,889</u></u>	<u><u>4,057,088</u></u>

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

	<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>	<u>F.Y. 2007</u>
Cash & Investment Balance - September 1 of Year Indicated	\$ 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	8,846,000
Receipts:										
Special Assessment Collections	1,420,191	1,394,764	1,521,959	941,365	1,049,570	996,209	984,301	954,672	1,235,621	1,257,112
Interest on Special Assessments	161,882	193,995	53,761	78,642	98,844	106,379	148,383	112,749	179,258	188,349
City's Share of Costs	1,509,919	901,883	783,436	1,205,443	621,898	233,615	292,420	34,802		187,957
Developers' Share of Costs										
Bond Proceeds					3,036,003	1,200,000				
Interest on Investments	18,537	19,392	40,673	41,212	47,349	60,248	135,149	335,273	453,282	340,274
Miscellaneous	<u>188,457</u>	<u>82,000</u>	<u>733</u>			<u>38,456</u>			<u>33,964</u>	<u>49,403</u>
Total Receipts	<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>	<u>2,023,095</u>
Disbursements:										
Construction Costs	1,829,379	1,880,449	1,213,770	901,811	2,359,096	2,081,765	1,113,691	861,203	742,698	766,768
Bonds Paid	175,000	175,000	175,000	170,000	190,000					55,000
Equity Transfer								7,554,009		
Interest Paid on Bonds & Notes	106,123	109,122	112,023	114,722	94,911	3,758,342				37,581
Other Refunds & Expenses	<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>	<u>18,693</u>
Total Disbursements	<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>	<u>878,042</u>
Cash & Investment Balance - August 31 of Year Indicated	\$ <u>2,195,823</u>	<u>2,133,866</u>	<u>2,619,720</u>	<u>2,509,487</u>	<u>2,348,773</u>	<u>759,180</u>	<u>4,302,257</u>	<u>4,161,711</u>	<u>11,148,146</u>	<u>9,991,053</u>

APPENDIX B

**FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR
ENDED AUGUST 31, 2016, TOGETHER WITH AUDITOR'S REPORT THEREON**



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED AUGUST 31, 2016



**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

**OF THE
CITY OF LINCOLN, NEBRASKA**

FOR THE FISCAL YEAR ENDED AUGUST 31, 2016

Prepared by:

The Accounting Division of the Finance Department

INTRODUCTORY SECTION

OFFICIALS OF THE CITY OF LINCOLN

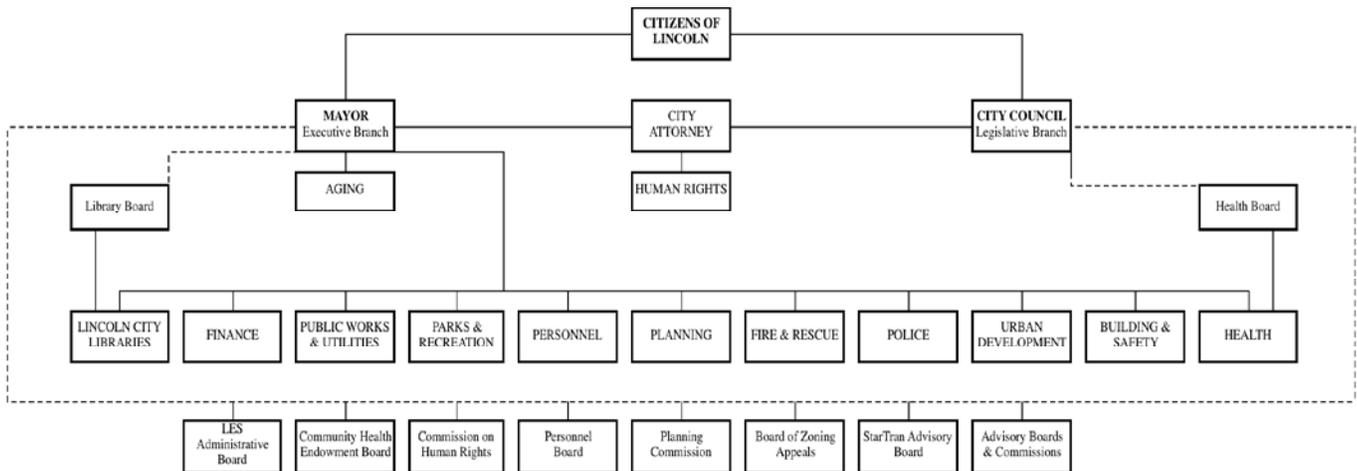
Chris Beutler Mayor
 Leirion Gaylor Baird Chair, City Council
 Roy Christensen Vice Chair, City Council
 Jon Camp Council Member
 Carl Eskridge Council Member
 Trent Fellers Council Member
 Cyndi Lamm Council Member
 Jane Raybould Council Member

* * * * *

Brandon Kauffman Finance Director
 David Cary Planning Director
 Lynn Johnson Parks and Recreation Director
 Kevin Wailes Lincoln Electric System Administrator
 David Landis Urban Development Director
 Pat Leach Library Director
 Miki Esposito Public Works/Utilities Director
 Chad Blahak Building and Safety Director
 Judith Halstead Health Director
 Douglas McDaniel Personnel Director
 Jeffery Kirkpatrick City Attorney
 Tom Casady Public Safety Director
 Jeff Bliemeister Chief of Police
 Michael Despain Fire Chief

* * * * *

CITY OF LINCOLN ORGANIZATION CHART



**CITY OF LINCOLN, NEBRASKA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED AUGUST 31, 2016
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February 23, 2017

Dear Citizens and Public Officials:

It is my pleasure to submit the City of Lincoln's Comprehensive Annual Financial Report for the fiscal year ended August 31, 2016.

Ensuring both fiscal and operational accountability in our use of public resources is a priority for my Administration, and this report is essential to that effort. This report provides a complete and accurate picture of the City's financial status and fulfills our continuing disclosure responsibilities in accordance with governmental reporting standards.

Our ability to manage the City's fiscal affairs and provide a full disclosure of the City's fiscal condition is exhibited by the unqualified audit opinion that follows. I am proud to report that the 2015 report submitted to the Government Finance Officers Association was recognized with the prestigious Certificate of Achievement for Excellence in Financial Reporting for the 33rd consecutive year. This recognition is a credit to the City and a compliment to our dedicated Finance Department.

I would like to thank the Finance Department employees for their commitment in dealing with these complex accounting issues and to all City departments for their cooperation in the preparation of this document.

Sincerely,



Chris Beutler
Mayor of Lincoln

February 23, 2017

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Lincoln:

Both the City Charter and State law require an annual audit of the City's funds and accounts be made by a recognized independent and qualified accountant covering all financial transactions, affairs, and financial condition of the City, with the audit report published within six months after the close of the fiscal year. Pursuant to this requirement, the Comprehensive Annual Financial Report (CAFR) of the City of Lincoln, Nebraska for the fiscal year ended August 31, 2016, is hereby submitted. *

Responsibility for both the accuracy of the data found in this report, and the completeness and fairness of the presentation, including all disclosures, rests with management. In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss, theft, or misuse, and to ensure the reliability of financial records for preparing financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state and local financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. The federal government, under Title 2 U.S. Code of Federal Regulations Part 200, requires local governments that expend \$750,000 or more in federal funds in any fiscal year to have a financial and compliance audit performed. As part of the City's Single Audit, tests were made of the City's internal control structure over compliance and its compliance with applicable laws and regulations, including those related to major federal financial assistance programs. The Single Audit for the year ended August 31, 2016, disclosed no material internal control weaknesses. The independent auditor's reports are included in the Single Audit section found at the end of the CAFR.

To the best of management's knowledge and belief, the enclosed data are accurate in all material respects and reported in a manner designed to present fairly the financial position and financial activities of the City. All disclosures necessary to enable the reader to gain an understanding of the government's financial activities as specified by all currently effective statements of the Governmental Accounting Standards Board have been included.

A firm of licensed certified public accountants has audited the City's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City are free of material misstatement. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering unmodified opinions that the City's financial statements for the fiscal year ended August 31, 2016, are fairly presented in conformity with GAAP.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found in the Financial Section immediately following the report of the independent auditors.

Profile of the City

The City of Lincoln, capital city of Nebraska, was originally incorporated on April 7, 1869. Lincoln is located in the southeastern corner of the state, is midway between Chicago and Denver, and is currently one of the fastest growing metro areas in the Midwest. It occupies a land area of approximately 95 square miles, serves a population of approximately 277,000, 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's governmental and educational activities.

The City operates under a Home Rule Charter and 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 Council members are elected at large and four by district on a nonpartisan basis for a term of four years. All legislative powers of the City are exclusively vested in the Council, as well as the power to adopt the budget, set the tax levy, and equalize taxes and assessments. The Mayor is responsible for the proper conduct of the affairs of the City, with the administration of City government performed under the direction of the Mayor through administrative departments.

The City of Lincoln provides a full range of services, including public safety (police and fire); the construction and maintenance of highways, streets, and other infrastructure; health; planning and zoning; golf courses, parks and recreation; urban development; mass transportation; ambulance transport; electric, water, and wastewater utilities; solid waste management; entertainment centers; parking facilities; and general administrative services.

The City Council exercises budgetary and/or rate setting authority over the City Library and Lincoln Electric System (LES), neither of which are legally separate from the City and are thus included as part of the primary government. The Lincoln Water System, Lincoln Wastewater System, Emergency Medical Services, Solid Waste Management, Parking Facilities and Lots, Golf Courses, Pinnacle Bank Arena, Broadband Enterprise, and Community Health Endowment are all part of administrative departments under the direction of the Mayor and are included as part of the primary government. The City is considered to be financially accountable for the West Haymarket Joint Public Agency, and has included the Agency as part of the primary government as a blended component unit. Separately audited financial statements are available for LES, Lincoln Water System, Lincoln Wastewater System, Emergency Medical Services, Solid Waste Management, Parking System, Community Health Permanent Endowment Trust, and West Haymarket Joint Public Agency.

The biennial budget serves as the basis for the City of Lincoln's financial planning and control. Following public hearings and not later than five days prior to the beginning of the biennium, the budget is legally adopted by resolution of the City Council. Appropriation controls are required at the department level, however, as a matter of policy and practice, appropriations generally are controlled at the next level of organization (division) or by fund within a department. The Mayor has the authority to transfer balances within a department as well as lower appropriations in any fund where actual revenues are less than appropriated in order to avoid incurring a budget deficit for the year. Appropriation transfers between departments may only be authorized by resolution of the City Council. The Council may not make any appropriations in tax supported funds in addition to those authorized in the biennial budget, except in the event of an emergency threatening serious loss of life, health, or property in the community.

Economic Condition and Outlook

Population growth is one of the best indicators of a community's economic well-being. As such, the Lincoln metropolitan area's population growth during the past several years reflects a community that is economically viable and is strongly positioned to meet future challenges.

The Lincoln metropolitan area population base (Lancaster County) continues to demonstrate a pattern of sustained growth. According to the U. S. Census figures, Lancaster County's rate of growth between 2000 and 2015 has been 22% or approximately 1.33% per year. The 2015 population of Lancaster County has been estimated to be in excess of 306,000 persons.

While such a growth rate may be modest by some standards, this healthy pace of expansion places Lincoln as one of the fastest growing communities in this region. Recent projections envision Lincoln to continue to grow at a rate of over 1% per year. As importantly, the City of Lincoln continues to absorb about 90% of all growth in Lancaster County.

Lincoln's unemployment rate at August 31, 2016, was 3.0%, well below the national average of 4.9%, with employment strongest in the categories of government, educational & health services, and retail trade. Lincoln's current number of construction permits is up 7.5% when compared to levels 5 years ago, with an increase in the value of construction permits of over \$155 million.

To more aggressively pursue economic opportunities, the City, Lancaster County, and LES have partnered to hire an economic development coordinator to facilitate job creation in the private sector. In addition, the Mayor's Technology Council completed its technology audit, which led to a new strategic plan for economic development.

Net sales and use tax revenue increased \$14,123,256 or 20% from the previous fiscal year, of which \$11,254,204 comes from a voter approved .25% tax increase, effective October 1, 2015, to fund replacement of the City's emergency 911 radio system and the construction and/or relocation of four fire stations.

Long-Term Planning and Major Initiatives

Urban Development

The City anticipates approximately \$28 million of public expenditures funded through various urban development projects and programs over the next three years. These projects are varied in type and size and are located in the Downtown and Haymarket areas, North 27th Street, the Antelope Valley project area, older commercial areas, and in low-moderate income neighborhoods throughout the City.

Public financing will be provided by a variety of sources, including Tax Increment Financing (TIF), Parking Revenues, CDBG, HOME grants, Advanced Land Acquisition funds, Special Assessments, and General Fund. Funding is often combined with developer, grant or other private sector funds.

The City's involvement will vary depending upon the project and could likely include property acquisition, relocation and demolition; housing rehabilitation and development; commercial development; and construction of public improvements including parking, sidewalks, infrastructure and streetscapes.

Ongoing and anticipated future projects include:

- Downtown Redevelopment Projects:
 - 1) West Haymarket, Block 2 project.
 - 2) West Haymarket, Block 4 project.
 - 3) West Haymarket, Block 5 project.
 - 4) Lumberworks Liner Building project.
 - 5) Schwarz Paper project.
 - 6) P Street East project.
 - 7) Pershing Redevelopment project.
 - 8) Telesis/Dairy House Phase II.
 - 9) South Haymarket streetscape.
 - 10) 700 O Street project.
 - 11) Historic Haymarket streetscape.
 - 12) 1222 P Street.
 - 13) 11th & P redevelopment project.
 - 14) 9th and O Hotel project.
- New Downtown Parking Garage. Parking Services Division has completed a demand and occupancy study that will assist in determining the location of a new downtown parking facility. Site acquisition will be next.
- Antelope Valley Redevelopment Projects:
 - 1) Telegraph District redevelopment.
 - 2) Aspen housing.
 - 3) Antelope Square housing.
- University Place redevelopment:
 - 1) Former Green's Plumbing site.
 - 2) 48th & Leighton mixed use.
 - 3) 48th & Holdrege project.
- West O Street redevelopment will be on a project-by-project basis and the completion of the historic Detroit-Lincoln-Denver marker project.
- Havelock Redevelopment Project, SSH Architecture.
- NW Corridor redevelopment (West Cornhusker Highway).
- Innovation Campus redevelopment.
- 56th and Arbor Road redevelopment.
- North Cotner redevelopment.
- Housing rehabilitation programs for quality, affordable housing and home ownership:
 - 1) Continuation of First-time Homebuyer and Owner-Occupied Housing Rehabilitation Loan programs.
 - 2) Partner with NeighborWorks-Lincoln for their Home Ownership Zone in Antelope Valley.
 - 3) Partner with other non-profit and for-profit housing organizations for affordable housing projects in low-to-moderate income neighborhoods under the Mayor's Stronger Safer Neighborhoods Program.
- Real estate major acquisition, negotiation and relocation projects:
 - 1) For effective transportation:
 - ✓ Yankee Hill Roadway, 70th to 81st Street.
 - ✓ NW 48th, Adams to Vine.
 - ✓ Coddington and West Van Dorn intersection improvements.
 - ✓ Yankee Hill intersection, 56th to 70th.
 - ✓ Pine Lake Road, 61st to Hwy 2.
 - ✓ Rokeby Road, 40th to 56th and 70th to 84th Streets.
 - ✓ 14th and Cornhusker Hwy safety project.
 - ✓ 33rd and Cornhusker Hwy RTSD project.
 - ✓ Yankee Hill, 81st to 91st Street.
 - ✓ 14th/Old Cheney/Warlick intersection.
 - ✓ South 84th, Hwy 2 to Rokeby Road.
 - ✓ East Beltway preliminary acquisitions.
 - ✓ South Beltway preliminary acquisitions.
 - ✓ Arterial/residential rehabs, executive order, traffic signals.
 - ✓ 66th & Fremont safety project.
 - ✓ West A Street, Folsom to SW 40th Street
 - ✓ New LFR & LPD station acquisitions.

- 2) For environmental quality:
 - ✓ Park sites citywide.
 - ✓ Stevens Creek sanitary sewer Phase III, IV & V.
 - ✓ Yankee Hill water main, 56th to 84th Street.
 - ✓ 98th Street water main, Holdrege to Alvo.
 - ✓ 56th & Morton storm water improvements.
 - ✓ 84th – Yankee Hill-Rokeby water main.
 - ✓ Miscellaneous storm water bond projects.
 - ✓ Cardwell branch sanitary sewer.
 - ✓ Miscellaneous sanitary sewer upgrade projects.
 - ✓ Conservation easements and wetlands acquisitions.
 - ✓ East O Street sewer and water projects.
 - ✓ Stone Bridge bike trail.
 - ✓ Dead Man’s Run storm water bond project.
 - ✓ 27th & Theresa Street biogas project.

- 3) Relocation activities:
 - ✓ 1st and Cornhusker Hwy project.
 - ✓ 14th/Old Cheney/Warlick intersection project.

- Workforce Innovation and Opportunity Act (WIOA) funds granted to the City for use in Lancaster and Saunders Counties provide employment, education, and support services needed by jobseekers and employers to strengthen the economy. WIOA is focused on providing work-based and on-the-job training while emphasizing occupations in-demand in the local and regional markets.

West Haymarket Project

The West Haymarket Redevelopment Project is a multi-faceted endeavor to revitalize underutilized property that lies on the western edge of Lincoln’s downtown and Haymarket district. On May 11, 2010, the citizens of Lincoln voted to approve the issuance of arena bonds, which signaled approval for the project to proceed. The project involved the relocation and elimination of existing railroad tracks and completion of other site preparation activities, the construction of a 15,223 seat civic arena, a community ice center, private retail and office space, a new Amtrak Station, residential units, surface and decked parking, public gathering areas, street and utility improvements, landscaping, trails and walkways, pedestrian bridges, and environmental enhancements. The public portion of the project cost is estimated to be approximately \$375 million. The arena opened and became fully operational in September 2013.

The West Haymarket Joint Public Agency (WHJPA) is the governmental agency responsible for oversight of the project, for issuing bonds, collecting revenue, and making bond payments over the course of the Project. Participants in the agency are the City and the Board of Regents of the University of Nebraska.

Beginning January 1, 2011, an occupation tax was imposed on car rental, hotel, restaurant and bar charges within the City of Lincoln. This revenue has been pledged to repayment of any outstanding WHJPA bonds.

Antelope Valley Project

The City of Lincoln, Lower Platte South Natural Resource District and the University of Nebraska-Lincoln joined together through an interlocal agreement to form the Joint Antelope Valley Authority (JAVA). JAVA implemented the Antelope Valley project, which consists of storm water, transportation and community revitalization strategies.

The project has been successful in removing about 1,000 structures from the floodplain by creating an open waterway from Salt Creek Roadway to J Street. Traffic improvements include 12 new or replacement bridges, the elimination of railroad crossings, and 6.2 miles of new roadway, including the Big X elevated intersection near the Devaney Sports Center. In addition to the new Union Plaza Park and new trails, revitalization efforts include the Assurity headquarters, Turbine Flats, several housing developments, the Jayne Snyder Trails Center, Fleming Fields, University of Nebraska-Lincoln student housing complexes, and infrastructure improvements.

All projects and their associated final documentation have been successfully completed, allowing JAVA to be dissolved in July 2016. The cost of the entire Antelope Valley project was approximately \$246 million.

Wastewater System

The Lincoln Wastewater System is projecting a capital improvements program in the amount of approximately \$98,920,000 over the 6-year period of fiscal year 2016-17 through fiscal year 2021-22. Of that total, approximately \$26,050,000 will be financed by revenue bonds, approximately \$2,200,000 will be financed by impact fees, with the remaining \$70,670,000 to come from utility revenue fees. The majority of these dollars are needed for replacement and maintenance of existing infrastructure, new infrastructure to serve development in various basins throughout the City, and improvements to both the Theresa Street and Northeast treatment plants.

Water System

The Lincoln Water System is projecting a capital improvements program in the amount of approximately \$138,730,000 over the 6-year period of fiscal year 2016-17 through 2021-22. Of these dollars, approximately \$65,000,000 will be financed through revenue bonds, approximately \$4,300,000 will be financed through impact fees, approximately \$1,240,000 will be financed through community improvement financing, with the balance of \$68,190,000 coming from utility revenue fees. The major projects contributing to these total dollars include the installation of transmission lines, replacement mains, replacement and new wells, and additional storage reservoirs.

Streets and Highways

The 2017-2022 Streets and Highways capital improvements program and Transportation improvement program identify average annual expenditures of \$39 million for the next six years. Funding for these projects includes \$171 million in City revenues, \$31 million in federal aid, and \$32 million in other funds.

Infrastructure Impact Fees

The City's growth in both population and employment have created demands for new residential and nonresidential development, which in turn creates the need for additional public facilities, including water and wastewater systems, arterial streets, and neighborhood parks and trails. The City's laws, taxes, fees, utility charges, and other forms of revenue generated from new development do not provide sufficient funds to finance these new facilities.

In response to these funding needs the City of Lincoln passed an ordinance to provide for the imposition of impact fees to ensure that facilities are available to serve new growth and that new development bears its proportionate share of the cost of improvements to the City's facilities. Impact fees for all types of new construction are set and adopted by the City Council.

Pension Costs

The City currently contributes \$2 for every \$1 contributed by employees in the civilian retirement plans. In an effort to control this significant budget item, the City and the civilian unions, as well as non-union employees, have agreed to change these plans to a \$1.29 to \$1 match for new employees hired after a union specific effective date. Newly hired Department Directors and Mayoral Aides will receive a \$1 to \$1 match. The City is unable to legally change the match for current employees. The City anticipates saving 20 to 25 percent in retirement costs for each employee hired under this new arrangement.

Property Tax Collections

As of August 31, 2016, current tax collections by the County Treasurer were 97.81% of the tax levy, an increase of .05% from last year. Allocations of property tax levy by purpose are as follows:

<u>City Tax Levy by Purpose</u>	<u>2015-2016</u>	<u>2014-2015</u>	<u>2013-2014</u>
General Fund	.1957	.1859	.1889
Library	.0421	.0438	.0417
Social Security	.0144	.0163	.0155
Police and Fire Pension	.0352	.0374	.0378
Unemployment Compensation	.0003	.0000	.0000
General Obligation Debt	<u>.0319</u>	<u>.0362</u>	<u>.0319</u>
Total	<u>.3196</u>	<u>.3196</u>	<u>.3158</u>

Parking Facilities

The City of Lincoln operates the following parking garages:

<u>Facility</u>	<u>Number of Stalls</u>	<u>Date Opened</u>
Center Park	1,057	November, 1978
Cornhusker Square	390	December, 1983
University Square	432	April, 1990
Que Place	810	October, 1994
Carriage Park	701	February, 1995
Market Place	385	August, 2000
Haymarket	408	August, 2002
Larson Building	647	July, 2012
Lumberworks	530	January, 2014

The City's parking garages have been built to promote downtown redevelopment efforts by working with the private sector in providing necessary parking to various businesses in the downtown area.

Revenue generated by the parking facilities and on-street parking meters, as well as undesignated street construction funds, are pledged for debt service of the 2011 Parking Revenue and Refunding Bonds and 2012 Parking Revenue and Refunding Bonds. Comparative data for the past two fiscal years are presented in the following table:

	<u>2015-2016</u>	<u>2014-2015</u>
Operating Revenues	\$10,635,283	10,370,095
Net Earnings Before Depreciation	6,121,495	5,841,915
Debt Service	2,483,115	2,483,115
Debt Service Coverage Ratio	2.47	2.35

Solid Waste Management

The City of Lincoln owns and operates a municipal solid waste landfill and a construction and demolition debris landfill that are subject to the U.S. Environmental Protection Agency rule *Solid Waste Disposal Facility Criteria*, which establishes closure and postclosure care requirements. As of August 31, 2016, the City estimates that it will incur costs approximating \$24 million to adhere to such requirements (see Note 18 of Notes to the Financial Statements).

Water and Wastewater System

The City's Wastewater Utility System showed an increase in operating revenues and an increase in operating income. Comparative data for the past two fiscal years is presented in the following table:

<u>Wastewater System</u>	<u>2015-2016</u>	<u>2014-2015</u>
Operating Revenues	\$27,896,580	27,029,419
Operating Income	5,516,373	5,504,788
Revenue Available For Debt Service	15,007,381	14,485,305
Debt Service	7,409,843	6,861,802
Debt Service Coverage Ratio	2.03	2.11

The City's Water Utility System showed a increase in operating revenues and a increase in operating income. Comparative data for the past two fiscal years is presented in the following table:

<u>Water System</u>	<u>2015-2016</u>	<u>2014-2015</u>
Operating Revenues	\$35,400,979	31,323,477
Operating Income	9,743,115	5,871,628
Revenue Available For Debt Service	21,016,315	17,526,817
Debt Service	6,468,726	6,406,562
Debt Service Coverage Ratio	3.25	2.74

Lincoln Electric System (LES)

The City owns and operates its own electric utility system that is managed by an administrative board. Actions of the board with regard to rates, budgets, and long-term financing are subject to final review and approval by the City Council. In accordance with Section 4.24.090 of the Lincoln Municipal Code, LES operates on a January 1 - December 31, fiscal year. Audited financial information as of and for LES' fiscal year ended December 31, 2015, is included in the City's August 31, 2016, financial statements.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lincoln, Nebraska, for its comprehensive annual financial report for the fiscal year ended August 31, 2015. This was the thirty-third consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. I would like to express my appreciation to all members of the department who assisted and contributed to its preparation. I would also like to thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Brandon Kauffman
Finance Director





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Lincoln
Nebraska**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2015

Executive Director/CEO



FINANCIAL SECTION

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Nebraska (the City) as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements 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 opinions on these financial statements based on our audit. We did not audit the financial statements of Lincoln Wastewater System and Lincoln Water System, which represent 35%, 58% and 17%, respectively, of the total assets, net position and revenues of the business-type activities. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Lincoln Wastewater System and Lincoln Water System, is based solely on the report of the other auditors. We conducted our audit 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 opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Nebraska as of August 31, 2016, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison information for the general fund and street construction fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information in the introductory section listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Lincoln, Nebraska
February 23, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Lincoln, Nebraska (the City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended August 31, 2016. Please consider this discussion in conjunction with the additional information provided in the Letter of Transmittal (beginning on page vii) and the transactions, events and conditions reflected in the City's financial statements (beginning on page 16).

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at August 31, 2016, by \$1,915,033,190 (net position). Of this amount, \$300,557,243 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$85,004,021. Of this amount, \$45,431,679, or 53%, was an increase in governmental activities and \$39,572,342, or 47%, related to business-type activities. Please refer to the fund descriptions preceding the various combining statements (beginning on page 81) for information regarding constraints imposed on the City in spending available funds.
- As of August 31, 2016, the City's governmental funds reported combined ending fund balances of \$306,883,675, an increase of \$18,162,878 in comparison with the prior year. Of this total fund balance, 13%, or \$39,799,496 is available for spending at the City's discretion (unassigned fund balance).
- As of August 31, 2016, unrestricted fund balance (the total of committed, assigned, and unassigned fund balance) for the general fund was \$57,799,703, or 46% of total general fund expenditures. Following the implementation of GASB Statement No. 54, reference must be made to pages 83-85 of this report for an accurate comparison of the City's General funds based on the structure used for budgeting.
- The City's total bonded debt increased by \$31,035,460 (3%) during the current fiscal year. LES issued \$167,800,000 in construction and refunding bonds for a net present value savings of \$7,400,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and deferred outflows of resources, and the City's liabilities and deferred inflows of resources, with the net difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the year ended August 31, 2016. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general administrative services, public safety, streets and highways, health, planning and zoning, parks and recreation, libraries, aging services, job programs, urban development, mass transportation, engineering, self-insurance, and fleet management.

The business-type activities of the City include water, wastewater and electric utilities; ambulance transport; solid waste management; golf courses; entertainment centers; broadband facilities; and parking.

The government-wide financial statements can be found on pages 16-17 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains thirty individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, the Street Construction fund, and the West Haymarket JPA fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts a biennial appropriated budget for its general fund and most other governmental funds. A budgetary comparison statement has been provided for the General and Street Construction major funds to demonstrate compliance with this budget. The West Haymarket JPA major fund is not required to adopt an annual budget so a budgetary comparison has not been provided.

The basic governmental fund financial statements can be found on pages 18-23 of this report.

Proprietary funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its parking facilities and lots; golf courses; entertainment centers; solid waste management; ambulance services; broadband system, and wastewater, water, and electric systems. Internal service funds are used to accumulate and allocate costs internally among the City’s various functions. The City uses internal service funds to account for its data processing, engineering, insurance, fleet management, municipal services center operations, telecommunications, and copy services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater and Electric Systems, all of which are considered to be major funds of the City. Data from the other enterprise funds are combined into a single, aggregated presentation. Internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for these funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 24-26 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the

resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 27-28 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-78 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its police and fire employees, and to provide other postemployment benefits. Required supplementary information can be found on pages 79-80 of this report.

The combining statements referred to earlier are presented immediately following the required supplementary information on pensions and OPEB. Combining and individual fund statements and schedules can be found beginning on page 81 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,915,033,190 at August 31, 2016.

By far the largest portion of the City's net position (75%) reflects its investment in capital assets (e.g., land, buildings, improvements, utility plant, infrastructure, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City Of Lincoln
Condensed Statements of Net Position
August 31, 2016 and 2015**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 400,046,175	535,735,372	369,011,740	310,819,974	769,057,915	846,555,346
Capital Assets	1,259,026,439	1,076,401,619	1,556,077,987	1,540,507,192	2,815,104,426	2,616,908,811
Total Assets	<u>1,659,072,614</u>	<u>1,612,136,991</u>	<u>1,925,089,727</u>	<u>1,851,327,166</u>	<u>3,584,162,341</u>	<u>3,463,464,157</u>
Deferred Outflows of Resources	17,424,169	22,176,250	21,504,538	19,316,436	38,928,707	41,492,686
Long-Term Liabilities Outstanding	601,237,143	603,978,028	883,796,604	834,851,083	1,485,033,747	1,438,829,111
Other Liabilities	40,979,757	40,716,144	161,974,116	174,514,827	202,953,873	215,230,971
Total Liabilities	<u>642,216,900</u>	<u>644,694,172</u>	<u>1,045,770,720</u>	<u>1,009,365,910</u>	<u>1,687,987,620</u>	<u>1,654,060,082</u>
Deferred Inflows of Resources	18,935,325	19,706,190	1,134,913	1,161,402	20,070,238	20,867,592
Net Position:						
Net Investment in Capital Assets	773,243,018	587,747,372	664,773,842	692,461,543	1,438,016,860	1,280,208,915
Restricted	159,387,584	165,389,543	17,071,503	14,820,181	176,459,087	180,209,724
Unrestricted	82,713,956	216,775,964	217,843,287	152,834,566	300,557,243	369,610,530
Total Net Position	<u>\$ 1,015,344,558</u>	<u>969,912,879</u>	<u>899,688,632</u>	<u>860,116,290</u>	<u>1,915,033,190</u>	<u>1,830,029,169</u>

An additional portion of the City's net position (9%) represents resources that are subject to external restrictions on their use. The remaining balance of unrestricted net position (16%) may be used to meet the government's ongoing obligations to citizens and creditors.

At August 31, 2016, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

City Of Lincoln
Condensed Statements of Activities
For the Years Ended August 31, 2016 and 2015

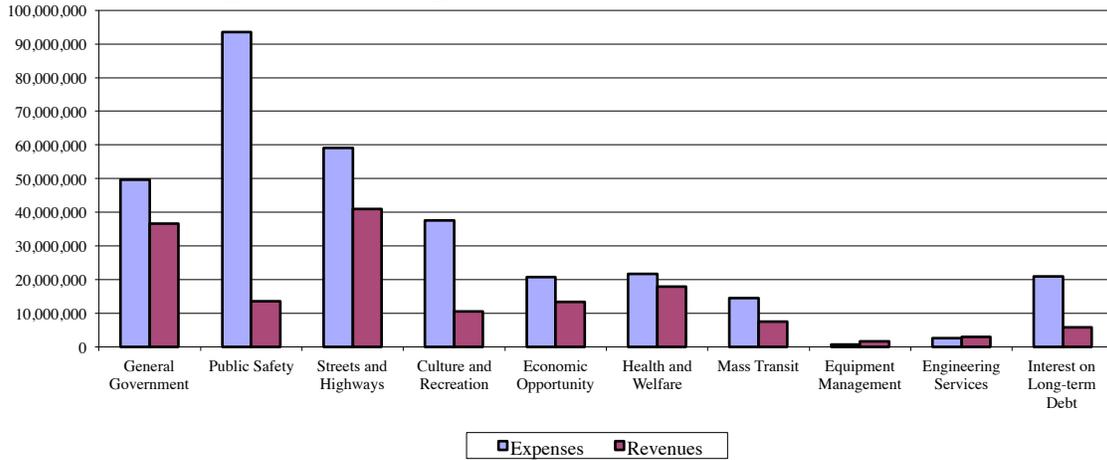
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for Services	\$ 67,746,036	65,598,374	414,022,963	410,081,320	481,768,999	475,679,694
Operating Grants and Contributions	63,971,798	59,762,954	61,066	-	64,032,864	59,762,954
Capital Grants and Contributions	19,411,483	25,708,872	9,765,195	13,309,086	29,176,678	39,017,958
General Revenues:						
Property Tax	66,338,373	60,781,216	-	-	66,338,373	60,781,216
Sales and Use Tax	83,561,157	69,437,901	-	-	83,561,157	69,437,901
Occupation Tax	26,618,563	26,367,092	4,194,442	2,832,539	30,813,005	29,199,631
Other Taxes	25,075,921	24,141,211	-	-	25,075,921	24,141,211
Unrestricted Grants and Contributions	67,640	65,051	-	-	67,640	65,051
Unrestricted Investment Earnings	1,914,541	1,842,730	1,517,819	961,154	3,432,360	2,803,884
Other	708,314	1,251,922	89,483	329,954	797,797	1,581,876
Total Revenues	355,413,826	334,957,323	429,650,968	427,514,053	785,064,794	762,471,376
Expenses:						
General Government	49,756,620	48,543,231	-	-	49,756,620	48,543,231
Public Safety	93,495,599	91,997,706	-	-	93,495,599	91,997,706
Streets and Highways	59,111,970	41,302,726	-	-	59,111,970	41,302,726
Culture and Recreation	37,633,355	33,418,770	-	-	37,633,355	33,418,770
Economic Opportunity	20,703,598	18,101,822	-	-	20,703,598	18,101,822
Health and Welfare	21,701,621	22,273,013	-	-	21,701,621	22,273,013
Mass Transit	14,576,742	13,477,089	-	-	14,576,742	13,477,089
Equipment Management	614,893	1,032,440	-	-	614,893	1,032,440
Engineering Services	2,527,524	3,495,741	-	-	2,527,524	3,495,741
Interest on Long-Term Debt	20,931,956	21,310,128	-	-	20,931,956	21,310,128
Golf Courses	-	-	3,939,149	3,261,611	3,939,149	3,261,611
Parking	-	-	9,418,838	9,223,770	9,418,838	9,223,770
Entertainment Facilities	-	-	8,630,522	8,386,730	8,630,522	8,386,730
Solid Waste Management	-	-	11,742,556	9,498,841	11,742,556	9,498,841
Ambulance Transport	-	-	6,865,689	6,507,925	6,865,689	6,507,925
Broadband Enterprise	-	-	402,264	-	402,264	-
Wastewater	-	-	24,852,092	24,128,351	24,852,092	24,128,351
Water	-	-	27,243,026	26,368,801	27,243,026	26,368,801
Electric	-	-	286,006,000	298,753,000	286,006,000	298,753,000
Total Expenses	321,053,878	294,952,666	379,100,136	386,129,029	700,154,014	681,081,695
Increase in Net Position Before Transfers	34,359,948	40,004,657	50,550,832	41,385,024	84,910,780	81,389,681
Transfers	11,071,731	11,754,684	(10,978,490)	(11,594,036)	93,241	160,648
Increase in Net Position	45,431,679	51,759,341	39,572,342	29,790,988	85,004,021	81,550,329
Net Position - Beginning	969,912,879	918,153,538	860,116,290	830,325,302	1,830,029,169	1,748,478,840
Net Position - Ending	\$ 1,015,344,558	969,912,879	899,688,632	860,116,290	1,915,033,190	1,830,029,169

GOVERNMENTAL ACTIVITIES

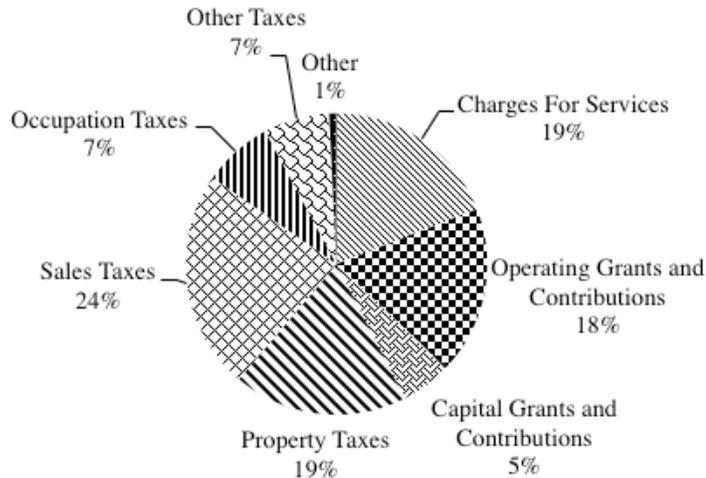
Governmental activities increased the City's net position by \$45,431,679, accounting for 53% of the total growth in the net position of the City of Lincoln. Key elements of this increase are as follows:

- Operating grants and contributions increased by approximately \$4.2 million (7%) during 2016. An approximate \$5 million increase can be attributed to the improved investment market and its impact on endowment fund earnings.
- Capital grants and contributions decreased by approximately \$6.3 million (24.5%) during 2016. This reduction is primarily due to active streets & highways projects in the prior year that received funding from the State of Nebraska, as well as prior year developer contributions to the City's fiber infrastructure.
- Property Tax receipts increased by approximately \$5.6 million (9.1%) in 2016 primarily due to an increase in the overall tax base, which included a revaluation of property conducted by the County Assessor's Office.
- Sales taxes increased by approximately \$14 million (20.3%) during 2016. This increase was primarily due to the ¼ cent City sales tax increase approved by Lincoln voters to support the replacement of the City's emergency 911 radio system, and construction of four fire stations, one of which will be a joint police/fire station.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



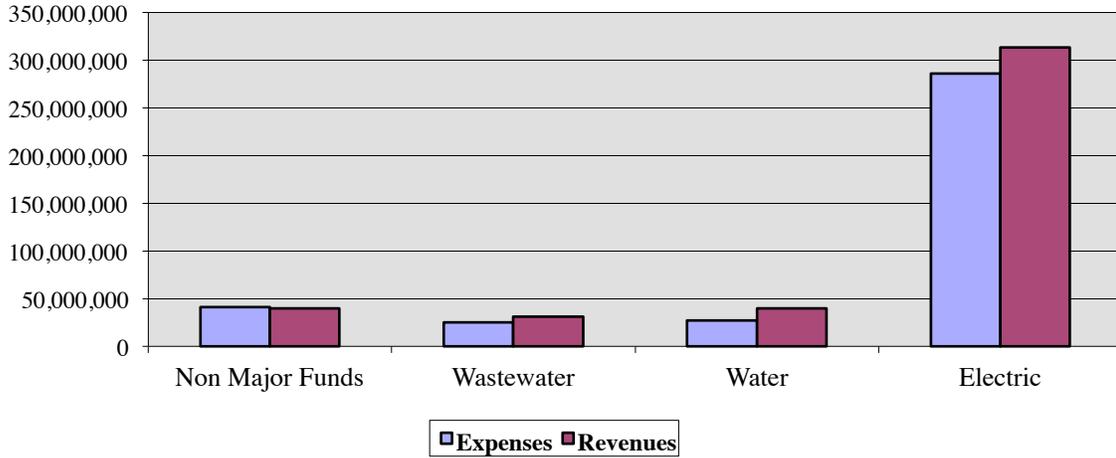
BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net position by \$39,572,342, accounting for 47% of the total growth in the government's net position. Key elements of this increase are as follows:

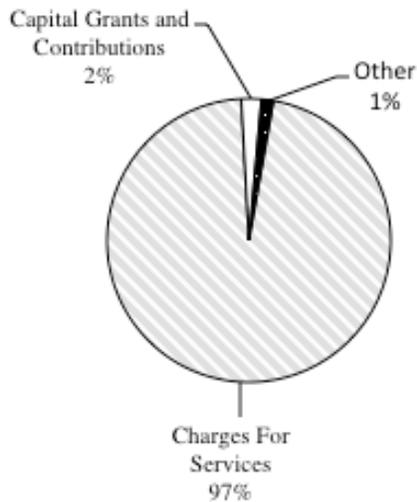
- Lincoln Electric System operating revenue in 2015 was down 4.5% from 2014. Retail revenue was lower primarily due to a weather-related decrease in energy sales. Wholesale revenue decreased 29.9% and purchased power and production expenses were down 10.7% due to lower market prices in the Southwest Power Pool Integrated Market (SPP IM), netting of certain SPP IM transactions which decreased both wholesale revenue and purchased power by the same amount, and other factors including lower energy sales, decreases in generation, and operation and maintenance expenses.

- Lincoln Wastewater System reported increased revenues due to a 3% increase implemented November 2015 and applied solely to the service charge. Total operating expenses increased primarily due to increased plant, pumping and treatment cost, including depreciation and maintenance.
- Lincoln Water System revenue increased during the year due to a 3% increase implemented November 2015 and applied solely to the service charge. Another factor was less precipitation in 2016 when compared to 2015.

Expenses And Program Revenues - Business-type Activities



Revenues By Source - Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary spending at the end of the fiscal year.

As of August 31, 2016, the City's governmental funds reported combined ending fund balances of \$306,883,675, an increase of \$18,162,878 in comparison with the prior year. Of this total amount, 13% constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is not in spendable form (\$1,742,571), legally required to be maintained intact (\$37,160,000), restricted for particular purposes (\$132,015,449), committed for particular purposes (\$2,623,396), or assigned for particular purposes (\$93,542,763).

The General Fund is the chief operating fund of the City. At August 31, 2016, the unrestricted fund balance of the General Fund was \$57,799,703, while total fund balance reached \$65,703,098. As a measure of the General Fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Unrestricted fund balance represents 46% of total general fund expenditures, while total fund balance represents 52% of that same amount.

The fund balance of the City's General Fund increased by \$4,186,325 during 2016. The City appropriates General fund balance as a funding source for budget, with the allocation of balances spread over the two-year budget cycle.

The Street Construction Fund has a total fund balance of \$61,783,531, which is to be used in the construction and maintenance of streets and highways. The net decrease in fund balance during 2016 in the Street Construction Fund was \$(7,124,243), the result of several significant projects that have been conducted in the current year and the pre-funding of projects in the prior year that had delayed construction timelines.

The West Haymarket JPA Fund had a fund balance of \$28,923,150, which is to be used for funding improvements of the West Haymarket Redevelopment Project and debt service on the related debt. The current year change in fund balance is \$4,570,807. The fund balance is a result of the issuance of bonds in prior years, occupation tax and donation revenue, less the Agency's expenditures for construction, debt service and general operations.

PROPRIETARY FUNDS

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Wastewater System, Water System, Electric System, and other enterprise funds amounted to \$23,108,926, \$34,288,144, \$170,845,000 and \$(10,398,783), respectively, at August 31, 2016 (December 31, 2015 for LES). Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were relatively minor (decrease of \$395,977) and can be briefly summarized as follows:

Expenditure appropriations:

- \$(2,775,744) in miscellaneous changes in general government activities.
- \$570,931 in increases allocated to public safety.
- \$57,013 in increases to streets & highways.
- \$375,369 in increases allocated to parks and recreation.
- \$151,177 in increases allocated to fiber network improvements.
- \$1,225,277 in increases allocated for General Fund transfers to other City funds.

Variances between actual General Fund revenues and expenditures and the final amended budget include the following:

- \$3,357,438 positive variance in real estate and personal property tax. Actual property tax collections were 97.81% of the 2015 levy, while estimated tax revenue is based on 90% collections as provided by the City Charter.
- (\$1,493,389) negative variance in occupation taxes. Greater competition and both technological and generational changes in customer usage have led to decreased revenues.
- \$6,996,936 positive variance in miscellaneous general government expenditures. Significant savings were realized in several service line items that are reappropriated to cover future expenditures.
- \$2,797,839 positive variance in police expenditures. Remaining balances are reappropriated to the next year to assist with one-time expenditures that are not ongoing operating expenditures.
- (\$1,059,475) negative variance in street lighting function expenditures. This variance was the result of additions related to both normal construction as well as Antelope Valley Project construction.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of August 31, 2016, amounts to \$2,815,104,426 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, streets, bridges, storm sewers, electric plant, and water and sewer plant. The total increase in the City's investment in capital assets for 2016 was 7.6% (17.0% increase for governmental activities and 1.0% increase for business-type activities).

Major capital asset events during 2016 included the following:

- The City capitalized its equity interest in the Joint Antelope Valley Authority Project. Land, the CHE building, parks and urban development improvements, and infrastructure were added at a total value of \$151,646,473.
- The City invested in its 911 emergency radio system at a cost of approximately \$4.5 million. The project is expected to be completed in October 2017 at an estimated total cost of \$12.2 million.
- The LES Mobile Meter Reading Project (MMR) is a program that will replace existing non-radio meters with mobile meter reading technology. Current capital expenditures for this project totaled \$6,244,000. The MMR project is expected to be completed with a total cost of \$9,599,000.
- LES is a 12.76% share owner in the Laramie River Station. LES' share of capital improvements for the plant in 2015 was \$6,072,000.
- Land was purchased for the future construction of the LES Operation Center (LOC). Capital expenditures in 2015 for this project totaled \$4,168,000. The LOC is expected to be completed in 2018 with an estimated total project cost of \$72,100,000.
- The Duct Installation Program (DIP), which started in 2012, is a 10-year project to install duct adjacent to distribution cable, allowing the cable to be replaced quickly when it reaches the end of its useful life. Capital expenditures in 2015 totaled \$2,948,000. The DIP project is expected to be completed in 2022 with an estimated project cost of \$29,412,000.
- Lincoln Wastewater System had select main replacements of approximately \$1.9 million.
- Lincoln Water System had approximately \$3 million of treatment plant modifications and \$2.7 million select main replacements.

City Of Lincoln
Capital Assets (net of depreciation)
August 31, 2016 and 2015

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 165,699,845	144,393,691	25,083,921	24,979,425	190,783,766	169,373,116
Buildings	278,439,144	284,057,834	146,943,273	151,439,031	425,382,417	435,496,865
Improvements Other Than Buildings	98,783,363	68,888,373	482,759,823	478,172,559	581,543,186	547,060,932
Machinery and Equipment	36,077,355	36,355,170	21,334,119	20,175,942	57,411,474	56,531,112
Utility Plant	-	-	807,506,000	803,439,000	807,506,000	803,439,000
Infrastructure	627,005,515	482,433,178	-	-	627,005,515	482,433,178
Construction-in-progress	53,021,217	60,273,373	72,450,851	62,301,235	125,472,068	122,574,608
Total	\$ 1,259,026,439	1,076,401,619	1,556,077,987	1,540,507,192	2,815,104,426	2,616,908,811

Additional information on the City's capital assets can be found in Note 7 of the notes to the financial statements on pages 48-50 of this report.

LONG-TERM DEBT

At August 31, 2016, the City of Lincoln had total bonded debt outstanding of \$1,200,786,000. Of this amount, \$445,151,000 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City Of Lincoln
Outstanding Bonded Debt
August 31, 2016 and 2015

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$ 443,131,274	448,085,814	-	-	443,131,274	448,085,814
Tax Supported Bonds	2,020,000	2,875,000	-	-	2,020,000	2,875,000
Revenue Bonds	-	-	755,635,000	718,790,000	755,635,000	718,790,000
Total	\$ 445,151,274	450,960,814	755,635,000	718,790,000	1,200,786,274	1,169,750,814

The City's total bonded debt increased by \$31,035,460 (3%) in the current fiscal year. LES issued \$167,800,000 in construction and refunding bonds for a net present value savings of \$7,400,000.

The City maintains the following credit ratings:

	Moody's Investors Service	Standard & Poor's	Fitch Investors Service
General Obligation Bonds	Aaa	AAA	-
West Haymarket JPA Bonds	Aa1	AAA	-
Antelope Valley Project Bonds	Aa2	AA	-
Water Revenue Bonds	Aa1	AA	-
Wastewater Revenue Bonds			
MBIA insured	Aaa	AAA	-
Underlying	Aa2	AA+	-
Parking Revenue Bonds	A1	A+	-
Solid Waste Management Revenue Bonds	Aa2	AA+	-
Lincoln Electric System			
Revenue Bonds	-	AA	AA
Commercial Paper	-	A-1+	F1+

Under the City's Home Rule Charter, there is no legal debt limit.

Additional information on the City's long-term debt can be found in Note 9 of the notes to the financial statements on pages 52-58 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2016-2018 biennial budget prepared for the City of Lincoln included the following factors relative to the 2016-2017 fiscal year.

- Property tax revenue required to fund the 2016-2017 budget increased \$3,580,648 from the prior year. Total change in the tax base is 2.2%. Levy increases required for an additional stormwater bond issue, emerald ash borer infestation treatment, and police & fire pension contributions, added 1.372 cents per \$100 of assessed valuation for fiscal year 2016-2017.
- The adequacy of fees charged for City service cost recovery is examined each year and some fee increases are included in each budget. Without periodic increases in fees, amounts collected, or other revenue adjustments, inflationary and other cost increases would need to be covered by additional property tax revenue or the levels of service provided would need to be reduced. Revenue adjustments in 2017 include increased Parks and Recreation program fees, \$128,103; increased revenue from planning application fees, \$37,600; and increased various health department program fees, \$59,522.
- Utility rates are increased by an average of 5%, resulting in additional 2017 revenues of \$1,302,254 for Water and \$1,061,603 for Wastewater.
- An increase in Landfill gate fees and occupation tax fees are scheduled to begin January 2017, generating an additional \$619,183 in the 2017 fiscal year for the Solid Waste Management Fund.
- Increased on-street parking meter rates and parking garage hourly rates are expected to generate \$1,501,017 of additional revenues to benefit the parking system.
- 2017 projected sales tax collections reflect a 4.0% increase over 2016 expected collections.
- Staffing changes included in the 2016-2017 budget result in an increase for all funds of 21.57 full-time equivalents.
- The City pays employees every two weeks, or fourteen days. Every eleven or twelve years, depending on the number of leap years during that time, an additional pay period occurs during a fiscal year. This extra pay period falls in the 2017 fiscal year, significantly increasing its budget requirements. The cost of this extra pay period is approximately \$4.3 million for tax funds and \$6.4 million for all funds. The extra cost is funded by an additional one-time appropriation of fund balances in 2017. The costs in the operating budgets of non-tax funds are paid from the revenues of those funds.
- Health care premiums for the City's self-insured health plan for employees are projected to increase 4% in 2017.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Lincoln's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lincoln, Finance Department, 555 South 10th Street, Lincoln, NE 68508. This report and other financial information are also available online at www.lincoln.ne.gov/city/finance/.

BASIC FINANCIAL STATEMENTS

CITY OF LINCOLN, NEBRASKA
STATEMENT OF NET POSITION
AUGUST 31, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 24,811,118	28,790,373	53,601,491
Investments	270,673,279	182,301,026	452,974,305
Receivables, (Net of Allowance for Uncollectibles)	33,897,113	49,610,180	83,507,293
Internal Balances	(3,689,574)	3,689,574	-
Due from Other Governments	29,383,819	32,655	29,416,474
Inventories	2,051,248	17,174,755	19,226,003
Plant Operation Assets	-	14,095,000	14,095,000
Prepaid Items	952,921	1,325,910	2,278,831
Other Assets	2,656,251	7,393,691	10,049,942
Restricted Assets:			
Cash and Cash Equivalents	2,150,000	8,545,034	10,695,034
Investments	37,160,000	56,038,734	93,198,734
Receivables	-	14,808	14,808
Capital Assets:			
Non-depreciable	218,721,062	97,534,772	316,255,834
Depreciable (Net)	1,040,305,377	1,458,543,215	2,498,848,592
Total Assets	<u>1,659,072,614</u>	<u>1,925,089,727</u>	<u>3,584,162,341</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Loss on Refunding	994,111	20,291,726	21,285,837
Deferred Outflows for Pension	16,430,058	1,212,812	17,642,870
Total Deferred Outflows of Resources	<u>17,424,169</u>	<u>21,504,538</u>	<u>38,928,707</u>
LIABILITIES			
Accounts Payable and Other Current Liabilities	17,903,180	21,885,080	39,788,260
Accrued Liabilities	9,071,802	29,432,667	38,504,469
Due to Other Governments	753,175	302,010	1,055,185
Unearned Revenue	8,506,957	4,981,585	13,488,542
Notes Payable	-	95,500,000	95,500,000
Accrued Interest Payable	4,744,643	9,872,774	14,617,417
Noncurrent Liabilities:			
Payable within One Year	30,989,628	40,514,037	71,503,665
Payable in More Than One Year	570,247,515	843,282,567	1,413,530,082
Total Liabilities	<u>642,216,900</u>	<u>1,045,770,720</u>	<u>1,687,987,620</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Gain on Refunding	733,381	-	733,381
Deferred Inflows for Pension	18,201,944	1,134,913	19,336,857
Total Deferred Inflows of Resources	<u>18,935,325</u>	<u>1,134,913</u>	<u>20,070,238</u>
NET POSITION			
Net Investment in Capital Assets	773,243,018	664,773,842	1,438,016,860
Restricted for:			
Debt Service	7,292,803	9,381,611	16,674,414
Capital Projects	56,066,393	6,907,892	62,974,285
Grantor Loan Programs	17,634,000	-	17,634,000
Other	12,721,727	782,000	13,503,727
Trust Donations:			
Expendable	1,984,477	-	1,984,477
Nonexpendable	160,000	-	160,000
Health Care:			
Expendable	26,528,184	-	26,528,184
Nonexpendable	37,000,000	-	37,000,000
Unrestricted	<u>82,713,956</u>	<u>217,843,287</u>	<u>300,557,243</u>
Total Net Position	<u>\$ 1,015,344,558</u>	<u>899,688,632</u>	<u>1,915,033,190</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Governmental Activities:							
General Government	\$ (49,756,620)	33,956,597	2,053,688	537,275	(13,209,060)	-	(13,209,060)
Public Safety	(93,495,599)	7,428,315	5,915,416	308,541	(79,843,327)	-	(79,843,327)
Streets and Highways	(59,111,970)	6,599,287	21,469,131	12,994,876	(18,048,676)	-	(18,048,676)
Culture and Recreation	(37,633,355)	4,675,252	2,369,623	3,553,740	(27,034,740)	-	(27,034,740)
Economic Opportunity	(20,703,598)	1,346,373	11,207,577	841,411	(7,308,237)	-	(7,308,237)
Health and Welfare	(21,701,621)	4,974,773	12,869,225	-	(3,857,623)	-	(3,857,623)
Mass Transit	(14,576,742)	3,835,166	3,619,559	-	(7,122,017)	-	(7,122,017)
Equipment Management	(614,893)	1,600,936	-	85,884	1,071,927	-	1,071,927
Engineering Services	(2,527,524)	2,985,456	-	11,417	469,349	-	469,349
Interest on Long-Term Debt	(20,931,956)	343,881	4,467,579	1,078,339	(15,042,157)	-	(15,042,157)
Total Governmental Activities	(321,053,878)	67,746,036	63,971,798	19,411,483	(169,924,561)	-	(169,924,561)
Business-Type Activities:							
Golf	(3,939,149)	3,737,367	-	-	-	(201,782)	(201,782)
Parking System	(9,418,838)	12,520,844	-	33,776	-	3,135,782	3,135,782
Municipal Arena	(8,630,522)	8,729,342	-	59,923	-	158,743	158,743
Solid Waste Management	(11,742,556)	8,094,491	15,077	212,500	-	(3,420,488)	(3,420,488)
Emergency Medical Services	(6,865,689)	6,500,914	-	14,976	-	(349,799)	(349,799)
Broadband Enterprise	(402,264)	50,000	83	-	-	(352,181)	(352,181)
Wastewater System	(24,852,092)	27,950,057	27,347	3,023,625	-	6,148,937	6,148,937
Water System	(27,243,026)	35,346,948	18,559	4,309,395	-	12,431,876	12,431,876
Electric System	(286,006,000)	311,093,000	-	2,111,000	-	27,198,000	27,198,000
Total Business-Type Activities	(379,100,136)	414,022,963	61,066	9,765,195	-	44,749,088	44,749,088
Total	\$ (700,154,014)	481,768,999	64,032,864	29,176,678	(169,924,561)	44,749,088	(125,175,473)
General Revenues:							
Property Tax					66,338,373	-	66,338,373
Motor Vehicle Tax					5,396,042	-	5,396,042
Wheel Tax					18,061,400	-	18,061,400
Sales and Use Tax					83,561,157	-	83,561,157
Sundry and In Lieu Tax					1,618,479	-	1,618,479
Occupation Tax					26,618,563	4,194,442	30,813,005
Unrestricted Grants and Contributions					67,640	-	67,640
Unrestricted Investment Earnings					1,914,541	1,517,819	3,432,360
Miscellaneous General Revenues					708,314	89,483	797,797
Transfers					11,071,731	(10,978,490)	93,241
Total General Revenues and Transfers					215,356,240	(5,176,746)	210,179,494
Change in Net Position					45,431,679	39,572,342	85,004,021
Net Position - Beginning					969,912,879	860,116,290	1,830,029,169
Net Position - Ending					\$ 1,015,344,558	899,688,632	1,915,033,190

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2016

	General Fund	Street Construction Fund	West Haymarket JPA Fund	Other Governmental Funds	Total
ASSETS					
Cash and Cash Equivalents	\$ 5,075,233	2,388,205	1,287,845	14,253,973	23,005,256
Investments	46,628,775	54,972,573	32,891,984	131,630,642	266,123,974
Receivables, (Net of Allowance for Uncollectibles)	6,007,520	1,402,145	2,110,497	24,085,432	33,605,594
Due from Other Funds	2,722,903	7,288,186	-	1,336,608	11,347,697
Due from Other Governments	13,338,163	8,031,458	839,824	7,086,553	29,295,998
Inventories	305,282	327,910	-	593,716	1,226,908
Assets Held for Resale	-	-	2,526,251	130,000	2,656,251
Prepaid Items	165,139	26,640	323,884	-	515,663
Total Assets	<u>74,243,015</u>	<u>74,437,117</u>	<u>39,980,285</u>	<u>179,116,924</u>	<u>367,777,341</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts Payable	1,108,220	6,537,448	1,082,972	3,394,417	12,123,057
Contracts Payable	-	391,405	-	-	391,405
Accrued Liabilities	5,134,909	291,071	183,000	2,705,743	8,314,723
Due to Other Funds	732,692	429,610	181,054	14,791,313	16,134,669
Due to Other Governments	109,026	1,573	339,978	152,010	602,587
Due to Other Contractors	-	-	-	3,051,155	3,051,155
Unearned Revenue	600	-	8,199,176	245,399	8,445,175
Total Liabilities	<u>7,085,447</u>	<u>7,651,107</u>	<u>9,986,180</u>	<u>24,340,037</u>	<u>49,062,771</u>
Deferred Inflows of Resources:					
Unavailable Revenues	<u>1,454,470</u>	<u>5,002,479</u>	<u>1,070,955</u>	<u>4,302,991</u>	<u>11,830,895</u>
Fund Balances:					
Nonspendable	470,421	354,550	323,884	37,753,716	38,902,571
Restricted	7,432,974	29,629,913	3,984,690	90,967,872	132,015,449
Committed	-	-	-	2,623,396	2,623,396
Assigned	17,888,953	31,799,068	24,614,576	19,240,166	93,542,763
Unassigned	39,910,750	-	-	(111,254)	39,799,496
Total Fund Balances	<u>65,703,098</u>	<u>61,783,531</u>	<u>28,923,150</u>	<u>150,473,896</u>	<u>306,883,675</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 74,243,015</u>	<u>74,437,117</u>	<u>39,980,285</u>	<u>179,116,924</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,233,695,799
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	11,830,895
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	44,928,508
Long-term construction contracts and other liabilities require the use of unavailable financial resources and, therefore, are not reported in the funds.	(4,201,593)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(577,792,726)</u>
Net position of governmental activities	<u>\$ 1,015,344,558</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

	General Fund	Street Construction Fund	West Haymarket JPA Fund	Other Governmental Funds	Total
REVENUES					
Taxes:					
Property	\$ 35,888,195	-	-	30,336,204	66,224,399
Motor Vehicle	5,396,042	-	-	-	5,396,042
Wheel	-	-	-	18,061,400	18,061,400
Sales and Use	72,305,953	-	-	11,255,204	83,561,157
Sundry and In Lieu	39,535	-	-	1,565,640	1,605,175
Occupation	10,204,620	-	16,413,943	-	26,618,563
Special Assessment	13,688	-	-	1,380,136	1,393,824
Intergovernmental	3,936,525	28,271,419	3,686,539	28,816,566	64,711,049
Permits and Fees	5,698,172	4,813,617	3,400	15,189,666	25,704,855
Reimbursement for Services	7,378,365	428,515	7,409,436	1,591,139	16,807,455
Court Settlements	75,000	-	-	-	75,000
Program Income	-	-	-	22,726	22,726
Investment Earnings	446,115	347,086	459,849	4,996,819	6,249,869
Donations	763,455	-	500,000	2,263,315	3,526,770
Keno Proceeds	-	-	-	4,559,104	4,559,104
Miscellaneous	598,006	788,008	-	973,014	2,359,028
Total Revenues	<u>142,743,671</u>	<u>34,648,645</u>	<u>28,473,167</u>	<u>121,010,933</u>	<u>326,876,416</u>
EXPENDITURES					
Current:					
General Government	34,710,113	-	6,472,617	13,300,852	54,483,582
Public Safety	67,765,524	-	-	9,633,650	77,399,174
Streets and Highways	5,689,524	15,207,310	-	-	20,896,834
Culture and Recreation	14,056,488	-	-	11,254,447	25,310,935
Economic Opportunity	4,183,176	-	-	9,829,764	14,012,940
Health and Welfare	439,087	-	-	22,166,658	22,605,745
Mass Transit	-	-	-	12,380,084	12,380,084
Debt Service	138,124	-	16,785,303	26,241,784	43,165,211
Capital Outlay	-	44,581,994	1,081,515	19,545,974	65,209,483
Total Expenditures	<u>126,982,036</u>	<u>59,789,304</u>	<u>24,339,435</u>	<u>124,353,213</u>	<u>335,463,988</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>15,761,635</u>	<u>(25,140,659)</u>	<u>4,133,732</u>	<u>(3,342,280)</u>	<u>(8,587,572)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	11,212,038	23,642,227	-	36,462,195	71,316,460
Transfers Out	(25,199,808)	(5,629,716)	(260,540)	(28,187,051)	(59,277,115)
Issuance of Debt	2,255,000	-	-	10,680,000	12,935,000
Premium on Debt Issued	149,439	-	-	473,390	622,829
Sale of Capital Assets	8,021	3,905	697,615	443,735	1,153,276
Total Other Financing Sources (Uses)	<u>(11,575,310)</u>	<u>18,016,416</u>	<u>437,075</u>	<u>19,872,269</u>	<u>26,750,450</u>
Net Change in Fund Balances	4,186,325	(7,124,243)	4,570,807	16,529,989	18,162,878
Fund Balances - Beginning	<u>61,516,773</u>	<u>68,907,774</u>	<u>24,352,343</u>	<u>133,943,907</u>	<u>288,720,797</u>
Fund Balances - Ending	<u>\$ 65,703,098</u>	<u>61,783,531</u>	<u>28,923,150</u>	<u>150,473,896</u>	<u>306,883,675</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 18,162,878
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	24,691,336
The net effect of various transactions involving capital contributions is to increase net position.	7,269,033
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds: Change in revenues in fund statements previously recognized in the statement of activities.	3,411,536
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	3,945,305
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(3,577,900)
Changes in the net pension liability, deferred inflows and outflows related to the total pension liability, and the net OPEB obligation do not represent financial activity in the governmental funds.	(4,840,448)
Changes in the interest in the underlying net position of the joint venture do not represent financial activity in governmental funds.	(14,330,228)
Internal service funds are used by management to charge the costs of certain services to individual funds. The net income of the internal service funds is reported within governmental activities.	<u>10,700,167</u>
Change in net position of governmental activities	<u><u>\$ 45,431,679</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Real Estate and Personal Property Tax	\$ 37,349,485	37,349,485	40,706,923	3,357,438
Taxes Collected by Others	72,477,700	72,477,700	71,621,717	(855,983)
Sundry Taxes and In Lieu	50,459	50,459	48,070	(2,389)
Occupation Taxes	11,418,010	11,418,010	9,924,621	(1,493,389)
Intergovernmental	2,529,348	2,529,348	2,291,364	(237,984)
Permits and Fees	3,474,493	3,474,493	3,633,404	158,911
Reimbursement for Services	3,180,860	3,180,860	3,521,900	341,040
Court Fees	737,000	737,000	816,252	79,252
Court Settlements	75,000	75,000	75,000	-
Recreation Receipts	2,516,655	2,516,655	2,667,620	150,965
Investment Earnings	194,979	194,979	379,101	184,122
Donations	789,252	789,252	789,252	-
Rental Income	524,361	524,361	589,127	64,766
Miscellaneous	338,111	338,111	498,722	160,611
Total Revenues	<u>135,655,713</u>	<u>135,655,713</u>	<u>137,563,073</u>	<u>1,907,360</u>
Expenditures:				
General Government:				
Legislative	299,262	301,251	252,018	49,233
Executive	1,630,299	1,688,354	1,431,378	256,976
Financial Administration	2,887,048	2,956,846	2,644,181	312,665
Law	3,122,643	3,186,654	2,843,132	343,522
Personnel Administration	1,250,744	1,285,148	1,104,021	181,127
Planning and Zoning	1,930,063	2,031,308	1,607,923	423,385
Urban Development	867,980	918,127	881,615	36,512
Miscellaneous	33,913,533	30,758,140	23,761,204	6,996,936
Total General Government	<u>45,901,572</u>	<u>43,125,828</u>	<u>34,525,472</u>	<u>8,600,356</u>
Public Safety:				
Police	36,424,293	37,127,387	34,329,548	2,797,839
Fire	27,029,072	26,857,762	26,460,696	397,066
Traffic Engineering	1,652,267	1,691,414	1,760,064	(68,650)
Total Public Safety	<u>65,105,632</u>	<u>65,676,563</u>	<u>62,550,308</u>	<u>3,126,255</u>
Streets and Highways:				
Street Maintenance	2,595,998	2,495,376	2,046,134	449,242
Street Lighting	2,345,413	2,503,048	3,562,523	(1,059,475)
Total Streets and Highways	<u>4,941,411</u>	<u>4,998,424</u>	<u>5,608,657</u>	<u>(610,233)</u>
Culture and Recreation:				
Parks and Recreation	13,934,435	14,309,804	13,744,250	565,554
Libraries	180,109	180,109	178,854	1,255
Total Culture and Recreation	<u>14,114,544</u>	<u>14,489,913</u>	<u>13,923,104</u>	<u>566,809</u>
Economic Opportunity:				
Lincoln Area Agency on Aging	238,209	238,209	238,209	-
Job Programs	65,120	65,120	65,120	-
Fiber Network	107,654	258,831	133,881	124,950
Total Economic Opportunity	<u>410,983</u>	<u>562,160</u>	<u>437,210</u>	<u>124,950</u>
Health and Welfare:				
Lincoln/Lancaster County Health	433,636	433,636	433,636	-
Debt Service:				
Issuance and Management Costs	-	-	138,124	(138,124)
Total Expenditures	<u>130,907,778</u>	<u>129,286,524</u>	<u>117,616,511</u>	<u>11,670,013</u>
Excess of Revenues Over Expenditures	<u>4,747,935</u>	<u>6,369,189</u>	<u>19,946,562</u>	<u>13,577,373</u>
Other Financing Sources (Uses):				
Transfers In	12,339,264	12,339,264	11,717,327	(621,937)
Transfers Out	(33,475,377)	(34,700,654)	(31,550,870)	3,149,784
Proceeds from Issuance of Debt	2,255,000	2,255,000	2,255,000	-
Premium on Debt Issued	-	-	149,439	149,439
Sale of Capital Assets	5,033	5,033	7,778	2,745
Total Other Financing Sources (Uses)	<u>(18,876,080)</u>	<u>(20,101,357)</u>	<u>(17,421,326)</u>	<u>2,680,031</u>
Net Change in Fund Balances	<u>(14,128,145)</u>	<u>(13,732,168)</u>	<u>2,525,236</u>	<u>16,257,404</u>
Fund Balances - Beginning	41,542,766	41,542,766	41,542,766	-
Fund Balances - Ending	<u>\$ 27,414,621</u>	<u>27,810,598</u>	<u>44,068,002</u>	<u>16,257,404</u>

The notes to the financial statements are an integral part of this statement.



CITY OF LINCOLN, NEBRASKA
STREET CONSTRUCTION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Special Assessment	\$ -	-	357	357
Intergovernmental	10,857,306	10,857,306	23,488,153	12,630,847
Permits and Fees	-	-	390,757	390,757
Reimbursement for Services	500,000	500,000	185,940	(314,060)
Investment Earnings	57,200	57,200	284,916	227,716
Miscellaneous	-	-	95,484	95,484
Total Revenues	<u>11,414,506</u>	<u>11,414,506</u>	<u>24,445,607</u>	<u>13,031,101</u>
Expenditures -- Streets and Highways:				
Personal Services	7,346,242	7,102,242	7,283,815	(181,573)
Materials and Supplies	1,077,138	1,114,138	1,222,706	(108,568)
Other Services and Charges	5,730,047	4,837,047	4,855,574	(18,527)
Capital Outlay	1,541,140	2,641,140	1,724,084	917,056
Total Expenditures	<u>15,694,567</u>	<u>15,694,567</u>	<u>15,086,179</u>	<u>608,388</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,280,061)</u>	<u>(4,280,061)</u>	<u>9,359,428</u>	<u>13,639,489</u>
Other Financing Sources (Uses):				
Transfers In	23,642,227	23,642,227	23,642,227	-
Transfers Out	(5,629,716)	(5,629,716)	(5,629,716)	-
Sale of Capital Assets	-	-	6,764	6,764
Total Other Financing Sources (Uses)	<u>18,012,511</u>	<u>18,012,511</u>	<u>18,019,275</u>	<u>6,764</u>
Net Change in Fund Balances	13,732,450	13,732,450	27,378,703	13,646,253
Amount Budgeted on Project Basis	(33,261,538)	(33,261,538)	(33,261,538)	-
Fund Balances - Beginning	<u>64,154,641</u>	<u>64,154,641</u>	<u>64,154,641</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 44,625,553</u>	<u>44,625,553</u>	<u>58,271,806</u>	<u>13,646,253</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2016

	Business-Type Activities -- Enterprise Funds				Total	Governmental Activities -- Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds		
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 918,094	1,204,831	21,038,000	5,629,448	28,790,373	1,805,862
Investments	12,624,707	16,438,601	124,183,000	9,464,180	162,710,488	26,618,645
Restricted Assets:						
Restricted Cash and Cash Equivalents	-	-	5,369,000	-	5,369,000	-
Investments	-	-	12,478,000	-	12,478,000	-
Receivables, (Net of Allowance for Uncollectibles)	2,144,205	3,539,231	20,586,000	3,696,871	29,966,307	291,519
Unbilled Revenues	2,805,361	4,229,512	12,609,000	-	19,643,873	-
Due from Other Funds	791,730	3,458,279	-	169,840	4,419,849	1,183,164
Due from Other Governments	-	-	-	32,655	32,655	87,821
Inventories	107,759	1,241,681	15,423,000	402,315	17,174,755	824,340
Plant Operation Assets	-	-	14,095,000	-	14,095,000	-
Prepaid Expenses	-	-	1,241,000	89,910	1,330,910	437,258
Total Current Assets	<u>19,391,856</u>	<u>30,112,135</u>	<u>227,022,000</u>	<u>19,485,219</u>	<u>296,011,210</u>	<u>31,248,609</u>
Noncurrent Assets:						
Investments	5,507,132	8,596,708	-	5,486,698	19,590,538	15,090,660
Costs Recoverable from Future Billings	647,385	453,306	6,288,000	-	7,388,691	-
Restricted Assets:						
Cash and Cash Equivalents	-	-	112,000	3,064,034	3,176,034	2,150,000
Investments	7,724,681	7,853,165	21,790,000	6,192,888	43,560,734	-
Receivables	-	-	-	14,808	14,808	-
Total Restricted Assets	<u>7,724,681</u>	<u>7,853,165</u>	<u>21,902,000</u>	<u>9,271,730</u>	<u>46,751,576</u>	<u>2,150,000</u>
Capital Assets:						
Land	6,913,300	5,445,016	-	12,725,605	25,083,921	1,306,950
Buildings	80,077,486	80,718,654	-	76,126,554	236,922,694	14,065,461
Improvements Other Than Buildings	304,819,066	354,088,088	-	49,640,939	708,548,093	746,307
Machinery and Equipment	10,702,215	25,023,245	-	20,165,779	55,891,239	35,648,327
Utility Plant	-	-	1,454,957,000	-	1,454,957,000	-
Construction in Progress	3,131,541	7,163,769	57,484,000	4,671,541	72,450,851	13,100
Less Accumulated Depreciation	(136,300,863)	(148,258,071)	(647,451,000)	(65,765,877)	(997,775,811)	(26,449,505)
Total Capital Assets, Net	<u>269,342,745</u>	<u>324,180,701</u>	<u>864,990,000</u>	<u>97,564,541</u>	<u>1,556,077,987</u>	<u>25,330,640</u>
Total Noncurrent Assets	<u>283,221,943</u>	<u>341,083,880</u>	<u>893,180,000</u>	<u>112,322,969</u>	<u>1,629,808,792</u>	<u>42,571,300</u>
Total Assets	<u>302,613,799</u>	<u>371,196,015</u>	<u>1,120,202,000</u>	<u>131,808,188</u>	<u>1,925,820,002</u>	<u>73,819,909</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Loss on Refunding	616,005	640,274	19,009,000	26,447	20,291,726	-
Deferred Outflows for Pension	-	-	-	1,212,812	1,212,812	-
Total Deferred Outflows of Resources	<u>616,005</u>	<u>640,274</u>	<u>19,009,000</u>	<u>1,239,259</u>	<u>21,504,538</u>	<u>-</u>
LIABILITIES						
Current Liabilities:						
Accounts Payable	455,661	812,737	17,992,000	2,624,682	21,885,080	2,337,563
Construction Contracts	768,965	2,561,154	-	-	3,330,119	-
Accrued Liabilities	661,551	1,059,638	27,088,000	623,478	29,432,667	653,881
Accrued Compensated Absences	398,744	489,854	-	573,961	1,462,559	809,055
Due to Other Funds	-	-	-	329,025	329,025	85,766
Due to Other Governments	-	-	-	302,010	302,010	20,519
Unearned Revenue	-	-	-	4,981,585	4,981,585	61,782
Claims	-	-	-	-	-	3,942,223
Accrued Interest	515,713	129,628	9,138,000	89,433	9,872,774	101,103
Current Portion of Notes Payable	-	-	95,500,000	200,000	95,700,000	-
Current Portion of Capital Lease	-	-	-	436,273	436,273	1,010,000
Current Portion of Long-Term Debt	4,761,635	4,408,451	23,800,000	2,115,000	35,085,086	-
Total Current Liabilities	<u>7,562,269</u>	<u>9,461,462</u>	<u>173,518,000</u>	<u>12,275,447</u>	<u>202,817,178</u>	<u>9,021,892</u>
Noncurrent Liabilities:						
Due to Other Funds	-	-	-	401,250	401,250	-
Accrued Compensated Absences	399,371	598,429	-	160,199	1,157,999	1,126,845
Construction Contracts	-	84,336	-	-	84,336	-
Claims	-	-	508,000	-	508,000	6,016,989
Notes Payable	-	-	-	1,200,000	1,200,000	-
Capital Lease Payable	-	-	-	1,250,430	1,250,430	12,198,058
Long-Term Debt, Net	77,551,033	53,678,819	645,151,000	36,969,955	813,350,807	-
Accrued Liabilities	314,718	453,565	-	1,051,547	1,819,830	527,617
Net Pension Liability	-	-	-	3,420,165	3,420,165	-
Accrued Landfill Closure/Postclosure Care Costs	-	-	-	20,491,000	20,491,000	-
Total Noncurrent Liabilities	<u>78,265,122</u>	<u>54,815,149</u>	<u>645,659,000</u>	<u>64,944,546</u>	<u>843,683,817</u>	<u>19,869,509</u>
Total Liabilities	<u>85,827,391</u>	<u>64,276,611</u>	<u>819,177,000</u>	<u>77,219,993</u>	<u>1,046,500,995</u>	<u>28,891,401</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows for Pension	-	-	-	1,134,913	1,134,913	-
NET POSITION						
Net Investment in Capital Assets	192,550,933	269,527,215	140,429,000	62,266,694	664,773,842	14,157,482
Restricted for:						
Debt Service	950,824	286,040	7,978,000	166,747	9,381,611	-
Capital Projects	791,730	3,458,279	-	2,657,883	6,907,892	-
Other	-	-	782,000	-	782,000	-
Unrestricted	23,108,926	34,288,144	170,845,000	(10,398,783)	217,843,287	30,771,026
Total Net Position	<u>\$ 217,402,413</u>	<u>307,559,678</u>	<u>320,034,000</u>	<u>54,692,541</u>	<u>899,688,632</u>	<u>44,928,508</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

	Business-Type Activities -- Enterprise Funds				Total	Governmental Activities -- Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds		
Operating Revenues						
Charges for Services	\$ 27,986,580	35,400,979	287,058,000	8,104,526	358,550,085	73,533,464
Fees	-	-	-	10,799,949	10,799,949	-
Parking Revenue	-	-	-	11,124,369	11,124,369	-
Performance Revenue	-	-	-	6,970,137	6,970,137	-
Other Operating Revenue	-	-	13,395,000	2,632,509	16,027,509	-
Total Operating Revenues	<u>27,986,580</u>	<u>35,400,979</u>	<u>300,453,000</u>	<u>39,631,490</u>	<u>403,472,049</u>	<u>73,533,464</u>
Operating Expenses						
Personal Services	-	-	-	14,406,684	14,406,684	14,846,429
Contractual Services	-	-	-	9,786,970	9,786,970	-
Operation and Maintenance	12,083,625	14,880,238	25,674,000	10,275,682	62,913,545	47,374,300
Purchased Power	-	-	133,737,000	-	133,737,000	-
Depreciation	8,351,146	8,688,748	48,177,000	5,202,435	70,419,329	3,024,003
Administrative Costs	1,935,436	2,088,878	39,583,000	-	43,607,314	-
Total Operating Expenses	<u>22,370,207</u>	<u>25,657,864</u>	<u>247,171,000</u>	<u>39,671,771</u>	<u>334,870,842</u>	<u>65,244,732</u>
Operating Income (Loss)	<u>5,616,373</u>	<u>9,743,115</u>	<u>53,282,000</u>	<u>(40,281)</u>	<u>68,601,207</u>	<u>8,288,732</u>
Nonoperating Revenues (Expenses)						
Investment Earnings	345,697	621,416	392,000	158,789	1,517,902	291,913
Grant Proceeds	27,347	18,559	-	15,077	60,983	-
Gain on Disposal of Capital Assets	-	-	-	16,718	16,718	130,375
Settlement Proceeds	-	-	10,640,000	-	10,640,000	-
Occupation Tax	-	-	-	4,194,442	4,194,442	-
Payments in Lieu of Taxes	-	-	(10,316,000)	-	(10,316,000)	-
Net Costs Recoverable	(49,512)	(48,767)	-	-	(98,279)	-
Debt Issuance Expense	-	-	-	(5,000)	(5,000)	(19,449)
Interest Expense and Fiscal Charges	(2,432,373)	(1,536,395)	(26,408,000)	(1,338,568)	(31,715,336)	(289,490)
Total Nonoperating Revenues (Expenses)	<u>(2,108,841)</u>	<u>(945,187)</u>	<u>(25,692,000)</u>	<u>3,041,458</u>	<u>(25,704,570)</u>	<u>113,349</u>
Income Before Contributions and Transfers	3,507,532	8,797,928	27,590,000	3,001,177	42,896,637	8,402,081
Capital Contributions	3,023,625	4,309,395	2,111,000	1,256,881	10,700,901	2,329,994
Plant Costs Recovered through Capital Contributions	-	-	(2,111,000)	-	(2,111,000)	-
Transfers In	-	-	-	203,040	203,040	77,092
Transfers Out	(55,994)	-	(9,175,000)	(2,886,242)	(12,117,236)	(109,000)
Change in Net Position	<u>6,475,163</u>	<u>13,107,323</u>	<u>18,415,000</u>	<u>1,574,856</u>	<u>39,572,342</u>	<u>10,700,167</u>
Net Position - Beginning	<u>210,927,250</u>	<u>294,452,355</u>	<u>301,619,000</u>	<u>53,117,685</u>	<u>860,116,290</u>	<u>34,228,341</u>
Net Position - Ending	<u>\$ 217,402,413</u>	<u>307,559,678</u>	<u>320,034,000</u>	<u>54,692,541</u>	<u>899,688,632</u>	<u>44,928,508</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

	Business-Type Activities -- Enterprise Funds				Total	Governmental Activities --
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds		Internal Service Funds
Cash Flows from Operating Activities						
Receipts from Customers and Users	\$ 27,307,161	33,757,399	312,174,000	36,102,992	409,341,552	16,915,437
Receipts from Interfund Services Provided	205,260	-	6,105,000	1,549,485	7,859,745	56,761,144
Payments to Suppliers for Goods and Services	(3,098,951)	(8,134,090)	(190,046,000)	(13,380,822)	(214,659,863)	(42,824,669)
Payments to Employees	(7,632,595)	(8,574,825)	(28,789,000)	(13,606,538)	(58,602,958)	(14,461,072)
Payments for Interfund Services Provided	(2,949,750)	-	(1,486,000)	(3,289,238)	(7,724,988)	(4,404,870)
Other Receipts	-	-	-	2,425,987	2,425,987	-
Net Cash Provided by Operating Activities	<u>13,831,125</u>	<u>17,048,484</u>	<u>97,958,000</u>	<u>9,801,866</u>	<u>138,639,475</u>	<u>11,985,970</u>
Cash Flows from Noncapital Financing Activities						
Occupation Tax	-	-	-	3,878,941	3,878,941	-
Settlement Liquidation	-	-	(4,913,000)	-	(4,913,000)	-
Payments in Lieu of Taxes	-	-	(10,349,000)	-	(10,349,000)	-
Transfers from Other Funds	-	-	-	203,040	203,040	77,092
Transfers to Other Funds	(55,994)	-	(9,131,000)	(2,886,242)	(12,073,236)	(109,000)
Advances from General Fund	-	-	-	1,337,449	1,337,449	1,043,544
Repayment of Advances from General Fund	-	-	-	(1,380,646)	(1,380,646)	(1,528,153)
Repayments from Other Funds	-	-	-	-	-	150,000
Grant Proceeds	-	-	-	15,077	15,077	-
Principal Payment of Long-Term Debt	-	-	-	(200,000)	(200,000)	-
Interest and Fiscal Charges Paid	-	-	-	(7,370)	(7,370)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(55,994)</u>	<u>-</u>	<u>(24,393,000)</u>	<u>960,249</u>	<u>(23,488,745)</u>	<u>(366,517)</u>
Cash Flows from Capital and Related Financing Activities						
Additions to Capital Assets	(6,214,141)	(10,647,545)	(55,622,000)	(6,557,328)	(79,041,014)	(2,719,439)
Capital Contributions	694,165	1,963,036	2,111,000	261,252	5,029,453	-
Grant Proceeds	27,347	18,559	-	-	45,906	-
Proceeds from Sale of Capital Assets	-	-	-	99,921	99,921	188,908
Proceeds from Issuance of Long-Term Debt	-	172,823	79,491,000	527,866	80,191,689	2,169,449
Cost of Debt Issuance	-	-	(1,465,000)	-	(1,465,000)	(19,449)
Net Cost of Retiring Plant	-	-	(1,704,000)	-	(1,704,000)	-
Principal Payments of Capital Lease	-	-	-	(390,650)	(390,650)	(1,530,223)
Principal Payments of Long-Term Debt	(4,562,314)	(4,344,979)	(22,050,000)	(2,065,000)	(33,022,293)	-
Interest and Fiscal Charges Paid	(2,847,529)	(2,123,747)	(26,716,000)	(1,562,980)	(33,250,256)	(355,612)
Net Cash Used by Capital and Related Financing Activities	<u>(12,902,472)</u>	<u>(14,961,853)</u>	<u>(25,955,000)</u>	<u>(9,686,919)</u>	<u>(63,506,244)</u>	<u>(2,266,366)</u>
Cash Flows from Investing Activities						
Proceeds from Sale and Maturities of Investments	18,579,937	21,389,253	214,227,000	19,511,856	273,708,046	30,229,788
Purchases of Investments	(19,137,687)	(23,154,795)	(262,930,000)	(18,858,384)	(324,080,866)	(36,675,992)
Interest and Other Receipts	195,765	356,195	414,000	110,437	1,076,397	223,334
Net Cash Provided (Used) by Investing Activities	<u>(361,985)</u>	<u>(1,409,347)</u>	<u>(48,289,000)</u>	<u>763,909</u>	<u>(49,296,423)</u>	<u>(6,222,870)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	510,674	677,284	(679,000)	1,839,105	2,348,063	3,130,217
Cash and Cash Equivalents - Beginning	407,420	527,547	27,198,000	6,854,377	34,987,344	825,645
Cash and Cash Equivalents - Ending	<u>\$ 918,094</u>	<u>1,204,831</u>	<u>26,519,000</u>	<u>8,693,482</u>	<u>37,335,407</u>	<u>3,955,862</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities						
Operating Income (Loss)	\$ 5,616,373	9,743,115	53,282,000	(40,281)	68,601,207	8,288,732
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	8,351,146	8,688,748	48,177,000	5,202,435	70,419,329	3,024,003
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:						
Accounts Receivable and Unbilled Revenues	(474,159)	(1,642,231)	(1,102,000)	(217,514)	(3,435,904)	(51,897)
Lease Receivable	-	-	-	-	-	95,000
Due from Other Funds	-	-	-	733,037	733,037	31,144
Due from Other Governments	-	-	-	8,076	8,076	156,057
Inventories	1,462	(314,253)	322,000	9,724	18,933	30,581
Plant Operation Assets	-	-	(2,186,000)	-	(2,186,000)	-
Prepaid Expenses	-	-	20,000	(10,195)	9,805	(19,339)
Other Assets	-	-	(79,000)	-	(79,000)	-
Deferred Outflows for Pension	-	-	-	258,180	258,180	-
Accounts Payable	135,373	301,092	(192,000)	537,360	781,825	1,136,561
Accrued Liabilities	118,974	199,788	(296,000)	317,035	339,797	177,454
Accrued Compensated Absences	81,956	72,225	-	60,804	214,985	207,903
Due to Other Funds	-	-	-	(7,020)	(7,020)	(14,816)
Due to Other Governments	-	-	-	84,833	84,833	8,668
Unearned Revenue	-	-	-	(76,625)	(76,625)	7,812
Claims	-	-	-	-	-	(1,091,893)
Other Liabilities	-	-	12,000	-	12,000	-
Net Pension Liability	-	-	-	51,506	51,506	-
Accrued Landfill Closure/Postclosure Care Costs	-	-	-	2,917,000	2,917,000	-
Deferred Inflows for Pension	-	-	-	(26,489)	(26,489)	-
Total Adjustments	<u>8,214,752</u>	<u>7,305,369</u>	<u>44,676,000</u>	<u>9,842,147</u>	<u>70,038,268</u>	<u>3,697,238</u>
Net Cash Provided by Operating Activities	<u>\$ 13,831,125</u>	<u>17,048,484</u>	<u>97,958,000</u>	<u>9,801,866</u>	<u>138,639,475</u>	<u>11,985,970</u>
Supplemental Disclosure of Noncash Investing, Capital, and Financing Activities:						
Contribution of Capital Assets	\$ 2,329,460	2,346,359	-	808,446	5,484,265	2,329,994
Purchase of Capital Assets on Account	768,965	2,645,490	462,000	959,289	4,835,744	115,100
Change in Fair Value of Investments	(154,699)	(265,422)	(402,000)	39,804	(782,317)	61,880
Capitalized Interest included in Capital Asset Additions	-	-	519,000	158,957	677,957	-

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2016

	<u>Police & Fire Pension Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 563,865	4,415,026
Investments:		
Pooled Investment Funds	1,804,732	-
Equities	7,516,090	-
Mutual Funds	111,709,665	-
Limited Partnership	11,486,953	-
Real Estate Limited Partnerships	80,775,361	-
Total Investments	<u>213,292,801</u>	<u>-</u>
Receivables:		
Contributions	604,906	-
Accrued Interest	2,904	618
Other	-	56,003
Due from Other Governments	405	-
Contractor Retainage	<u>-</u>	<u>78,454</u>
 Total Assets	 <u>214,464,881</u>	 <u>4,550,101</u>
LIABILITIES		
Warrants Payable	-	2,690,295
Accounts Payable	27,857	217,074
Accrued Liabilities	11,712	-
Accrued Compensated Absences	13,807	-
Due to Other Governments	240	926,891
Due to Homeowners	-	27,004
Due to Contractors	-	570,911
Due to Bondholders	<u>-</u>	<u>117,926</u>
 Total Liabilities	 <u>53,616</u>	 <u>4,550,101</u>
NET POSITION		
Net Position Restricted for Pensions	<u>\$ 214,411,265</u>	

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED AUGUST 31, 2016

	<u>Police & Fire Pension Trust Fund</u>
Additions:	
Contributions:	
Employer	\$ 7,218,577
Employee	<u>2,814,486</u>
Total Contributions	<u>10,033,063</u>
Investment Earnings:	
Interest	15,463
Dividends	4,187,100
Net Increase in Fair Value of Investments	<u>10,601,841</u>
Net Investment Earnings	<u>14,804,404</u>
Total Additions	<u>24,837,467</u>
Deductions:	
Benefit Payments	14,201,247
Refunds of Contributions	222,236
Administrative Costs	<u>507,774</u>
Total Deductions	<u>14,931,257</u>
Change in Net Position	9,906,210
Net Position Restricted for Pensions - Beginning	<u>204,505,055</u>
Net Position Restricted for Pensions - Ending	<u><u>\$ 214,411,265</u></u>

The notes to the financial statements are an integral part of this statement.

**NOTES TO THE
FINANCIAL STATEMENTS**

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2016

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

REPORTING ENTITY

The accompanying financial statements present the government of the City of Lincoln, Nebraska (City) and its blended component unit, the West Haymarket Joint Public Agency (WHJPA), established April 2, 2010, for which the City is considered to be financially accountable, as the City is ultimately responsible for the debt of the WHJPA if such revenues are insufficient to make the necessary debt service payments. Regarding related organizations, the City's Mayor appoints and the City Council approves all of the board appointments of the Housing Authority of the City of Lincoln. However, the City has no further accountability for this organization.

Blended component units, although legally separate entities, are, in substance, part of the government's operations. The participants in the WHJPA are the City and University of Nebraska (UNL), and the agency is governed by a board consisting of the Mayor, a member of the UNL Board of Regents, and a member of the City Council. The purpose of the agency is to make the most efficient use of the taxing authority and other powers of the participants to facilitate the redevelopment of the West Haymarket Redevelopment Area. The WHJPA almost exclusively benefits the City as its primary function is to finance and construct those City owned assets located in the redevelopment area. The WHJPA is reported as a major governmental fund in the City's financial statements. Complete separate financial statements for the WHJPA may be obtained at the City of Lincoln Finance Department, 555 South 10th Street, Suite 103, Lincoln, NE 68508, or online at www.lincoln.ne.gov/city/finance/account/jpa-audits.htm.

FISCAL YEAR-END

All funds of the City, with the exception of Lincoln Electric System (LES), are reported as of and for the year ended August 31, 2016. December 31st is the fiscal year-end of LES as established by the City Charter, and the last separate financial statements were as of and for the year ended December 31, 2015. The amounts included in the City's 2016 financial statements for LES are amounts as of and for the year ended December 31, 2015.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. Fiduciary activities, whose resources are not available to finance the City's programs, are excluded from the government-wide statements. The material effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Functional expenses may also include an element of indirect cost, designed to recover administrative (overhead) costs. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2016

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *total economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Agency funds, reporting only assets and liabilities, have no measurement focus but use the accrual basis of accounting.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, including interest on long-term debt, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, sales taxes, highway user fees, interdepartmental charges, and intergovernmental revenues are all considered to be susceptible to accrual. Special assessments are recorded as revenues in the year the assessments become current. Annual installments not yet due are reflected as special assessment receivables and deferred revenues. Other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund finances the day-to-day operation of the basic governmental activities, such as legislative, judicial, administration, aging services, police and fire protection, emergency communications, legal services, planning, and parks and recreation. Primary resources of the fund include property, sales, and occupation taxes.

The Street Construction Fund, a special revenue fund, accounts for the resources accumulated, primarily highway allocation fees received from the State of Nebraska, and the payments made for the maintenance, construction, and improvement of the streets and highways in the City.

The West Haymarket JPA Fund accounts for the activities of the joint public agency, a blended component unit of the City, established to facilitate the redevelopment of the West Haymarket Area. Occupation taxes imposed on bar, restaurant, car rental, and hotel revenues, provides the resources to finance the activities of the JPA.

The City reports the following major enterprise funds:

The Lincoln Wastewater System Fund accounts for the activities of the City's wastewater utility.

The Lincoln Water System Fund accounts for the activities of the City's water distribution operations.

The Lincoln Electric System Fund accounts for the activities of the City's electric distribution operations.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2016

Additionally, the City reports the following fund types:

Internal Service Funds account for data processing, engineering, risk management, fleet management, municipal services center operations, telecommunications, and copy services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

The Pension Trust Fund accounts for the receipt, investment, and distribution of retirement contributions made for the benefit of police officers and firefighters.

The Agency Funds account for the collection of various taxes, fines, and fees due to other government entities; funds held in escrow for homeowners; good faith money due to contractors upon project completion; funds held for payroll taxes and other payroll related payables; funds held to pay outstanding warrants; funds to pay phone system charges; funds to pay matured bonds and coupons for which the City Treasurer is trustee; funds for the joint administrative entity known as JAVA, created to coordinate planning and implementation of the Antelope Valley Project; and reserve funds held for the Public Building Commission Bonds.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes, return on equity, and charges between the business-type functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, fines and forfeitures, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service funds are charges to customers for goods and services. Operating expenses include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

In 2011, the City Council approved an ordinance requiring LES to pay an annual dividend to the City for the City's ownership of LES, in an amount based on the total net position of LES as of the most recent audited year-end financial statements. 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 fifty percent of the annual dividend payment.

ASSETS, LIABILITIES, AND NET POSITION OR FUND EQUITY

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. These investments are not specifically identified with any one fund. Interest is allocated to the individual funds on the basis of average cash balances.

The City may invest in certificates of deposit, in time deposits, and in any securities in which the state investment officer is authorized to invest pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council in effect on the date the investment is made.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2016

Investments in the Pension Trust Fund are carried at either fair value or net asset value. Investments in other funds are carried at fair value, except for short-term investments, which are reported at amortized cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value, based on relevant market information of similar financial instruments. Income from investments held by the individual funds is recorded in the respective funds as it is earned.

Receivables and Payables

Loans receivable in governmental funds consist of rehabilitation and redevelopment loans that are generally not expected or scheduled to be collected in the subsequent year.

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Recognition of governmental fund type revenues represented by noncurrent receivables generally is deferred until they become current receivables.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Inventories and Prepaid Items

Materials, supplies, and fuel inventories are stated at cost, which is generally determined using the average cost method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Amounts of governmental fund inventories and vendor prepaid items are reported as nonspendable net position to indicate that they do not represent "available spendable resources".

Plant Operation Assets

LES' interest in jointly owned facilities Laramie River Station and Walter Scott Energy Center (see Note 23), is reported as plant operation assets on the statement of net position.

Costs Recoverable from Future Billings

Certain income and expense items of the Wastewater System, Water System, and LES, which would be recognized during the current period are deferred and not included in the determination of the change in net position until such costs are expected to be recovered through rates, in accordance with the regulated operations provisions of GASB Statement No. 62.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, drainage systems, street lights, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2016

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalization value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10 - 50
Improvements	5 - 40
Infrastructure	20 - 100
Equipment	2 - 20

The exceptions to this rule are library media, which is depreciated using a composite depreciation method, and LES, which depreciates its utility plant on a straight-line basis using composite rates ranging between 2% and 20%, depending on the respective asset type.

Compensated Absences

City employees generally earn vacation days at a variable rate based on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation, which is in no case longer than 37 days.

Employees earn sick leave at the rate of one day per month with total accumulation unlimited. Upon retirement, an employee is reimbursed for a percentage of accumulated sick leave with percentages and maximums depending on the employees' bargaining unit contract. Upon resignation from City service an employee may also be compensated for a percentage of accumulated sick leave, again, based on the employees' bargaining union contract. In some cases payment may be placed in a medical spending account rather than reimbursing the employee directly. LES is covered by a separate personnel plan regarding vacation and sick leave with the liability for these benefits recorded in accrued liabilities.

Vacation leave and other compensated absences with similar characteristics are accrued as the benefits are earned if the leave is attributable to past service and it is probable that the City will compensate the employees for such benefits. Sick leave and other compensated absences with similar characteristics are accrued as the benefits are earned only to the extent it is probable that the City will compensate the employees for such benefits through cash payments conditioned on the employee's termination or retirement, and is recorded based on the termination method. Such accruals are based on current salary rates and include salary-related payments directly and incrementally associated with payments made for compensated absences on termination.

All vacation and sick leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. In the governmental funds, only compensated absences that have matured as of year-end, for example, as a result of employee resignations and retirements, are recorded as a fund liability.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. For current and advance refundings of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The unamortized balance of the refunding gain or loss is reported as deferred inflows or outflows of resources, as applicable, on the statement of net position.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2016

In the fund financial statements, governmental funds recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Fund Equity

Fund balances reflect assets plus deferred outflows of resources minus liabilities and deferred inflows of resources in the governmental fund statements. Fund balance is divided into five classifications; nonspendable, restricted, committed, assigned and unassigned. Fund balance is reported as nonspendable when not in spendable form or legally or contractually required to be maintained intact. Fund balance is reported as restricted when constraints placed on the use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. Fund balance is reported as committed when constraints are imposed by formal action (ordinance) of the City Council, the City's highest level of decision-making authority. Fund balance is reported as assigned when the intent of the City (resolutions approved by Council and executive orders approved by the Mayor) is to use the funds for a specific purpose. Unassigned fund balance is the residual amount and only the General Fund can report a positive unassigned balance.

The City has established a policy intended to address the primary consideration of meeting unanticipated short-term cash flow needs of the City and the long-term goal of managing General Fund balances in a manner that at all times preserves the City's ability to meet its cash flow needs. No less than twenty percent of the ensuing year's General Fund budget is to be set aside to meet excess cash flow needs. Currently \$30,805,851 of the General Fund's spendable and unrestricted fund balance meets the requirements of this policy.

Net Position Classification

Net position is assets plus deferred outflows of resources minus liabilities and deferred inflows of resources and is shown in the entity-wide, proprietary, and fiduciary fund financial statements. Net position is required to be classified into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets – 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 improvements of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvements of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

Restricted – This component of net position consists of restricted assets, reduced by liabilities related to those assets, with constraints placed on their use through external parties such as creditors (debt covenants), grantors, contributors, or law or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net position reports \$176,459,087 of restricted net position, of which enabling legislation restricts \$23,409,589.

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

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

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2016

BUDGETARY DATA

The City Council follows these procedures, set out in the City Charter, in establishing the budgetary data reflected in the financial statements:

- 1) At least 40 days prior to the beginning of the biennial budget period, the Mayor submits to the City Council a proposed biennial budget for the ensuing years. The biennial budget is a complete financial plan for the biennial period and consists of an operating budget and a capital budget.
- 2) Public hearing on the proposed budget is scheduled for not later than 10 days prior to the budget adoption date.
- 3) Not later than 5 days prior to the end of the biennial period, the budget is legally adopted by resolution of the City Council.
- 4) The Mayor is authorized to transfer unencumbered balances between appropriations of the same department or agency during the biennium. The Mayor also has authority to lower appropriations in any fund where actual revenues are less than appropriated in order to avoid incurring a budget deficit for that fiscal or biennial period.

Appropriation transfers between departments or agencies may only be authorized by resolution of the City Council. The Council may not make any appropriations in addition to those authorized in the biennial budget, except that it may authorize emergency appropriations in the event of an emergency threatening serious loss of life, health, or property in the community.

- 5) Budgets for all funds are adopted on a basis inconsistent with accounting principles generally accepted in the United States of America (GAAP). Since encumbrances are included in the City's budget accounting, year-end encumbrances are reappropriated to the next year in the budget process. Various funds have expenditures automatically appropriated through the budget resolution, based on funds available. These expenditures are reflected in the original and final budgets at amounts equal to the actual expenditures. Budget basis expenditures are presented on a cash basis.

Amendments to the adopted budget were made this year and resulted from prior fiscal year encumbrances identified subsequent to budget adoption, appropriation of unanticipated revenues to certain funds as provided in the budget resolution, and appropriation revisions between or among departments as provided for under the City Charter.

- 6) Appropriation controls are required at the departmental level. However, as a matter of policy and practice, appropriations generally are controlled at the next level of organization (division) or by fund within a department.
- 7) Operating appropriations lapse at the end of the biennial period for which authorized except for those reappropriated by Council resolution, capital improvement appropriations and year-end encumbrances against operating budgets. Capital improvement appropriations are continuing appropriations through completion of the project.
- 8) Budgets are adopted by resolution for the following fund types: general, special revenue, debt service, capital projects, permanent, enterprise, internal service, and pension trust. Legally adopted annual budgets are not established for the West Haymarket JPA component unit, certain special revenue (Advance Acquisition, Police & Fire Pension Contributions, Special Assessment, Impact Fees, Parks & Recreation Special Projects, RP Crawford Park, and Lincoln Bike Share), debt service (Special Assessment), permanent (JJ Hompes), Fast Forward, and agency funds. In addition, capital project funds are budgeted on a project rather than a biennial basis.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2016

ENDOWMENTS

The Community Health Permanent Endowment Fund was established in 1997 with the \$37,000,000 cash proceeds realized by the City from the sale of Lincoln General Hospital, and may be increased by donations, bequests, or appropriations to the fund. Investment earnings of the fund are used for funding health and health-related programs that further the health, safety, or welfare of the citizens of Lincoln. Earnings deposited with the City Treasurer shall be paid out only by order of those persons designated by the Community Health Endowment (CHE) Board of Trustees as outlined in the Fiscal and Budget Directives policy between the CHE and the City. State law directs that, subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. The current amount of net appreciation available for expenditure is \$25,663,184, which is reported along with \$865,000 of contingency funds as expendable health care restricted net position in the statement of net position. The initial endowment principal is reported as nonexpendable health care restricted net position in the statement of net position.

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ materially from those estimates.

IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

In 2016 the City implemented the provisions of the following accounting principles:

GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes as well as applying fair value to certain investments and the disclosures related to all fair value measurements.

Implementation of this standard required the City to expand disclosures made about fair value measurements, the level of fair value hierarchy, valuation techniques, and additional disclosure regarding investments in certain entities that calculate net asset value per share (or its equivalent).

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*. The requirements of this Statement are intended to improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and non-employer contributing entities.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may select to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants of those pools with consistent application of an amortized cost-based measurement for financial reporting purposes.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2016

GASB Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, 68, and 73*. The requirements of this statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The implementation of GASB Statements No. 73, 76, 79 and 82 did not have a significant impact on the City's financial statements.

(2) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

The governmental funds balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position of governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, “Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of the \$577,792,726 difference are as follows:

Bonds Payable	\$ 445,151,274
Less issuance discounts	(990,453)
Plus issuance premiums	12,167,745
Less deferred charge on refunding	(260,730)
Capital Leases Payable	30,624,810
Accrued Interest Payable	4,643,540
Net Pension Liability	54,316,122
Deferred Outflows for Pension	(16,430,058)
Deferred Inflows for Pension	18,201,944
Net OPEB Liability	10,606,924
Compensated Absences	19,761,608
Net difference	<u>\$ 577,792,726</u>

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances – total governmental funds* and *change in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$24,691,336 difference are as follows:

Capital outlay	\$ 63,517,176
Depreciation expense	<u>(38,825,840)</u>
Net difference	<u>\$ 24,691,336</u>

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Another element of that reconciliation states, “The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$3,945,305 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation stormwater bonds	\$ (6,300,000)
Issuance of tax allocation bonds	(140,000)
Issuance of certificates of participation	(6,495,000)
Issuance premiums	(622,828)
Amortization of deferred premiums, discounts, and amounts from refundings	564,344
Principal repayments	<u>16,938,789</u>
Net difference	<u>\$ 3,945,305</u>

Another element of that reconciliation states, “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$(3,577,900) difference are as follows:

Loss on disposal of capital assets	\$ (3,112,638)
Construction contracts	880,000
Accrued interest	118,494
Compensated absences	(1,462,336)
Other	<u>(1,420)</u>
Net difference	<u>\$ (3,577,900)</u>

(3) RESTRICTED ASSETS

Certain proceeds of the enterprise funds revenue bonds and resources set aside for their repayment are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. Assets included in the Bond Principal and Interest Account and the Bond Reserve Account are restricted for the payment of bond principal and interest. Assets included in the Surplus Account and in the Renewal and Replacement Account are restricted for specific purposes including improvements, repairs and replacements, acquisition of equipment, and the payment of bond principal and interest. Assets included in the Construction Account are restricted for paying the cost of capital improvements. Also, the Lincoln Electric System has assets restricted for paying employee health claims and the Municipal Services Center Internal Service Fund has assets restricted for capital improvements.

A recap of the proprietary funds restrictions and related balances at August 31, 2016, are as follows:

Fund Account	Parking System	Solid Waste Management	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Municipal Services Center	Total
Principal and Interest	\$ 212,341	-	1,506,537	415,668	17,065,000	-	19,199,546
Reserve	2,583,565	1,117,083	5,673,816	5,077,600	21,394,000	-	35,846,064
Surplus	-	-	544,328	2,359,897	-	-	2,904,225
Renewal and Replacement	2,403,461	-	-	-	-	-	2,403,461
Capital Construction and Equipment	209,968	2,745,312	-	-	-	2,150,000	5,105,280
Claims	-	-	-	-	1,290,000	-	1,290,000
Total	<u>\$ 5,409,335</u>	<u>3,862,395</u>	<u>7,724,681</u>	<u>7,853,165</u>	<u>39,749,000</u>	<u>2,150,000</u>	<u>66,748,576</u>

Resources of the permanent funds totaling \$37,160,000 are legally restricted to the extent that only earnings and not principal may be used to support the City’s programs.

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(4) **DEPOSITS AND INVESTMENTS**

DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State Statutes 15-846 and 15-847 R.R.S., 1943 require banks either to provide a bond, provide a Federal Home Loan Bank letter of credit, or to pledge government securities (types of which are specifically identified in the Statutes) to the City Treasurer in the amount of the City's deposits. The Statutes allow pledged securities to be reduced by the amount of the deposit insured by the Federal Deposit Insurance Corporation (FDIC).

The City's cash deposits, including certificates of deposit, are insured up to \$250,000 by the FDIC. Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits are covered by collateral held in a Federal Reserve pledge account or by an agent for the City, or a letter of credit issued by a Federal Reserve Bank, and thus no custodial risk exists. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

INVESTMENTS

Fair Value Measurement

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.

The following table presents the fair value measurements of assets and liabilities 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 August 31, 2016.

Money Market Funds and External Investment Trusts are carried at cost, and thus are not included within the fair value hierarchy. Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have also not been classified in the fair value hierarchy. Other than the pension trust fund investments noted specifically on page 45, the City's remaining investments carried at net asset value have no unfunded commitments and these investments can be redeemed at any time. These investments have been noted with NAV in the table on page 41.

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At August 31, 2016, the City had the following investments, maturities, credit ratings, and fair value measurement:

Type	August 31, 2016					Credit Rating		Fair Value Hierarchy Level
	Carrying Value	Maturities in Years				Moody's	S&P	
		Less than 1	1-5	6-10	More than 10			
General City:								
U.S. Treasury Obligations	\$ 31,053,050	21,054,690	9,998,360	-	-	Aaa	AA+	2
U.S. Sponsored Agency Obligations	417,568,268	267,894,446	137,799,734	11,874,088	-	Aaa	AA+	2
U.S. Sponsored Agency Obligations	1,994,960	1,994,960	-	-	-	Not rated	Not rated	2
Commercial Issuers (Commercial Paper)	28,645,000	28,645,000	-	-	-	P1	A1	2
Money Market Funds - U.S. Treasury	1,798,240	1,798,240	-	-	-	Aaa-mf	AAAm	N/A
Money Market Funds - U.S. Treasury	9,689,370	9,689,370	-	-	-	Aaa-mf	Not rated	N/A
Money Market Funds - U.S. Agencies	32,628,666	32,628,666	-	-	-	Aaa	AAAm	N/A
External Investment Trust	8,520,000	8,520,000	-	-	-	Not rated	Not rated	N/A
Tax Increment Financing Investments and Other	6,769,404	59,694	541,671	655,932	5,512,107	Not rated	Not rated	2
Fixed Income Mutual Funds	157,484	157,484	-	-	-	Not rated	Not rated	1
Equities	2,310,611	2,310,611	-	-	-	Not rated	Not rated	1
Equity Mutual Funds	177,881	177,881	-	-	-	Not rated	Not rated	1
Total General City	541,312,934	374,931,042	148,339,765	12,530,020	5,512,107			
Community Health Endowment:								
Money Market Mutual Funds	628,439	628,439	-	-	-	Not rated	Not rated	N/A
Institutional funds								
Fixed income	14,411,386	-	13,630,712	151,673	629,001	Not rated	Not rated	NAV
Intermediate term credit	5,126,826	-	5,126,826	-	-	Not rated	Not rated	NAV
Large cap equity	3,062,221	3,062,221	-	-	-	Not rated	Not rated	NAV
International equity	9,912,274	9,912,274	-	-	-	Not rated	Not rated	NAV
High-yield bonds	7,511,787	-	3,764,613	3,747,174	-	Not rated	Not rated	NAV
Emerging markets equity	2,500,263	2,500,263	-	-	-	Not rated	Not rated	NAV
Mid cap equity	3,105,027	3,105,027	-	-	-	Not rated	Not rated	NAV
U.S. treasuries	4,971,149	-	4,971,149	-	-	Not rated	Not rated	NAV
Small cap equity	3,092,878	3,092,878	-	-	-	Not rated	Not rated	NAV
Commodities	1,983,866	1,983,866	-	-	-	Not rated	Not rated	NAV
Real Estate	5,795,363	5,795,363	-	-	-	Not rated	Not rated	NAV
Limited Partnership	436,371	-	436,371	-	-	Not rated	Not rated	NAV
Total Community Health Endowment:	62,537,850	30,080,331	27,929,671	3,898,847	629,001			
Police & Fire Pension Trust:								
Equities	7,516,090	7,516,090	-	-	-	Not rated	Not rated	1
Mutual Funds	111,709,665	111,709,665	-	-	-	Not rated	Not rated	1
	119,225,755	119,225,755	-	-	-			
Limited Partnership	11,486,953	-	-	-	-			NAV
Real Estate Limited Partnerships	80,775,361	-	-	-	-			NAV
Total Police & Fire Pension Trust	211,488,069							
Total Primary Government	\$ 815,338,853							

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INVESTMENT POLICIES

General City Policy

Generally, the City's investing activities are managed under the custody of the City Treasurer. Investing is performed in accordance with the investment policy adopted by the City Council complying with state statutes and the City Charter. The City may legally invest in U.S. government securities and agencies, U.S. government sponsored agencies, and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds, bankers' acceptances, and investment agreements.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment securities that are in the possession of an outside party.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits current operating funds to be invested with maturities of not longer than twenty-four months. Fixed income investments held in construction funds, operating funds, and other nonoperating funds are limited to ten-year maturities. Investment agreements are not subject to interest rate risk, as the issuer guarantees the interest rate. Money market mutual funds and external investment funds are presented as investments with a maturity of less than one year because they are redeemable in full immediately. Tax Increment Financing investments are allowed to exceed 10 years as the interest rates are guaranteed by the fund and the investment is made within the City's funds.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy establishes requirements for certain investment securities to be rated at certain rates or higher without having collateral pledged to the City. The following investment types must be rated at the minimum rates noted below:

	<u>S&P</u>	<u>Moody's</u>
Money Markets	AA	Aa
Corporate Notes	AA-	Aa3
Investment Agreements	AA-	Aa3

Investment agreements are made with provisions that if the provider is downgraded below Aa3 by Moody's Investors Service (Moody's) or AA- by Standard & Poor's (S&P), the provider must deliver collateral of U.S. Government agencies obligations at a margin of 102-104%, and if the provider is further downgraded below A3 by Moody's or A- by S&P, the City will have the right to terminate the agreement and receive all invested amounts plus accrued but unpaid interest without penalty. As of August 31, 2016, the investment agreements were adequately collateralized with U.S. Government treasury obligations that had a rating of Aaa by Moody's and AA+ by S&P, or by small business administration obligations which are 100% guaranteed by the U.S. Government.

The external investment funds are held in the City's idle fund pool and are comprised of Nebraska Public Agency Investment Trust (NPAIT) and Short-Term Federal Investment Trust (STFIT) funds. These Funds are carried by the City at amortized cost. NPAIT and STFIT invest in only the highest quality securities, including U.S. government, rated U.S. sponsored agencies, and guaranteed student loans, and their investment portfolios are valued at amortized cost, which approximates fair value based on the short-term nature of the instruments.

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Concentration of Credit Risk. The City’s investment policy places various limits on the amount that may be invested in any one issuer. Per the policy, allocation limits do not apply to the investment of proceeds from issuance of debt. These investments shall be governed by the debt covenant included in the debt instrument. Non-compliance due to a decrease in investment balance does not require corrective action.

<u>Type</u>	<u>Portfolio Composition</u>	<u>Policy Limits on Issuer</u>
U.S. agency obligations:		
Federal Home Loan Bank	26.20 %	40.00 %
Federal Home Loan Mortgage Corporation	22.91	40.00
Federal National Mortgage Association	20.55	40.00
Federal Farm Credit Bank	7.47	40.00
Federal Agricultural Mortgage Corporation	0.37	25.00

Community Health Endowment (CHE) Policy

As a public endowment fund, under State law, CHE is permitted to invest in the manner required of a prudent investor acting with care, skill and diligence under the prevailing circumstance, without restrictions as to the type and limits of investments. CHE has engaged one of the world’s largest institutional investment firms to advise on portfolio management. That investment firm and affiliates are also the sponsor and investment manager for all of the institutional funds listed on a previous page.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, CHE will not be able to recover the value of its investment securities that are in the possession of an outside party.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, CHE’s investment policy requires the average duration of the fixed income portfolio to be no more than 120% of the appropriate fixed income benchmark.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is CHE’s policy to limit its investments in fixed income securities to issues with at least BBB-/Baa3 ratings. Short-term fixed income issues should have a minimum A-2/P-2 rating. None of CHE’s investments were rated at August 31, 2016.

Concentration of Credit Risk. Concentration of credit risk is the risk associated with the amount of investments CHE has with any one issuer that exceeds 5% or more of its total investments. CHE limits the percentage of cost that may be invested in any one industry, company and issuer. CHE’s portfolio shall not own more than 5% of the outstanding securities of any single issuer. Exceptions are allowed where a fund’s benchmark includes securities greater than 3%, in which case the investment manager may have no more than the securities index weight plus 2%. The entire portfolio shall have no more than 5% of its assets invested in the securities of any one issuer, with the exception of U.S. Treasury and U.S. agencies obligations.

Foreign Currency Risk. This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. CHE had no investment denominated in foreign currency at August 31, 2016.

Police & Fire Pension Trust Policy

The Police & Fire Pension Trust Investment Board, established by the City Council in accordance with Lincoln Municipal Code chapter 4.62, directs and oversees the trust’s investments for the sole benefit of plan participants and beneficiaries. The Board consists of nine members. Two board positions shall be filled by the City Finance Director and the City Human Resources Director; two board positions shall be

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elected by secret ballot by the active paid police officers of the City; two board positions shall be elected by secret ballot by the active paid firefighters of the City; and three board positions shall be appointed by the Mayor, after consultation with the other six members, subject to approval by the City Council. The three appointed members shall have at least five years demonstrated experience in financial, actuarial, investment or employee benefit plan matters.

The board also provides oversight and directions to the plan administrator with regard to the investments of the trust's funds. The daily management responsibility of the trust and routine investment transactions are delegated to the plan administrator.

The Police & Fire Pension Trust is allowed to invest in domestic and international equity funds, domestic and foreign bonds, real estate, and alternative investments.

The investment board has the responsibility to allocate plan assets in various investment strategies to reach the overall return and risk objectives of the plan. Annually the board reviews the plan's investments from an "asset allocation" perspective. The strategic allocation process is based on such factors as historical absolute returns of the benchmarks, recent returns for benchmarks, volatility of benchmark returns as measured by standard deviation, and the correlation of returns with other asset classes used in the portfolio. The following was the board's adopted asset allocation as of August 31, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>
Developed Markets Equity	50.0 %
Emerging Markets Equity	5.0
Private Equity	5.0
Core Real Estate	15.0
Value-Added Real Estate	5.0
Low Vol Hedge Funds	5.0
Core Fixed Income	10.0
High Yield Fixed Income	5.0
Total	<u>100.0 %</u>

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Police & Fire Pension Trust will not be able to recover the value of its investment securities that are in the possession of an outside party.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Investment Board for the Police & Fire Pension Trust compares the risk and return characteristics derived from the actual performance of the Fund, by separate asset classes and specific securities to appropriate benchmarks, and financial indices and/or funds, at least annually. Asset allocation, investments, and/or investment managers are adjusted as necessary by this monitoring.

Credit Risk. The policy states that the plan will select appropriate investments, or investment manager(s), to fill each asset class allocation. The individual investment, or investment managers, chosen shall be those determined to meet the board's objectives in terms of their overall combination of risk, return, and liquidity.

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Concentration of Credit Risk. It is the desire of the board that no more than 5% of assets may be from a single corporate or sovereign issuer exclusive of the U.S. government. The board reviews assets to monitor the concentration of overlapping securities held by multiple mutual funds. The following individual investments currently held by the Plan are greater than 5% of the Plan's fiduciary net position:

J.P. Morgan Core Bond Fund	11.84 %
Pioneer Multi-sector Fixed Income Trust	6.83
Vanguard Total Stock Market Index	17.38
Vanguard Developed Markets Index	10.00
American New Perspective R6	9.70
Dodge and Cox Global Stock Fund	10.25
Principal Global Investor Trust	6.21
RREEF America REIT II	8.17

The Trust is required to fund an additional \$7 million into the RREEF America REIT II real estate limited partnership, in accordance with the related investment agreement. Additionally, the Trust is required to fund an additional \$3.5 million into the Flag Private Equity VI limited partnership, in accordance with the related partnership agreement. The Flag Private Equity VI limited partnership also makes quarterly distributions of capital from the fund, thus the Trust is not able to redeem its investment immediately.

Summary of Deposit and Investment Balances

Following is a reconciliation of the City's deposit and investment balances as of August 31, 2016:

	<u>Totals</u>		
Investments	\$ 815,338,853		
Deposits and Cash on Hand	13,402,403		
	<u>\$ 828,741,256</u>		
	<u>Government-wide</u>	<u>Fiduciary Funds</u>	
	Statement of	Statement of	
	Net Position	Net Position	<u>Totals</u>
Cash and Cash Equivalents	\$ 53,601,491	4,978,891	58,580,382
Investments	452,974,305	213,292,801	666,267,106
Restricted Assets:			
Cash and Cash Equivalents	10,695,034	-	10,695,034
Investments	93,198,734	-	93,198,734
	<u>\$ 610,469,564</u>	<u>218,271,692</u>	<u>828,741,256</u>

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(5) FUND BALANCES

Fund balances are classified as nonspendable, restricted, committed, assigned or unassigned. The City generally follows this same order in spending available resources unless special circumstances apply. The following provides details of the aggregate amounts displayed on the face of the governmental funds balance sheet:

	Major Funds				Total
	General Fund	Street Construction	West Haymarket JPA	Other Funds	
Fund Balances:					
Nonspendable:					
Inventory	\$ 305,282	327,910	-	593,716	1,226,908
Prepaid Items	165,139	26,640	323,884	-	515,663
Permanent Fund Principal	-	-	-	37,160,000	37,160,000
Total Nonspendable	<u>470,421</u>	<u>354,550</u>	<u>323,884</u>	<u>37,753,716</u>	<u>38,902,571</u>
Restricted For:					
Capital Improvements	2,900,747	29,629,913	2,425,096	21,989,096	56,944,852
Human Services	1,059,572	-	-	-	1,059,572
Donor Purposes	3,341,765	-	-	2,392,563	5,734,328
Public Improvements	130,890	-	-	-	130,890
Agency Activities	-	-	1,559,594	-	1,559,594
Land Purchases	-	-	-	1,313,770	1,313,770
Social Security Obligations	-	-	-	1,537,678	1,537,678
Community Betterment	-	-	-	5,062,733	5,062,733
Federal Loan Programs	-	-	-	17,634,000	17,634,000
Grant Programs	-	-	-	1,817,127	1,817,127
Special Assessment Improvements	-	-	-	508,648	508,648
Debt Service	-	-	-	11,259,554	11,259,554
Health Care	-	-	-	25,724,441	25,724,441
Bike Share Program	-	-	-	274,386	274,386
Claims Contingencies	-	-	-	865,000	865,000
Library Media	-	-	-	588,876	588,876
Total Restricted	<u>7,432,974</u>	<u>29,629,913</u>	<u>3,984,690</u>	<u>90,967,872</u>	<u>132,015,449</u>
Committed To:					
Public Access Television	-	-	-	652,616	652,616
Building Code Enforcement	-	-	-	714,741	714,741
Debt Service	-	-	-	1,256,039	1,256,039
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,623,396</u>	<u>2,623,396</u>
Assigned To:					
Capital Improvements	-	31,124,222	-	29,271	31,153,493
Donor Purposes	796,243	-	-	-	796,243
Public Improvements	483,554	-	-	-	483,554
Athletic Facility Improvements	1,102,229	-	-	-	1,102,229
Senior Care	569,808	-	-	-	569,808
Emergency Communications	2,813,013	-	-	-	2,813,013
Economic Development Projects	5,582,675	-	-	-	5,582,675
Snow Removal	-	674,846	-	-	674,846
Debt Service	-	-	24,614,576	-	24,614,576
Land Purchases	-	-	-	40,145	40,145
Public Access Television	-	-	-	29,253	29,253
Library Services	-	-	-	2,960,531	2,960,531
Health Care	-	-	-	2,970,230	2,970,230
Social Security Obligations	-	-	-	394,470	394,470
Public Transportation	-	-	-	5,057,849	5,057,849
Community Betterment	-	-	-	106,567	106,567
Building Code Enforcement	-	-	-	7,463,395	7,463,395
Park Projects	-	-	-	188,455	188,455
Other Purposes	6,541,431	-	-	-	6,541,431
Total Assigned	<u>17,888,953</u>	<u>31,799,068</u>	<u>24,614,576</u>	<u>19,240,166</u>	<u>93,542,763</u>
Unassigned	<u>39,910,750</u>	<u>-</u>	<u>-</u>	<u>(111,254)</u>	<u>39,799,496</u>
Total Fund Balances	<u>\$ 65,703,098</u>	<u>61,783,531</u>	<u>28,923,150</u>	<u>150,473,896</u>	<u>306,883,675</u>

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(6) **RECEIVABLES AND DUE FROM OTHER GOVERNMENTS**

Receivables at August 31, 2016, consist of the following (in thousands):

Fund	Taxes	Accounts	Accrued Interest	Notes	Loans	Special Assessment		Contributions	Gross Receivables	Allowance For Uncollectibles	Net
						Current	Deferred				
General	\$ 3,823	2,109	76	-	-	-	-	-	6,008	-	6,008
Street Construction	-	1,304	98	-	-	-	-	-	1,402	-	1,402
West Haymarket JPA	1,559	410	141	-	-	-	-	-	2,110	-	2,110
Wastewater System	-	4,950	-	-	-	-	-	-	4,950	-	4,950
Water System	-	7,769	-	-	-	-	-	-	7,769	-	7,769
Electric System	-	33,976	219	-	-	-	-	-	34,195	1,000	33,195
Nonmajor -											
Special Revenue	1,574	422	82	74	22,661	-	-	-	24,813	5,027	19,786
Debt Service	1,731	-	18	-	-	546	2,163	-	4,458	196	4,262
Capital Projects	-	-	36	-	-	-	-	-	36	-	36
Permanent	-	-	2	-	-	-	-	-	2	-	2
Enterprise	-	5,485	46	-	-	-	-	-	5,531	1,819	3,712
Internal Service	-	212	79	-	-	-	-	-	291	-	291
Fiduciary	-	56	4	-	-	-	-	605	665	-	665
Total	\$ 8,687	56,693	801	74	22,661	546	2,163	605	92,230	8,042	84,188

Enterprise funds customer accounts receivable include unbilled charges for services. Delinquent special assessment receivables at August 31, 2016, were \$253,323.

The total of Due From Other Governments of \$29,416,474 includes the following significant items:

<u>Fund/Fund Type</u>	<u>Amount</u>	<u>Service</u>
General/Major Governmental	\$ 12,615,596	State of Nebraska, July/August Sales and Use Tax
	518,949	August Motor Vehicle Taxes Collected by Lancaster County
	10,563	August Property Tax Interest Collected by Lancaster County
	64,351	Federal Government, Cost Reimbursements
	37,274	State of Nebraska, Cost Reimbursements
	85,079	Lancaster County, Cost Reimbursements
Street Construction/Major Governmental	4,189,552	State of Nebraska, July/August Highway User Fees
	28,608	Lower Platte South NRD, Cost Reimbursements
	3,028,411	State of Nebraska, Cost Reimbursements
	779,001	Federal Government, Cost Reimbursements
West Haymarket JPA/Major Governmental	839,824	Federal Government, Cost Reimbursements
Lincoln/Lancaster Co. Health/Special Revenue	404,444	Lancaster County, Cost Reimbursements
StarTran/Special Revenue	63,011	Federal Government, Cost Reimbursements
Federal Grants/Special Revenue	1,634,495	Federal Government, Cost Reimbursements
	554,581	State of Nebraska, Cost Reimbursements
Special Assessment/Debt Service	148,118	August Special Assessments Collected by Lancaster County
Vehicle Tax/Capital Projects	1,723,389	August Motor Vehicle Taxes Collected by Lancaster County
Storm Sewer Bonds/Capital Projects	116,038	Federal Government, Cost Reimbursements
Other Capital Projects/Capital Projects	2,144,084	State of Nebraska, July/August Sales and Use Tax
	291,674	Federal Government, Cost Reimbursements
Pinnacle Bank Arena/Enterprise	19,047	State of Nebraska Billings
Information Services/Internal Service	10,977	Lancaster County Billings
Insurance Revolving/Internal Service	13,255	Lancaster County Billings
Police Garage/Internal Service	29,649	State of Nebraska Billings
Copy Services/Internal Service	13,918	Lancaster County Billings
Subtotal	29,363,888	
All other	52,586	
Total Due From Other Governments	\$ 29,416,474	

CITY OF LINCOLN, NEBRASKA
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August 31, 2016

(7) **CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 144,393,691	22,213,669	907,515	165,699,845
Construction in Progress	60,273,373	33,494,294	40,746,450	53,021,217
Total Capital Assets, not being Depreciated	<u>204,667,064</u>	<u>55,707,963</u>	<u>41,653,965</u>	<u>218,721,062</u>
Capital Assets, being Depreciated:				
Buildings	336,012,989	2,556,591	885,000	337,684,580
Improvements Other Than Buildings	105,634,614	33,617,385	132,281	139,119,718
Machinery and Equipment	99,701,842	7,101,605	4,068,101	102,735,346
Infrastructure	757,431,995	167,997,547	21,429	925,408,113
Total Capital Assets, being Depreciated	<u>1,298,781,440</u>	<u>211,273,128</u>	<u>5,106,811</u>	<u>1,504,947,757</u>
Less Accumulated Depreciation for:				
Buildings	51,955,155	7,393,531	103,250	59,245,436
Improvements Other Than Buildings	36,746,241	3,719,870	129,756	40,336,355
Machinery and Equipment	63,346,672	7,317,855	4,006,536	66,657,991
Infrastructure	274,998,817	23,418,587	14,806	298,402,598
Total Accumulated Depreciation	<u>427,046,885</u>	<u>41,849,843</u>	<u>4,254,348</u>	<u>464,642,380</u>
Total Capital Assets, being Depreciated, Net	<u>871,734,555</u>	<u>169,423,285</u>	<u>852,463</u>	<u>1,040,305,377</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,076,401,619</u>	<u>225,131,248</u>	<u>42,506,428</u>	<u>1,259,026,439</u>
Business-type Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 24,979,425	104,496	-	25,083,921
Construction in Progress	62,301,235	76,596,875	66,447,259	72,450,851
Total Capital Assets, not being Depreciated	<u>87,280,660</u>	<u>76,701,371</u>	<u>66,447,259</u>	<u>97,534,772</u>
Capital Assets, being Depreciated:				
Buildings	236,107,939	814,755	-	236,922,694
Improvements Other Than Buildings	690,357,040	18,223,033	31,980	708,548,093
Machinery and Equipment	52,138,823	4,496,304	743,888	55,891,239
Utility Plant	1,410,277,000	50,540,000	5,860,000	1,454,957,000
Total Capital Assets, being Depreciated	<u>2,388,880,802</u>	<u>74,074,092</u>	<u>6,635,868</u>	<u>2,456,319,026</u>
Less Accumulated Depreciation for:				
Buildings	84,668,908	5,310,513	-	89,979,421
Improvements Other Than Buildings	212,184,481	13,635,768	31,979	225,788,270
Machinery and Equipment	31,962,881	3,296,048	701,809	34,557,120
Utility Plant	606,838,000	48,177,000	7,564,000	647,451,000
Total Accumulated Depreciation	<u>935,654,270</u>	<u>70,419,329</u>	<u>8,297,788</u>	<u>997,775,811</u>
Total Capital Assets, being Depreciated, Net	<u>1,453,226,532</u>	<u>3,654,763</u>	<u>(1,661,920)</u>	<u>1,458,543,215</u>
Business-type Activities Capital Assets, Net	<u>\$ 1,540,507,192</u>	<u>80,356,134</u>	<u>64,785,339</u>	<u>1,556,077,987</u>

CITY OF LINCOLN, NEBRASKA
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Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 1,655,951
Public Safety	2,136,444
Streets and Highways, including Infrastructure	22,902,970
Culture and Recreation	9,477,399
Economic Opportunity	188,163
Health and Welfare	279,591
Mass Transit	<u>2,185,322</u>
Subtotal	38,825,840
Internal Service Funds Capital Assets	
Depreciation is charged to the various functions based on usage of the assets.	<u>3,024,003</u>
Total Depreciation Expense - Governmental	<u>\$ 41,849,843</u>
Business-type Activities:	
Golf	620,899
Parking System	2,103,641
Pinnacle Bank Arena	16,407
Solid Waste Management	2,154,144
Emergency Medical Services	307,344
Wastewater System	8,351,146
Water System	8,688,748
Lincoln Electric System	<u>48,177,000</u>
Total Depreciation Expense - Business-type	<u>\$ 70,419,329</u>

Capital asset activity of each major enterprise fund was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Wastewater System:				
Capital Assets, not being Depreciated:				
Land	\$ 6,862,144	51,156	-	6,913,300
Construction in Progress	<u>1,479,918</u>	<u>5,264,153</u>	<u>3,612,530</u>	<u>3,131,541</u>
Total Capital Assets, not being Depreciated	<u>8,342,062</u>	<u>5,315,309</u>	<u>3,612,530</u>	<u>10,044,841</u>
Capital Assets, being Depreciated:				
Buildings	80,049,323	28,163	-	80,077,486
Improvements Other Than Buildings	299,125,875	5,693,191	-	304,819,066
Machinery and Equipment	<u>9,976,633</u>	<u>742,036</u>	<u>16,454</u>	<u>10,702,215</u>
Total Capital Assets, being Depreciated	<u>389,151,831</u>	<u>6,463,390</u>	<u>16,454</u>	<u>395,598,767</u>
Less Accumulated Depreciation for:				
Buildings	30,659,288	1,824,549	-	32,483,837
Improvements Other Than Buildings	90,669,653	5,999,538	-	96,669,191
Machinery and Equipment	<u>6,634,316</u>	<u>527,059</u>	<u>13,540</u>	<u>7,147,835</u>
Total Accumulated Depreciation	<u>127,963,257</u>	<u>8,351,146</u>	<u>13,540</u>	<u>136,300,863</u>
Total Capital Assets, being Depreciated, Net	<u>261,188,574</u>	<u>(1,887,756)</u>	<u>2,914</u>	<u>259,297,904</u>
Wastewater System Capital Assets, Net	<u>\$ 269,530,636</u>	<u>3,427,553</u>	<u>3,615,444</u>	<u>269,342,745</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2016

	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Water System:				
Capital Assets, not being Depreciated:				
Land	\$ 5,391,676	53,340	-	5,445,016
Construction in Progress	6,194,349	10,812,257	9,842,837	7,163,769
Total Capital Assets, not being Depreciated	<u>11,586,025</u>	<u>10,865,597</u>	<u>9,842,837</u>	<u>12,608,785</u>
Capital Assets, being Depreciated:				
Buildings	79,967,560	751,094	-	80,718,654
Improvements Other Than Buildings	342,722,186	11,365,902	-	354,088,088
Machinery and Equipment	24,167,087	856,158	-	25,023,245
Total Capital Assets, being Depreciated	<u>446,856,833</u>	<u>12,973,154</u>	<u>-</u>	<u>459,829,987</u>
Less Accumulated Depreciation for:				
Buildings	29,251,530	1,623,921	-	30,875,451
Improvements Other Than Buildings	95,128,580	5,734,762	-	100,863,342
Machinery and Equipment	15,189,213	1,330,065	-	16,519,278
Total Accumulated Depreciation	<u>139,569,323</u>	<u>8,688,748</u>	<u>-</u>	<u>148,258,071</u>
Total Capital Assets, being Depreciated, Net	<u>307,287,510</u>	<u>4,284,406</u>	<u>-</u>	<u>311,571,916</u>
Water System Capital Assets, Net	<u>\$ 318,873,535</u>	<u>15,150,003</u>	<u>9,842,837</u>	<u>324,180,701</u>
	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Electric System:				
Capital Assets, not being Depreciated:				
Construction in Progress	\$ 53,994,000	55,734,000	52,244,000	57,484,000
Capital Assets, being Depreciated:				
Utility Plant	1,410,277,000	50,540,000	5,860,000	1,454,957,000
Less Accumulated Depreciation	606,838,000	48,177,000	7,564,000	647,451,000
Total Capital Assets, being Depreciated, Net	<u>803,439,000</u>	<u>2,363,000</u>	<u>(1,704,000)</u>	<u>807,506,000</u>
Electric System Capital Assets, Net	<u>\$ 857,433,000</u>	<u>58,097,000</u>	<u>50,540,000</u>	<u>864,990,000</u>

The costs of LES retirement work orders are closed into accumulated depreciation which follows Federal Energy Regulatory Commission guidelines. Therefore, as shown above, the decrease in LES accumulated depreciation exceeds the decrease in Utility Plant assets and the decrease in Construction in Progress exceeds the increase in Utility Plant.

Interest incurred during the construction phase of capital assets of business-type activities is added to the cost of the underlying assets constructed and is amortized over the useful lives of the assets. During 2016 capitalized interest activity was as follows:

	Incurred Interest Cost	Capitalized Interest
Lincoln Wastewater System	\$ 2,601,043	101,779
Lincoln Water System	2,056,750	262,658
Solid Waste Management	351,202	158,957

Lincoln Electric System utility plant includes an allowance for funds used during construction for projects costing in excess of \$500,000. The allowance for funds used during construction is based on LES' true interest cost of the most recent borrowing. The rate was 2.8% from January to March 2015 and 3.5% from April to December 2015.

CITY OF LINCOLN, NEBRASKA
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August 31, 2016

(8) **INTERFUND BALANCES AND ACTIVITY**

Balances Due To/From Other Funds at August 31, 2016, consist of the following:

Due To	Due From						Total
	General Fund	Street Construction	West Haymarket JPA	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	
General Fund	\$ -	728	19,877	1,892,014	727,527	82,757	2,722,903
Street Construction	-	-	-	7,288,186	-	-	7,288,186
Nonmajor Governmental	-	-	-	1,336,608	-	-	1,336,608
Lincoln Wastewater System	-	-	-	791,730	-	-	791,730
Lincoln Water System	-	-	-	3,458,279	-	-	3,458,279
Nonmajor Enterprise	2,052	6,611	161,177	-	-	-	169,840
Internal Service	730,640	422,271	-	24,496	2,748	3,009	1,183,164
Total	\$ 732,692	429,610	181,054	14,791,313	730,275	85,766	16,950,710

“Due to” and “Due from” balances are recorded when funds overdraw their share of pooled cash. Other balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers To/From Other Funds for the year ended August 31, 2016, consist of the following:

Transfer To	Transfer From								Total
	General Fund	Street Construction	West Haymarket JPA	Nonmajor Governmental	Lincoln Wastewater	Lincoln Electric System	Nonmajor Enterprise	Internal Service	
General Fund	\$ -	-	-	498,771	-	9,268,241	1,445,026	-	11,212,038
Street Construction	2,615,579	-	-	20,910,626	-	-	16,022	100,000	23,642,227
Nonmajor Governmental	22,584,229	5,552,624	57,500	6,777,654	55,994	-	1,425,194	9,000	36,462,195
Nonmajor Enterprise	-	-	203,040	-	-	-	-	-	203,040
Internal Service	-	77,092	-	-	-	-	-	-	77,092
Total	\$ 25,199,808	5,629,716	260,540	28,187,051	55,994	9,268,241	2,886,242	109,000	71,596,592

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (3) transfer payment in lieu of taxes and return on equity from LES to the General Fund.

The \$93,241 variance for transfers on the Statement of Activities is caused by the different fiscal year end dates used by the City (August 31) and Lincoln Electric System (December 31). Lincoln Electric System records an estimate for payments of return on equity as an accrued liability at December 31. The City however, receives the payments before the August 31 fiscal year end, and records the total amount as a transfer in.

CITY OF LINCOLN, NEBRASKA
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August 31, 2016

(9) **DEBT OBLIGATIONS**

SHORT-TERM

Established by City Ordinance, LES may borrow up to \$150 million under a commercial paper note program. The payment of the commercial paper notes is subordinated to the payment of the principal of, and interest on, the outstanding bonds. At December 31, 2015, LES had \$95.5 million of tax-exempt commercial paper notes outstanding. The notes mature at various dates but not more than 270 days after the date of issuance. The weighted-average interest rate for the year ended December 31, 2015, was 0.06%. The outstanding commercial paper notes are secured by a revolving credit agreement. There were no advances outstanding under the credit agreement at December 31, 2015. LES uses commercial paper notes as part of their long-term financing strategy. As such, commercial paper is typically renewed as it matures. The weighted average length of maturity of commercial paper for 2015 was 61 days.

Commercial paper activity for the year ended December 31, 2015, is as follows:

Lincoln Electric System:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Commercial Paper Notes	\$ 95,500,000	543,000,000	(543,000,000)	95,500,000	95,500,000

In December 2014, LES entered into a revolving credit agreement with Wells Fargo Bank, National Association. The agreement permits LES to draw up to \$50 million on a floating rate basis. LES' obligation to repay advances and the interest thereon under this agreement is subordinated to the payment of the principal of, and interest on, the outstanding bonds as well as LES' commercial paper notes and the associated credit agreement. No advances were outstanding under the agreement at December 31, 2015. The agreement also provides for Wells Fargo to issue one or more letters of credit for the aggregate undrawn amount, not to exceed \$10 million in the aggregate. LES is using \$2 million of the revolving credit agreement to provide a letter of credit to Southwest Power Pool to satisfy its market deposit requirements.

LONG-TERM

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 \$2,963,014, \$3,822,761, \$3,739,518, and \$1,990,300 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.

CITY OF LINCOLN, NEBRASKA
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The City has entered into lease agreements for financing the acquisition of land, buildings, street lights, entry corridor improvements, sidewalks, dump trucks, emergency vehicles and equipment, golf equipment, and computer equipment and software. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Land	\$ 1,780,066	\$ 210,000
Buildings	25,944,791	1,647,945
Improvements	5,923,581	-
Infrastructure	22,918,430	-
Machinery and Equipment	6,120,540	3,211,847
Construction in Progress	13,100	-
Less Accumulated Depreciation, (where applicable)	<u>(14,751,762)</u>	<u>(2,547,215)</u>
Total	<u>\$ 47,948,746</u>	<u>\$ 2,522,577</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 coverages.

In March 2015, LES issued \$167,800,000 of Revenue and Refunding Bonds, Series 2015A. Proceeds from the issuance of the 2015A bonds were used to advance refund portions of the series 2007A and series 2007B revenue bonds, reimburse LES for prior capital improvements, fund a deposit into the 2015 debt service reserve fund, and pay certain costs and expenses related to the issuance of the 2015 bonds. The refunding resulted in debt service savings of approximately \$11,200,000 and net present value savings of approximately \$7,400,000. At December 31, 2015, \$61,815,000 and \$37,815,000 of refunded series 2007A and 2007B bonds, respectively, are considered defeased and the liability for these bonds has been removed from the financial statements.

Lincoln Wastewater System has entered into a loan agreement with the Nebraska Department of Environmental Quality (NDEQ) consisting of three separate contracts. Under contract 317247 the Lincoln Wastewater System has borrowed \$4,808,792 to fund certain sewer system extension and sewer repairs. The System also borrowed \$5,000,000 under contract 317078 to fund certain treatment facilities projects. The interest rate throughout the term of these loans is 2.0%. The Wastewater System has also borrowed \$17,000,000 under contract 317830 to fund certain wastewater solids handling, trunk sewer, and selected facility replacement improvements. The interest rate throughout the term of the loan is 3.25%. All contracts are final as of the year ended August 31, 2016.

Lincoln Water System has entered into a \$14,977,829 loan agreement with NDEQ. This funding is available to fund certain water system extension and water repairs. The interest rate throughout the term of the loan is 2.25%. In addition, an administrative fee of 1% will be incurred on the loan. During the year ended August 31, 2016, project costs were incurred totaling \$48,042, resulting in the recognition of a project loan payable of \$13,554,550, which is shown net of \$1,423,279 of principal repayments. This loan contract is final as of the year ended August 31, 2016.

CITY OF LINCOLN, NEBRASKA
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Long-term bonded debt of the City is comprised of the following individual issues (in thousands of dollars):

Original Amount	Issued	Issue	Interest Rate	When Due	Date Callable	Interest Date	Outstanding
Governmental Activities:							
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	\$ 5,475
8,200	02/10/11	Stormwater Bonds	2.000 - 4.500	Serial 2013 to 2030	2020	"	6,725
19,290	06/21/11	Refunding	0.200 - 5.000	Serial 2011 to 2022	2019	"	10,080
8,090	06/26/12	Refunding	1.000 - 3.000	Serial 2013 to 2023	---	"	4,385
6,385	03/20/13	Stormwater Bonds	2.000 - 4.000	Serial 2014 to 2029	2023	"	5,680
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	---	"	5,210
6,300	06/28/16	Stormwater Bonds	2.000 - 3.000	Serial 2017 to 2036	2026	"	6,300
Total General Bonds							<u>\$ 45,370</u>
Tax Allocation Bonds:							
\$ 365	08/15/05	Tax Allocation Bonds	4.750	Serial 2006 to 2018	Anytime	Semiannually	\$ 56
288	10/01/06	Tax Allocation Bonds	5.100	Serial 2008 to 2016	Anytime	"	14
2,205	04/05/07	Tax Allocation Bonds	5.000 - 5.550	Serial 2009 to 2018	2012	"	785
601	06/01/07	Tax Allocation Bonds	5.240	Serial 2008 to 2018	Anytime	"	465
42	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2021	Anytime	"	20
71	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2017	Anytime	"	37
474	07/15/08	Tax Allocation Bonds	4.660	Serial 2009 to 2022	Anytime	"	46
547	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	283
200	08/01/08	Tax Allocation Bonds	4.610	Serial 2009 to 2022	Anytime	"	99
611	06/30/09	Tax Allocation Bonds	7.000	Serial 2011 to 2023	Anytime	"	474
3,375	07/28/09	Tax Allocation Bonds	2.500 - 6.400	Serial 2011 to 2023	Anytime	"	2,310
263	04/01/11	Tax Allocation Bonds	3.990	Serial 2011 to 2022	Anytime	"	160
103	04/15/13	Tax Allocation Bonds	2.370	Serial 2013 to 2025	Anytime	"	77
140	07/01/16	Tax Allocation Bonds	2.200	Serial 2016 to 2028	Anytime	"	140
Total Tax Allocation Bonds							<u>\$ 4,966</u>
Tax Supported Bonds:							
\$ 27,000	12/05/06	Highway Allocation Fund	4.000 - 5.000	Serial 2008 to 2027	2016	Semiannually	\$ 17,405
28,095	06/06/12	Highway Allocation Fund Refunding	1.000 - 5.000	Serial 2012 to 2023	---	"	20,875
16,515	07/23/13	Limited Tax Arena Bonds	2.000 - 4.500	Serial 2016 to 2031	2023	"	15,620
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							<u>\$ 62,385</u>
Special Assessment Bonds:							
\$ 825	08/18/11	Special Assessment	0.400 - 3.700	Serial 2012 to 2026	2016	Semiannually	\$ 575
375	08/18/11	Special Assessment	4.200	Term 2031	2016	"	375
3,000	11/23/11	Special Assessment	2.000 - 3.500	Serial 2012 to 2031	2021	"	2,365
Total Special Assessment Bonds							<u>\$ 3,315</u>
West Haymarket Joint Public Agency							
\$ 31,515	09/08/10	Facility Bonds Taxable Build America Bonds	3.500 - 4.450	Serial 2020 to 2030	Anytime	Semiannually	\$ 31,515
68,485	09/08/10	Facility Bonds Taxable Build America Bonds	4.750 / 5.000	Term 2035 & 2045	Anytime	"	68,485
15,785	12/01/10	Facility Bonds Taxable Build America Bonds	4.000 - 5.000	Serial 2020 to 2025	Anytime	"	15,785
52,180	12/01/10	Facility Bonds Taxable Build America Bonds	5.400 / 5.800 / 6.000	Term 2030 2035 2039	Anytime	"	52,180
32,035	12/01/10	Recovery Zone Economic Development	6.750	Term 2045	Anytime	"	32,035
44,290	08/24/11	Facility Bonds	3.500 - 5.000	Serial 2021 to 2032	2021	"	44,290
55,710	08/24/11	Facility Bonds	4.250 / 5.000	Term 2036 & 2042	2021	"	55,710
20,850	12/04/13	Facility Bonds	2.000 - 5.000	Serial 2014 to 2038	2023	"	19,770
7,325	12/04/13	Facility Bonds	4.500	Term 2043	2023	"	7,325
Total West Haymarket Joint Public Agency							<u>\$ 327,095</u>
TOTAL GENERAL OBLIGATION BONDS							<u>\$ 443,131</u>
Tax Supported Bonds:							
\$ 11,080	3/13/02	Antelope Valley Project	1.500 - 5.000	Serial 2002 to 2016	2012	Semiannually	<u>\$ 2,020</u>

CITY OF LINCOLN, NEBRASKA
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Original Amount	Issued	Issue	Interest Rate	When Due	Date Callable	Interest Date	Outstanding
Business-Type Activities:							
Revenue Bonds:							
\$ 16,710	04/18/07	Wastewater Revenue	4.000 - 4.500	Serial 2008 to 2029	2017	Semiannually	\$ 11,675
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	"	30,055
12,220	04/09/15	Wastewater Revenue Refunding	1.000 - 4.000	Serial 2016 to 2030	2025	"	11,565
Total Wastewater Bonds							\$ 57,045
\$ 10,515	08/04/09	Water Revenue	2.000 - 4.125	Serial 2013 to 2029	2019	Semiannually	\$ 8,585
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	---	"	6,765
28,595	05/30/13	Water Revenue Refunding	1.000 - 5.000	Serial 2014 to 2025	2023	"	21,670
Total Water Bonds							\$ 41,925
\$ 7,745	01/27/11	Parking Revenue and Refunding	2.000 - 5.000	Serial 2015 to 2024	2021	Semiannually	\$ 6,645
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	0.400 - 4.000	Serial 2013 to 2027	2022	"	6,470
2,765	11/29/12	Parking Revenue and Refunding	3.000	Term 2032	2022	"	2,765
Total Parking Bonds							\$ 26,655
\$ 8,340	02/26/13	Solid Waste Management Revenue and Refunding	0.250 - 4.000	Serial 2013 to 2029	2023	Semiannually	\$ 6,210
5,520	07/08/15	Solid Waste Management Revenue	2.000 - 5.000	Serial 2016 to 2035	2025	"	5,300
Total Solid Waste Management Bonds							\$ 11,510
\$ 93,045	10/01/03	Electric Revenue and Refunding Bonds	3.000 - 5.000	Serial 2004 to 2026	2013	Semiannually	\$ 1,150
183,230	05/15/07	Electric Revenue and Refunding Bonds	4.000 - 5.000	Serial 2009 to 2035	2016	"	100,195
81,850	05/15/07	Electric Revenue and Refunding Bonds	4.500 / 4.750	Term 2034 & 2037	2016	"	32,280
247,150	08/15/12	Electric Revenue and Refunding Bonds	1.000 - 5.000	Serial 2013 to 2032	2022	"	211,385
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	4.000	Term 2040	2025	"	40,710
Total Electric Bonds							\$ 618,500
TOTAL REVENUE BONDS							\$ 755,635

Annual requirements to pay principal and interest to maturity on outstanding debt follow (in thousands of dollars):

Fiscal Year Ended August 31	Governmental Activities					
	General Obligation Bonds		Tax Supported Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 10,535	20,380	2,020	51	5,570	1,130
2018	11,032	20,040	-	-	4,885	1,047
2019	10,840	19,660	-	-	4,632	925
2020	10,900	19,281	-	-	4,327	810
2021	14,628	18,822	-	-	4,133	701
2022 - 2026	85,025	83,529	-	-	16,838	1,760
2027 - 2031	70,876	67,045	-	-	2,935	184
2032 - 2036	75,620	50,783	-	-	-	-
2037 - 2041	81,700	31,246	-	-	-	-
2042 - 2046	71,975	9,198	-	-	-	-
Total	\$ 443,131	339,984	2,020	51	43,320	6,557

Fiscal Year Ended August 31	Business-Type Activities					
	Revenue Bonds		Loans/Note Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 33,355	32,479	1,930	756	436	32
2018	34,735	31,045	1,967	719	288	24
2019	36,180	29,524	2,005	680	242	19
2020	37,520	27,898	2,043	642	249	14
2021	38,965	26,200	2,083	602	251	8
2022 - 2026	207,775	104,036	10,436	2,382	211	2
2027 - 2031	138,720	65,891	11,058	1,259	-	-
2032 - 2036	120,690	38,374	5,347	193	-	-
2037 - 2041	107,695	10,953	-	-	-	-
Total	\$ 755,635	366,400	36,869	7,233	1,677	99

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Major Enterprise fund annual requirements to pay principal and interest to maturity on outstanding debt follow (in thousands of dollars):

Fiscal Year Ended August 31	Major Enterprise Funds					
	Wastewater System		Water System		Electric System	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 4,762	2,470	4,409	1,887	23,800	27,397
2018	4,839	2,371	4,518	1,750	24,990	26,207
2019	4,918	2,265	4,637	1,607	26,240	24,957
2020	5,027	2,151	4,791	1,439	27,280	23,645
2021	5,156	2,010	4,981	1,240	28,615	22,312
2022 - 2026	28,398	7,335	18,113	3,959	159,595	90,247
2027 - 2031	21,861	2,416	8,287	1,819	106,070	60,788
2032 - 2036	3,998	145	5,744	388	114,215	37,889
2037 - 2041	-	-	-	-	107,695	10,953
Total	\$ 78,959	21,163	55,480	14,089	618,500	324,395

Long-term liability activity for the year ended August 31, 2016, was as follows (in thousands of dollars):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
General Bonds	\$ 43,800	6,300	(4,730)	45,370	4,590
Tax Allocation Bonds	6,461	140	(1,635)	4,966	766
Tax Supported Bonds	66,700	-	(4,315)	62,385	4,450
Special Assessment Debt with Government Commitment	3,490	-	(175)	3,315	180
West Haymarket Joint Public Agency Bonds	327,635	-	(540)	327,095	550
Tax Supported Antelope Valley Project Bonds	2,875	-	(855)	2,020	2,020
Capital Leases	40,989	8,550	(6,219)	43,320	5,570
Gross Bonds and Leases Payable	491,950	14,990	(18,469)	488,471	18,126
Deferred Amounts:					
For Issuance Premiums	12,633	737	(689)	12,681	-
For Issuance Discounts	(993)	-	2	(991)	-
Net Bonds and Leases Payable	503,590	15,727	(19,156)	500,161	18,126
Other Liabilities:					
Compensated Absences	20,028	10,340	(8,671)	21,697	8,921
Construction Contracts	4,848	-	(880)	3,968	-
Claims and Judgements	11,051	30,573	(31,665)	9,959	3,942
Net Pension Liability	54,370	-	(54)	54,316	-
Net OPEB Obligation	10,091	1,044	-	11,135	-
Governmental Activities Long-Term Liabilities	\$ 603,978	57,684	(60,426)	601,236	30,989
Business-Type Activities:					
Bonds, Loans, Note, and Leases Payable:					
Wastewater Revenue Bonds	\$ 60,515	-	(3,470)	57,045	3,650
Wastewater Loan Payable	23,007	-	(1,093)	21,914	1,112
Water Revenue Bonds	45,665	-	(3,740)	41,925	3,790
Water Loan Payable	14,112	48	(605)	13,555	618
Electric System Revenue Bonds	572,380	167,800	(121,680)	618,500	23,800
Parking Revenue Bonds	27,945	-	(1,290)	26,655	1,320
Solid Waste Management Revenue Bonds	12,285	-	(775)	11,510	795
Pinnacle Bank Arena Note	1,600	-	(200)	1,400	200
Capital Leases	1,540	528	(391)	1,677	436
Gross Bonds, Loans, Note, and Leases Payable	759,049	168,376	(133,244)	794,181	35,721
Deferred Amounts:					
For Issuance Premiums	46,300	16,952	(5,856)	57,396	-
For Issuance Discounts	(58)	-	3	(55)	-
Net Bonds, Loans, Note, and Leases Payable	805,291	185,328	(139,097)	851,522	35,721
Other Liabilities:					
Compensated Absences	2,405	1,629	(1,413)	2,621	1,463
Construction Contracts	3,157	3,212	(2,955)	3,414	3,330
Claims and Judgements	1,513	6,348	(7,353)	508	-
Net Pension Liability	3,369	51	-	3,420	-
Net OPEB Obligation	1,542	278	-	1,820	-
Accrued Landfill Closure/Postclosure Care Costs	17,574	2,917	-	20,491	-
Business-Type Activities Long-Term Liabilities	\$ 834,851	199,763	(150,818)	883,796	40,514

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Internal Service funds predominantly serve the governmental funds, therefore, their long-term liabilities are included with the governmental activities. Compensated absences for governmental activities are generally liquidated in the General Fund as well as various other Special Revenue and Internal Service funds where personnel costs are incurred. The construction contracts are liquidated in the Street Construction fund, financed primarily with impact fee collections. The claims and judgments liability will generally be liquidated through the City's Insurance Revolving Internal Service Fund, which will finance the payment of those claims by charging other funds based on management's assessment of the relative insurance risk that should be assumed by individual funds. The net pension liability will be liquidated through the Police & Fire Pension Contributions Special Revenue Fund with financing provided by an annual property tax levy. The net OPEB obligation for an implicit rate subsidy will be liquidated with those governmental funds where personnel insurance costs are incurred.

Long-term liability activity for the major enterprise funds for the year ended August 31, 2016, was as follows (in thousands of dollars):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Lincoln Wastewater System:					
Bonds and Loans Payable:					
Wastewater Revenue Bonds	\$ 60,515	-	(3,470)	57,045	3,650
Wastewater Loans Payable	23,007	-	(1,093)	21,914	1,112
Deferred for Issuance Premiums	3,639	-	(278)	3,361	-
Deferred for Issuance Discounts	(8)	-	1	(7)	-
Net Bonds and Loans Payable	<u>87,153</u>	<u>-</u>	<u>(4,840)</u>	<u>82,313</u>	<u>4,762</u>
Other Liabilities:					
Compensated Absences	716	474	(392)	798	399
Construction Contracts	1,251	651	(1,133)	769	769
Net OPEB Obligation	264	51	-	315	-
Total Long-Term Liabilities	<u>\$ 89,384</u>	<u>1,176</u>	<u>(6,365)</u>	<u>84,195</u>	<u>5,930</u>
Lincoln Water System:					
Bonds and Loan Payable:					
Water Revenue Bonds	\$ 45,665	-	(3,740)	41,925	3,790
Water Loan Payable	14,112	48	(605)	13,555	618
Deferred for Issuance Premiums	2,963	-	(330)	2,633	-
Deferred for Issuance Discounts	(27)	-	1	(26)	-
Net Bonds and Loan Payable	<u>62,713</u>	<u>48</u>	<u>(4,674)</u>	<u>58,087</u>	<u>4,408</u>
Other Liabilities:					
Compensated Absences	1,016	574	(502)	1,088	490
Construction Contracts	1,906	2,561	(1,822)	2,645	2,561
Net OPEB Obligation	410	44	-	454	-
Total Long-Term Liabilities	<u>\$ 66,045</u>	<u>3,227</u>	<u>(6,998)</u>	<u>62,274</u>	<u>7,459</u>
Lincoln Electric System:					
Bonds Payable:					
Electric System Revenue Bonds	\$ 572,380	167,800	(121,680)	618,500	23,800
Deferred for Issuance Premiums	38,677	16,952	(5,178)	50,451	-
Net Bonds Payable	<u>611,057</u>	<u>184,752</u>	<u>(126,858)</u>	<u>668,951</u>	<u>23,800</u>
Other Liabilities:					
Claims and Judgements	1,513	6,348	(7,353)	508	-
Total Long-Term Liabilities	<u>\$ 612,570</u>	<u>191,100</u>	<u>(134,211)</u>	<u>669,459</u>	<u>23,800</u>

DEVELOPER PURCHASED TAX INCREMENT FINANCING NOTES AND BONDS

At August 31, 2016, \$51,066,243 of developer purchased tax increment financing notes and bonds were outstanding. Developer purchased tax increment financing allows the City to create special districts to enable public/private improvements within those districts that will generate public/private-sector development. For a period of 15 years, the tax base is frozen at the predevelopment level, and taxes generated from the incremental increases in assessed value are remitted to the developer. The agreements between the City and developer expressly limit the City's commitment for debt repayment to the

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incremental tax collected during the 15-year period. At the end of the 15-year period, the tax jurisdiction collects on the increased property values. The related tax increment districts are not component units of the City; therefore, the City is not liable for the outstanding debt. The City's responsibility for this liability is limited only to remittance of paid taxes, thus these notes and bonds are not reflected in the City's financial statements.

CONDUIT DEBT

On January 26, 2012, the City issued \$19,815,000 of Educational Facilities Revenue and Refunding Bonds for the purpose of paying the cost of acquiring, constructing, equipping and furnishing improvements to Nebraska Wesleyan University's (NWU) higher education facilities and refinancing certain outstanding indebtedness of NWU.

The Bonds are limited obligations of the City and are payable solely from payments to be made by NWU pursuant to a loan agreement dated January 1, 2012, by and between the City and NWU. The Bonds shall not be a charge against the City's general credit or taxing powers. The Bonds shall never constitute an indebtedness of the City within the meaning of any constitutional provision or statutory limitation and shall never constitute or give rise to a pecuniary liability of the City, thus these bonds are not reflected in the City's financial statements. At August 31, 2016, \$16,765,000 of these bonds remain outstanding.

(10) RECONCILIATION OF BUDGET BASIS TO GAAP

Amounts presented on a non-GAAP budget basis of accounting differ from those presented in accordance with GAAP due to the treatment afforded accruals, encumbrances, funds for which budget and reporting structures differ, and funds for which legally adopted annual budgets are not established. A reconciliation for the year ended August 31, 2016, which discloses the nature and amount of the adjustments necessary to convert the actual GAAP data to the budgetary basis, is presented below:

	<u>General Fund</u>	<u>Street Construction Fund</u>
Net Change in Fund Balances:		
Balance on a GAAP basis	\$ 4,186,325	(7,124,243)
Basis differences (accruals) occur because the cash basis of accounting used for budgeting differs from the modified accrual basis of accounting prescribed for governmental funds.	(912,572)	1,241,408
Perspective differences occur when the structure used for budgeting differs from the fund structure used for financial reporting.	(748,517)	-
Amount budgeted on a project basis.	-	33,261,538
Balance on a budget basis	<u>\$ 2,525,236</u>	<u>27,378,703</u>

(11) DEFICIT NET POSITION

The following funds had a net position or fund balance deficit as of August 31, 2016:

Special Revenue - Impact Fees Fund	\$ (111,254)
Enterprise - Pinnacle Bank Arena Fund	(1,018,189)
Enterprise - Emergency Medical Services Fund	(456,871)
Enterprise - Broadband Enterprise Fund	(352,181)
Internal Service - Engineering Revolving Fund	(998,215)
Internal Service - Communication Services Fund	(56,404)
Internal Service - Copy Services Fund	(39,247)

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- The Impact Fees Fund deficit is expected to be reduced through future fee collections.
- The Pinnacle Bank Arena Fund was created to manage the operation of a new Arena, which opened in August, 2013. The Fund deficit is expected to be reduced through future revenue collections.
- The Emergency Medical Services Fund deficit is expected to be reduced through future emergency ambulance service fee collections.
- The Broadband Enterprise Fund was created in the current fiscal year. The deficit is expected to be reduced once more contracts are approved and subsequent revenues are received.
- The Engineering Revolving Fund is evaluating various means to reduce expenses and improve revenue collections affected by staffing levels, overhead costs, billing practices, and intra-City services reimbursements.
- The Communication Services Fund is adjusting their billing process and when completed is expected to reduce the deficit.
- The Copy Services Fund deficit is expected to be reduced by an increase in fees charged.

(12) **EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The following fund had expenditures for which there were no appropriations:

General Fund		
Traffic Engineering	\$	68,650
Street Lighting		1,059,475
Debt Service		138,124

(13) **EMPLOYEES' RETIREMENT PLANS**

The employees of the City are covered by several retirement plans. Article II Section 3 of the Lincoln Charter assigns the authority to establish and amend benefit provisions of the various plans to the City Council. The Police and Fire Pension Plan (PFP) is administered by the City and is included in the Fiduciary Fund type. All other plans are administered by outside trustees and are not included in the City's basic financial statements.

POLICE AND FIRE PENSION

Plan Description – PFP is a single-employer defined benefit pension plan administered by the City of Lincoln for all commissioned police and firefighters. PFP provides retirement, disability, and death benefits to plan members and beneficiaries. The City does not issue a separate report that includes financial statements and required supplementary information for PFP.

Summary of Benefit Provisions -

Plan A is applicable to members who were hired on/after April 1, 1995 or who were hired prior to that date, but elected Plan A coverage.

Plan B is applicable to members who were employed on/after April 11, 1984 or who, prior to April 11, 1984, elected Plan B coverage.

Plan C is applicable to members who were employed before April 11, 1984 and did not elect to move to Plan B or A.

Regular Pay - All plans include member's base pay and City's contributions to the Post-Employment Health Plan for the last consecutive 26 bi-weekly pay periods, or in the case of a demotion, the highest consecutive 26 bi-weekly pay periods.

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Normal Retirement Age – Plan A: Age 50
Plans B and C: Age 53

Normal Retirement – Plan A: Normal retirement age and 25 years of service.
Plans B and C: Normal retirement age and 21 years of service.

Amount of Pension –

- Plan A: 2.56% of regular pay times years of service to a maximum of 64% of regular pay.
- Plan B: 58% of regular pay with 21 years of service, plus 2% of regular pay for each year of service rendered after becoming eligible for retirement to a maximum increase of 10%.
- Plan C: 54% of regular pay with 21 years of service, plus 2% of regular pay for each year of service rendered after becoming eligible for retirement to a maximum increase of 10%.

Early Retirement - Eligibility for all plans is age 50 and 21 years of service.

Amount of Pension –

- Plan A: 2.56% of regular pay times years of service up to a maximum of 64% of regular pay.
- Plan B and C: 52% and 48% of regular pay, respectively, plus 2% of regular pay for each year of service rendered after becoming eligible, up to a maximum increase of 6%.

Partial Annuity - Eligibility for all plans is early retirement age and 10, or more, years of service.

Amount of Pension –

- Plan A: 2.56% of regular pay times years of service.
- Plan B: 58% of regular pay with 21 years of service. Members with less than 21 years of service receive a ratio of years of service to 21 years of 58% of regular pay.
- Plan C: 54% of regular pay with 21 years of service. Members with less than 21 years of service receive a ratio of years of service to 21 years of 54% of regular pay.

Deferred Annuity (Vested Termination) - Eligibility for all plans is age less than early retirement age and 10, or more, years of service. Payments begin at age 50.

Amount of Pension –

- Plan A: 2.56% of regular pay times years of service.
- Plan B: 58% of regular pay with 21 years of service. Members with less than 21 years of service receive a ratio of years of service to 21 years of 58% of regular pay.
- Plan C: 54% of regular pay with 21 years of service. Members with less than 21 years of service receive a ratio of years of service to 21 years of 54% of regular pay.

Duty-Related Disability - Eligibility for all plans is permanent inability to perform the duties of the position from a cause occurring while in line of duty.

Amount of Pension –

- Plan A: 58% of regular pay.
 - Plan B and C: A benefit equal to 58% or 54% of regular pay, respectively, plus 2% of regular pay for each year of service rendered after becoming eligible for retirement, to a maximum increase of 10% of regular pay.
- Such benefits shall continue after the member's death to the member's surviving spouse (until their death or remarriage), minor children or designated beneficiary (at a reduced amount). The above amounts are subject to deduction of the amount received from worker's compensation.

Non-Duty Disability - Eligibility for all plans is permanent inability to perform duties of position from a cause not occurring in the line of duty.

Amount of Pension – equal to the following percent of regular pay:

<u>Years of Service (YOS)</u>	<u>Plan A</u>	<u>Plan B</u>	<u>Plan C</u>
5 ≤ YOS < 10	23%	23%	21%
10 ≤ YOS < 15	39%	39%	36%
YOS ≥ 15	53%	53%	49%

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Duty-Related Death - Eligibility for all plans is an active member death in the line of duty, or as a result of injuries received while in the line of duty.

Amount of Pension –

Spouse beneficiary paid at duty disability rate until remarriage or death. Upon spouse’s remarriage or death, dependent children paid at same rate until age 19. Non-spouse beneficiary paid at 100% survivor rate for lifetime. The above amounts are subject to deduction of the amount received from worker’s compensation.

Non-Duty Death - Eligibility for all plans is member dies from non-duty related cause and 5 years of service.

Amount of Pension - Benefits which would have been payable as a non-duty disability awarded the day prior to death (joint and 100% survivor).

Death After Retirement - Monthly benefit may continue to surviving spouse or non-spouse beneficiary, and is dependent on form of payment.

After monthly benefits cease a lump sum benefit is payable to survivors of members employed on or after January 1, 1992 to March 31, 2010, equal to the member’s unrefunded accumulated contributions and interest multiplied by the ratio of the number of expected payments received to the number of expected payments. Survivors of other members receive a death benefit after monthly benefits cease, equal to the member’s unrefunded accumulated contributions and interest less the sum of monthly benefits received.

Non-Vested Termination - Eligibility for all plans includes termination of employment and no pension is or will become payable.

Amount of Benefit – all plans will refund member’s contributions plus annual interest.

Employee Contributions - Plan A: 8.0% of pay

Plan B: 7.6% of pay

Plan C: 7.0% of pay

Upon reaching 21 years of service, member contributions are discontinued for Plans B and C.

Cost of Living Adjustments (COLA) – Eligibility requirements include receiving benefits for at least twelve months preceding September 1. The lump sum payment will be a base amount of \$750 effective 9/1/1994. The lump sum payment amount will be annually increased by the lesser of three percent or the percentage increase in the Consumer Price Index for the last full calendar year prior to each September 1.

Deferred Retirement Option Plan (DROP) - The City has established DROP for police and fire pension members. The DROP program allows a member to retire for pension purposes, but to continue working. The member receives a paycheck and the member’s monthly pension benefit is deposited into the member’s DROP account. At the end of five years, or anytime before five years, the member must “retire-in-fact”. Contributions to the pension are eliminated at the beginning of the DROP period. Pension benefits are set, and will not be increased because of raises, promotions, increased years of service or pension enhancements. When a member retires-in-fact, their monthly pension benefit will be paid directly to them and the member will have access to the funds in their DROP account. The balance held by the third party DROP administrator at August 31, 2016, is \$6,606,202.

Membership of the pension plan consisted of the following at August 31, 2016, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	501
Terminated plan members entitled to but not yet receiving benefits	27
Active plan members (non-DROP)	573
Death benefit refund due	1
DROP members	45
Total	1,147
Number of participating employers	1

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Funding Policy – The contribution requirements of plan members and the City are established by City Ordinance and may be amended by the City Council. Plan members are required to contribute between 7% and 8% of their annual covered salary based on an election made by the employee. It is recommended that the City contribute an actuarially determined amount; the contribution amount for fiscal year 2016 was \$9,666,852. For the fiscal year ended August 31, 2016, the Plan received \$7,170,104 in employer contributions.

Actuarial Methods and Assumptions – The annual required contribution for the current year was determined as part of the August 31, 2014, actuarial valuation using the entry age actuarial funding method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 6.75% per year compounded annually, (b) projected salary increases of 7.3% grading down to 3.5% per year, including wage inflation at 2.5%, and (c) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using a five year smoothed market method. The unfunded actuarial accrued liability is being amortized as a level percentage of payrolls on a closed basis over a period of thirty years.

Net Pension Liability

The components of the net pension liability of the PFP at August 31, 2016, were as follows:

Total pension liability	\$ 271,594,222
Plan fiduciary net position	<u>(213,857,935)</u>
Net pension liability	<u>\$ 57,736,287</u>

Plan fiduciary net position as a percentage of the total pension liability	78.74%
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The total pension liability was determined by an actuarial valuation using the entry age normal cost method and calculated based on the discount rate and actuarial assumptions below.

Valuation date	August 31, 2016
Measurement date	August 31, 2016

Assumptions

The total pension liability as of August 31, 2016, was determined by an actuarial valuation performed as of August 31, 2016, using the following key actuarial assumptions:

Price inflation	2.50%
Salary increases, including wage inflation	3.50% to 7.30%
Long-term Rate of Return, net of investment expense, including price inflation	7.50%
Single Equivalent Interest Rate, net of investment expense, including price inflation	7.50%
Post-retirement adjustment	COLA benefit payments are assumed to increase 2.50% each year.
Mortality	Mortality rates are based on the RP-2000 Mortality Tables for Employees, Healthy Annuitants, and Disabled Retirees with Generational Projection using Scale AA.

The actuarial assumptions that determined the total pension liability as of August 31, 2016, (with the exception of the investment return assumption) were based on the results of the most recent actuarial experience study for the five-year period ending August 31, 2014.

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Discount Rate

The discount rate used to measure the total pension liability at August 31, 2016, was 7.50%.

The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be equal to the actuarially determined contribution rates determined in the actuarial valuation prepared two years prior to the current fiscal year end. Based on these assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.50% was applied to all periods of projected benefit payments to determine the total pension liability. Projected future benefit payments for all current pension members were projected through 2115.

Long-Term Rate of Return – The long-term expected rate of return on pension plan investments is generally reviewed on a regular basis as part of an experience study. The 7.50% long-term assumed rate of return for both the current and prior measurement date was actuarially developed. Several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class, were developed by investment consultants. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

Best estimate of arithmetic real rate of return for each major asset class included in the pension plan's target asset allocation as of August 31, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Developed Markets Equity	50.0 %	7.44 %
Emerging Markets Equity	5.0	11.95
Private Equity	5.0	11.80
Core Real Estate	15.0	4.36
Value-Added Real Estate	5.0	7.83
Low Vol Hedge Funds	5.0	2.79
Core Fixed Income	10.0	0.79
High Yield Fixed Income	5.0	5.07
Total	<u>100.0 %</u>	

* Arithmetic mean, net of investment expense.

Sensitivity of the net pension liability to changes in the discount rate - The following presents the net pension liability of the City, calculated using the discount rate of 7.50%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	6.50%	7.50%	8.50%
Net pension liability	\$ 90,636,142	57,736,287	30,074,238

Rate of Return - For the year ended August 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.36 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

CITY OF LINCOLN, NEBRASKA
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PFP financial statements are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred. Employee and employer contributions are recognized in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the plan terms.

Investments as reported in the financial statements include long-term investments. Law or legal instruments may restrict these investments. All investments are stated at fair value based on quoted market prices. For investments where no readily ascertainable fair value exists, management has received an estimate of fair value from the investment fund manager based, in part, on real estate appraisals.

There have been no changes since the measurement date that would materially alter the pension plan financial report.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at August 31, 2015	\$ 261,733,723	203,995,271	57,738,452
Changes for the year:			
Service cost at end of year	8,539,932	-	8,539,932
Interest on TPL	19,098,818	-	19,098,818
Difference between expected and actual experience	(3,351,824)	-	(3,351,824)
Employer contributions	-	7,170,104	(7,170,104)
Employee contributions	-	2,817,102	(2,817,102)
Net investment income	-	14,795,745	(14,795,745)
Benefit payments, including member refunds	(14,426,427)	(14,426,427)	-
Administrative expenses	-	(493,860)	493,860
Net changes	9,860,499	9,862,664	(2,165)
Balances at August 31, 2016	\$ 271,594,222	213,857,935	57,736,287

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Deferred Outflows and Inflows of Resources

Deferred Outflows of Resources As of August 31				
	<u>2015</u>	<u>Additions</u>	<u>Recognition</u>	<u>2016</u>
Differences between expected and actual experience	\$ 6,260,077	-	1,129,978	5,130,099
Differences between projected and actual earnings	16,102,293	322,254	4,090,024	12,334,523
Change in the Emergency Medical Services Fund's proportion of the collective net pension liability since the prior measurement date	<u>166,295</u>	<u>49,438</u>	<u>37,485</u>	<u>178,248</u>
Total	\$ <u>22,528,665</u>	<u>371,692</u>	<u>5,257,487</u>	<u>17,642,870</u>

Deferred Inflows of Resources As of August 31				
	<u>2015</u>	<u>Additions</u>	<u>Recognition</u>	<u>2016</u>
Differences between expected and actual experience	\$ -	3,351,824	506,318	2,845,506
Changes of assumptions	19,906,297	-	3,593,194	16,313,103
Change in the City's proportion of the collective net pension liability since the prior measurement date	<u>166,295</u>	<u>49,438</u>	<u>37,485</u>	<u>178,248</u>
Total	\$ <u>20,072,592</u>	<u>3,401,262</u>	<u>4,136,997</u>	<u>19,336,857</u>

Amounts reported as Deferred Outflows and Inflows of Resources related to pensions will be recognized in pension expense in future fiscal years as follows:

<u>Fiscal Year Ending August 31</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Net Deferred Outflows/Inflows of Resources</u>
2017	\$ 5,257,487	(4,136,997)	1,120,490
2018	5,257,487	(4,136,997)	1,120,490
2019	5,257,488	(4,136,997)	1,120,491
2020	1,231,913	(4,136,997)	(2,905,084)
2021	633,865	(2,470,323)	(1,836,458)
Thereafter	<u>4,630</u>	<u>(318,546)</u>	<u>(313,916)</u>
	\$ <u>17,642,870</u>	<u>(19,336,857)</u>	<u>(1,693,987)</u>

CITY OF LINCOLN, NEBRASKA
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Pension Expense

The calculation of the pension expense for the year ended August 31, 2016, is shown below:

Pension Expense	
For the Fiscal Year Ended August 31, 2016	
Service cost at end of year	\$ 8,539,932
Interest on the total pension liability	19,098,818
Expensed portion of current-period difference between expected and actual experience in the total pension liability	(506,318)
Employee contributions	(2,817,102)
Projected earnings on plan investments	(15,117,999)
Expensed portion of current-period differences between projected and actual earnings on plan investments	64,451
Administrative expenses	493,860
Recognition of beginning deferred outflows of resources	5,185,568
Recognition of beginning deferred inflows of resources	(3,623,211)
Total Pension Expense	\$ <u><u>11,317,999</u></u>

ELECTRIC SYSTEM

The City owns and operates its own electric system, which is included in the enterprise funds in the accompanying basic financial statements. The electric system is controlled and managed by an administrative board and is not supported by the City's general tax revenues. The electric system provides retirement benefits to its employees under its own separate plan, such benefits being funded solely from revenues derived from the operation of the electric system. A summary of the electric system plan is as follows:

LES has a defined contribution retirement plan created in accordance with Internal Revenue Code Section 401(K). The plan assets are held, managed and administered by a custodian. The plan was established under the authority of the administrative board and contributions are also established by the administrative board. LES' contribution is equal to 200% of the employees' contributions, up to 5% of applicable compensation for employees hired prior to 1/1/11. For employees hired after 1/1/11, LES' contribution is equal to 100% of employee's contributions up to 10% of applicable compensation. Vesting of LES contributions occurs over a three-year period. Employee forfeitures are used to reduce future employer contributions. For the year ended December 31, 2015, LES incurred contribution expense of approximately \$3,729,000 or 9.09% of covered payroll and its employees contributed approximately \$3,098,000 or 7.55% of covered payroll.

DEPARTMENT DIRECTORS

Directors of City departments are eligible the first of the month following the date employed to be covered by the Director's Money Purchase Plan, established by City Ordinance, and administered by an insurance company. The Plan is a defined contribution plan requiring contributions determined by the employees' date of hire. The City contributes 6% to 12% and the employee contributes 0% to 6% of earned income in one calendar year. Employees covered by the Plan may also make voluntary contributions. Participant accounts are immediately 100% vested. Total and covered payroll for the year ended December 31, 2015, was \$1,731,643. City contributions totaled \$180,489 or 10.42% of covered payroll and employee contributions totaled \$22,496 or 1.30% of covered payroll. There were no voluntary employee contributions made for the year ended December 31, 2015.

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ALL OTHER CITY EMPLOYEES

All other City employees are eligible after 6 months' service and age 19 to be covered under the City's Money Purchase Pension Plan, established by City Ordinance, and administered by an insurance company. Enrollment in the program is mandatory at age 40 with 5 years service. Vesting occurs in increments between 3 and 7 years of enrollment in the plan. The Plan is a defined contribution plan requiring employees to contribute at a rate determined by the employees' bargaining unit and date of hire. The City contributes between \$1.29 and \$2.00 for every \$1.00 contributed by employees. Employee forfeitures are used to reduce employer contributions. Employees covered by the Plan may also make voluntary contributions. During the year ended December 31, 2015, total payroll was approximately \$83,517,000 and covered payroll was approximately \$72,331,000. The City incurred contribution expense totaling \$7,974,328, which included a reduction in expense of \$184,152 for employee forfeitures. Employer contributions were 11.02% of covered payroll and employee contributions totaled \$4,677,614 or 6.47% of covered payroll. Employees made \$402,440 in voluntary contributions for the year ended December 31, 2015.

(14) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The City offers employees and their families the opportunity to continue their health care coverage when there is a qualifying event, such as retirement, that would result in a loss of coverage under the City's plan. Each qualified beneficiary pays the entire cost of premiums for the continuous coverage. The City recognizes as OPEB the implicit rate subsidy provided to retirees when their premium is the "full cost" of the insurer's charge for the active population. Since the retirees have higher costs, the premium they pay is not expected to cover their costs, and the difference is essentially covered by the City's payment for active employees. The City plan is a single-employer defined benefit plan. The City does not issue a separate report that includes financial statements and required supplementary information for OPEB.

Funding Policy – The plan is a pay-as-you-go and therefore, is not funded.

Annual OPEB cost and Net OPEB Obligation – The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following Net OPEB obligation balance includes amounts reported in governmental activities, business-type activities and the fiduciary trust fund.

The net OPEB obligation as of August 31, 2016, was calculated as follows:

(Dollar amounts in thousands)

Annual required contribution	\$ 2,035
Interest on net OPEB obligation	495
Adjustment to annual required contribution	(694)
Annual OPEB cost	<u>1,836</u>
Contributions made	(514)
Increase in net OPEB obligation	<u>1,322</u>
Net OPEB obligation-beginning	<u>11,637</u>
Net OPEB obligation-ending	<u><u>\$ 12,959</u></u>

CITY OF LINCOLN, NEBRASKA
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The City's annual OPEB cost, the percentage of annual OPEB costs contributed and the net OPEB obligation are as follows:

Year Ended August 31	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 1,836,000	28.0 %	\$ 12,959,000
2015	2,144,000	28.9	11,637,000
2014	2,142,000	28.9	10,112,000

Funded Status and Funding Progress – As of September 1, 2015, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$17,273,000 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$17,273,000. Annual covered payroll was approximately \$129,096,000, and the ratio of the UAAL to the covered payroll was 13.4%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statement, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 1, 2015, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.25% discount rate and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements to an ultimate rate of 5.0% for 2026 and beyond. The general inflation rate used for derivation of these calculations is 2.5%. Participation assumptions include 60% of eligible civilian members and 50% of eligible Fire/Police members electing coverage, with 25% participation assumed for both civilian and Fire/Police spouses, respectively. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over a period of thirty years.

PEHP – Defined Contribution Plan

The City has a defined contribution Post Employment Health Plan (PEHP) administered by Nationwide Retirement Solutions. The purpose of the PEHP plan is to provide reimbursement of qualifying health care and medical insurance premium expenses for employees upon separation from employment.

Terms for eligibility and contribution rates are specified in the City's various collective bargaining agreements. Individual employee accounts consist of employer contributions, investment returns and any forfeiture allocations. Current employer contributions range from \$18-\$50 per pay period based on union contracts. Current year contributions totaled approximately \$1,280,000.

Long-Term Disability Plan

The City also provides employees with long-term disability benefits when they become disabled due to a non-work related accident or illness and are unable to perform their essential job functions. Results of an actuarial valuation have not been included here as it did not have a significant impact on the City's financial statements.

CITY OF LINCOLN, NEBRASKA
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(15) PROPERTY TAXES

The Home Rule Charter of the City imposes a tax ceiling for general revenue purposes. The City tax ceiling was 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 has the power to levy taxes each year sufficient to pay any judgment existing against the City, the interest on bonded debt, and the principal on bonded debt maturing during the fiscal year or within 6 months thereafter, as well as taxes authorized by state law. The 2015 tax levy, for the 2015-2016 fiscal year, was \$134,866,868 below the legal limit, with a tax rate per \$100 valuation of \$0.3196. The assessed value upon which the 2015 levy was based was \$18,457,318,752.

The tax levies for all political subdivisions in Lancaster County are certified by the County Board on or before October 15th. Real estate taxes are due on December 31st and attach as an enforceable lien on property on January 1st following the levy date and become delinquent in two equal installments on April 1st and August 1st. Personal property taxes are due December 31st and become delinquent on April 1st and August 1st following the levy date. Delinquent taxes bear 14% interest.

Within the government-wide financial statements, property taxes are recognized as revenue in the year for which they are levied. Property taxes levied for 2015-2016 are recorded as revenue in the fund financial statements when expected to be collected within 60 days after August 31, 2016. Prior-year levies were recorded using these same principles, and remaining receivables are re-evaluated annually. Property taxes expected to be collected after 60 days are recorded as unavailable revenue on the fund balance sheets.

The City-owned electric utility is required by City Charter to make payments in lieu of taxes, aggregating 5% of its gross retail operating revenues derived from within the city limits of incorporated cities and towns served.

(16) RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and the public; or acts of God. All risk management activities are accounted for in the Insurance Revolving Fund, an internal service fund, and administered through the Risk Management Division.

For the year ended August 31, 2016, the City had a self-insured retention for workers' compensation exposures up to \$800,000 per individual; law enforcement liability, general liability, public officials liability, public transportation liability, medical professional liability, and auto liability exposures up to \$250,000 per occurrence; building and contents property exposures up to \$75,000 per occurrence; health care benefits with \$150,000 claim specific stop loss; self-insured dental benefits; and self-insured employee long-term disability benefits.

The City also obtained excess liability insurance coverage in the current year. Workers' compensation was covered by a policy that provided statutory limits above the City's retention of \$800,000 per individual. Law enforcement, general, public officials, public transportation, medical professional, and auto liabilities were covered by policies that provided limits of \$6 million per occurrence with a \$12 million annual aggregate. Health had excess stop loss coverage above \$150,000 per claim with unlimited coverage. The Nebraska Political Tort Claims Act limits the City's liability for tort claims to \$1 million per individual and \$5 million per occurrence.

There were no significant insurance recoveries in the current year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The City annually retains the services of independent actuaries to analyze the self-insured workers' compensation, general liability, public transportation liability, law enforcement liability, auto liability, and

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long-term disability exposures. Such analysis has been used to assist the City with its financial planning and management of the self-insurance program. Included in the specific objectives of the studies were to:

- Estimate the outstanding liabilities for the current fiscal year ended August 31,
- Forecast ultimate incurred losses and incurred but not reported losses for future years, and
- Estimate the required funding level for the City's self-insured liabilities.

The City funds its self-insurance program on an "incurred loss" basis. The governmental and proprietary funds pay annual premium amounts, based on past experience of incurred losses, to the Insurance Revolving Fund. Claim liabilities of \$9,959,212 were recorded at August 31, 2016, which do not include claims relating to Lincoln Electric System's self-funded health and dental insurance programs. Excluding medical care claims approximating \$1,981,000, the remaining liability is the actuarially estimated amount of claims based on an estimate of ultimate incurred and incurred but not reported losses as of that date and is calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic and social factors. The claims liability estimate also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of their allocation to specific claims. These liabilities have been discounted using a .45% discount rate. The City has purchased no annuity contracts in the current fiscal year to resolve City of Lincoln claims.

The following is a summary of the changes in the estimated claims liability for the years ended August 31, 2016 and 2015:

<u>2016</u>	Worker's Compensation and Others	Long-Term Disability	Health and Dental	Total
Balance at September 1	\$ 7,414,000	983,115	2,653,990	11,051,105
Current year claims and changes in estimates	2,251,839	92,793	28,228,422	30,573,054
Claims payments	(2,693,839)	(69,957)	(28,901,151)	(31,664,947)
Balance at August 31	<u>\$ 6,972,000</u>	<u>1,005,951</u>	<u>1,981,261</u>	<u>9,959,212</u>

<u>2015</u>	Worker's Compensation and Others	Long-Term Disability	Health and Dental	Total
Balance at September 1	\$ 7,146,000	947,531	2,127,558	10,221,089
Current year claims and changes in estimates	3,080,824	113,635	26,639,205	29,833,664
Claims payments	(2,812,824)	(78,051)	(26,112,773)	(29,003,648)
Balance at August 31	<u>\$ 7,414,000</u>	<u>983,115</u>	<u>2,653,990</u>	<u>11,051,105</u>

LINCOLN ELECTRIC SYSTEM

LES has self-funded health and dental insurance programs with claims processed by a third party administrator on behalf of the utility. As part of the health plan, a reinsurance policy has been purchased which covers claims in excess of \$150,000 per individual. Total accrual and payment history is shown below:

	<u>2015</u>	<u>2014</u>
Balance beginning of year	\$ 1,513,000	1,659,000
Claims and fees incurred	6,348,000	5,895,000
Claims paid/other	(7,353,000)	(6,041,000)
Balance end of year	<u>\$ 508,000</u>	<u>1,513,000</u>

As required by state statute, LES maintains an incurred but not reported claims reserve which is actuarially determined, the balance of which was \$508,000 and \$496,000 at December 31, 2015 and 2014, respectively. LES established two separate bank accounts for the self-funded employee health and dental insurance plan reserve 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% of the expected claims liability, up to an annual aggregate maximum of \$1,000,000.

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(17) **COMMITMENTS AND CONTINGENCIES**

GENERAL

The City participates in a number of federal and state assisted grant programs. Federal and state financial assistance programs are subject to financial and compliance audits. The amount of expenditures, if any, which may be disallowed by the granting agencies is not determinable at this time; however, City officials do not believe that such amounts would be significant.

At August 31, 2016, approximately 96% of the full-time, regular City's employees are represented by a Union. Labor contracts involving civilian City employees are negotiated to cover, at a minimum, a two-year period coinciding with the biennial budget process.

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

The City has been identified as a potentially responsible party (PRP) or equivalent status in relation to several sites with environmental remediation activities. Management currently believes that the liability of the City in connection with these activities will be immaterial. However, the ultimate cost will depend on the extent of remediation required. Management does not believe that changes in these cost estimates will have a materially adverse effect on the financial statements.

The City of Lincoln owns a solid waste disposal area which discontinued operations in 1990, but still requires certain closure and postclosure care, including the construction of final cover, monitoring of groundwater conditions and landfill gas migration, and general site maintenance. While accrual of closure and postclosure care costs has been reflected in the financial statements in the current year, unanticipated corrective action costs related to landfill gas migration or groundwater contamination, if identified through current monitoring procedures, may be recorded once these costs can be reasonably estimated.

STREET CONSTRUCTION PROJECTS

The City's Street Construction Fund has commitments under major construction contracts in progress of approximately \$19,700,000 as of August 31, 2016, which will be financed primarily through highway user fees, bond proceeds, federal and state grants, and developer contributions.

WEST HAYMARKET JOINT PUBLIC AGENCY

In connection with the West Haymarket Development Project, the WHJPA is involved with the clean-up and remediation of several development sites relating to soil and groundwater contamination. This clean-up and remediation is performed as sites are developed, as the WHJPA has not been designated as a potentially responsible party (PRP or equivalent status) by any regulatory agency requiring the immediate clean-up of impacted areas. Although future costs may be incurred, it is not possible at this time to reasonably estimate the amount of any obligation for remediation activities because of uncertainties with respect to assessing the extent of the contamination or the applicable regulatory requirements. No liability has been recorded for potential future remediation activities as of August 31, 2016.

LINCOLN WASTEWATER SYSTEM

The Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$2,800,000 as of August 31, 2016.

LINCOLN WATER SYSTEM

The Lincoln Water System has commitments under major construction contracts in progress of approximately \$3,900,000 as of August 31, 2016.

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LINCOLN ELECTRIC SYSTEM

LES has an allocation from the U.S. Department of Energy, through Western Area Power Administration (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. LES' contract routinely has been extended by amendment and currently runs through 2020.

LES has participation contracts in the output of two existing Nebraska Public Power District (NPPD) power plants, a thirty percent (65 MW) and eight percent (109 MW) entitlement to the output of the Sheldon Station Power Plant (nominally rated 215 MW coal plant) and Gerald Gentleman Station Power Plant (nominally rated 1,365 MW coal plant), respectively. NPPD plans to replace one of the two col-fired boilers at the Sheldon Station with one that uses hydrogen fuel. NPPD and LES are in discussion regarding how this plant conversion impacts the participation agreement between LES and NPPD.

LES is responsible for its respective participating interests in the two facilities' 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 agreements are on a participation basis whether or not such plants are operating or operable.

The participation contracts continue 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 estimated fixed cost payments to NPPD under these contracts, including capital additions and improvements, debt service payments and fixed costs, and credits, aggregate approximately \$17,997,000, \$18,393,000, \$18,797,000, \$19,211,000, and \$19,633,000, respectively, in each of the five years subsequent to December 31, 2015.

Through the participation contracts LES may be required to pay costs associated with compliance with environmental regulations.

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 new 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.

(18) LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The City of Lincoln currently owns and operates both a municipal solid waste landfill and a construction and demolition debris landfill. State and federal laws require the City to close the landfills once capacity is reached and to monitor and maintain the site for thirty subsequent years on the municipal solid waste landfill and five subsequent years on the construction and demolition debris landfill. Although certain closure and postclosure care costs will be paid only near or after the date that the landfills stop accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each statement of net position date. These costs are accounted for in the Solid Waste Management Fund, a nonmajor enterprise fund.

At August 31, 2016, the City had incurred a liability of approximately \$13,273,000 for the municipal solid waste landfill which represents the amount of costs reported to date based on the approximately 59% of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$9.2 million, which will be recognized as the remaining capacity is used (estimated to be approximately 16 years).

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As of August 31, 2016, the City had incurred a liability of approximately \$892,000 for the construction and demolition debris landfill which represents the amount of costs reported to date based on the approximately 64% of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$496,000, which will be recognized as the remaining capacity is used (estimated to be approximately 12 years).

The estimated costs of closure and postclosure care, as determined by an independent engineering consultant, are subject to changes including the effects of inflation, revision of laws, changes in technology, actual sequence of landfill development and closure, and other variables.

The City of Lincoln, in a review by the Nebraska Department of Environmental Quality (NDEQ), has demonstrated compliance with the financial assurance requirements as specified in Title 132 - *Integrated Solid Waste Management Regulations*, through the Local Government Financial Test.

The City of Lincoln also owns a solid waste disposal area that discontinued operations in 1990. Although exempt from the U.S. Environmental Protection Agency *Solid Waste Disposal Facility Criteria* issued October 9, 1991, the City must still adhere to certain closure and postclosure care requirements under prior legislation, including the construction of final cover, monitoring of ground water conditions and landfill gas migration, and general site maintenance. At August 31, 2016, a liability for closure and postclosure care costs is recorded in the amount of approximately \$6,326,000, as determined by an independent engineering consultant. If any unanticipated corrective action costs related to landfill gas migration or groundwater contamination are identified through current monitoring procedures, then an additional accrued liability will be recorded once these costs can be reasonably estimated.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2016

(19) SEGMENT INFORMATION

The City has issued revenue bonds and other debt instruments to finance capital construction and acquisitions for both the Urban Development and Public Works/Utilities Departments. The Parking Facilities Division of the Urban Development Department operates the City's downtown parking garages and is accounted for in the Parking System Fund. The Solid Waste Operations Section of the Public Works/Utilities Department operates the City's solid waste disposal sites, yard waste composting facility, and re-cycling drop-off program. Summary financial information for these divisions as of and for the year ended August 31, 2016, is presented as follows:

	Parking Facilities	Solid Waste Management
CONDENSED STATEMENT OF NET POSITION		
Assets:		
Current Assets, excluding Due from Other Funds	\$ 5,054,883	5,838,746
Due from Other Funds	19,224	8,664
Other Assets	7,910,624	5,836,979
Capital Assets, Net	59,333,035	29,988,581
Total Assets	72,317,766	41,672,970
Deferred Outflows of Resources	-	26,447
Liabilities:		
Current Liabilities, excluding Due to Other Funds	3,474,754	2,129,696
Due to Other Funds	1,337	1,085
Noncurrent Liabilities	25,586,424	32,067,048
Total Liabilities	29,062,515	34,197,829
Net Position:		
Net Investment in Capital Assets	34,694,568	21,015,904
Restricted	2,780,176	29,478
Unrestricted	5,780,507	(13,543,794)
Total Net Position	\$ 43,255,251	7,501,588
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION		
Operating Revenues	\$ 10,635,283	8,097,888
Depreciation Expense	(2,100,414)	(2,154,144)
Other Operating Expenses	(4,575,662)	(9,412,653)
Operating Income (Loss)	3,959,207	(3,468,909)
Nonoperating Revenues (Expenses):		
Investment Earnings	61,874	79,082
Grant Proceeds	-	15,077
Gain on Disposal of Capital Assets	-	16,486
Occupation Tax	-	4,194,442
Interest Expense and Fiscal Charges	(1,111,418)	(192,245)
Capital Contributions	30,398	212,500
Transfers	(1,445,026)	(1,400,827)
Change in Net Position	1,495,035	(544,394)
Beginning Net Position	41,760,216	8,045,982
Ending Net Position	\$ 43,255,251	7,501,588
CONDENSED STATEMENT OF CASH FLOWS		
Net Cash Provided (Used) by:		
Operating Activities	\$ 6,135,333	1,482,117
Noncapital Financing Activities	(1,445,026)	2,493,191
Capital and Related Financing Activities	(3,432,705)	(5,416,704)
Investing Activities	(805,874)	1,590,355
Net Increase in Cash	451,728	148,959
Beginning Balance	3,101,399	351,692
Ending Balance	\$ 3,553,127	500,651

CITY OF LINCOLN, NEBRASKA
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(20) PLEDGED REVENUES

The City has pledged future revenues derived from the operation of the Lincoln Wastewater System, net of operating and maintenance expenses, to repay all outstanding wastewater revenue bonds and loans. Proceeds from the debt provided financing for improvements to the sanitary sewer system, as well as refunding prior year wastewater debt. The debt is payable solely from the net earnings of the Wastewater System and is payable through 2034. The total principal and interest remaining to be paid is \$100,121,959, with annual payments expected to require 49% of net revenues. Principal and interest paid for the current year and net system revenues were \$7,409,843 and \$15,007,381, respectively.

The City has pledged future revenues derived from the operation of the Lincoln Water System, net of operating and maintenance expenses, to repay all outstanding water revenue bonds and loans. Proceeds from the debt provided financing for improvements to the water supply system, as well as refunding prior water revenue bonds. The debt is payable solely from the net earnings of the Water System and is payable through 2034. The total principal and interest remaining to be paid is \$69,568,617, with annual payments expected to require 30% of net revenues. Principal and interest paid for the current year and net system revenues were \$6,468,726 and \$21,016,315, respectively.

The City has pledged future revenues derived from the operation of the Lincoln Electric System, net of operating and maintenance expenses, to repay all outstanding electric revenue bonds. Proceeds from the bonds provided financing for construction of additional utility plant, as well as refunding certain issues of electric revenue bonds. The bonds are payable solely from the net earnings of the Electric System and are payable through 2040. The total principal and interest remaining to be paid on the bonds is \$942,895,000, with annual payments expected to require 50% of net revenues. Principal and interest paid for the current year and net system revenues were \$49,957,000 and \$100,589,000, respectively.

The City has pledged future revenues derived from the operation of the Lincoln Parking System, net of operating and maintenance expenses, and amounts, if any, distributed by the State for street purposes to repay all outstanding parking revenue bonds. Proceeds from the bonds provided financing for construction and improvements to the parking system, as well as refunding prior revenue bonds. The bonds are payable solely from the net earnings of the Parking System and are payable through 2032. The total principal and interest remaining to be paid on the bonds is \$37,208,839, with annual payments expected to require 42% of net revenues. Principal and interest paid for the current year and net system revenues were \$2,420,215 and \$6,121,495, respectively.

The City has pledged future revenues derived from the operation of the municipally owned solid waste management facilities, net of operating and maintenance expenses, to repay outstanding solid waste management revenue bonds. Proceeds from the bonds provided financing for improvements to the solid waste facilities and to refund prior revenue bonds. The bonds are payable solely from the net earnings of the Solid Waste System and are payable through 2035. The total principal and interest remaining to be paid on the bonds is \$14,931,463, with annual payments expected to require 30% of net revenues. Principal and interest paid for the current year and net system revenues were \$1,171,521 and \$4,474,932 respectively.

(21) PUBLIC BUILDING COMMISSION

In 1990, the City and the County of Lancaster, pursuant to state statute, activated a separate governmental entity denominated as the Lincoln-Lancaster County Public Building Commission. The purpose of this joint venture is to design, acquire, construct, maintain, operate, improve, remodel, remove and reconstruct, so long as its corporate existence continues, public buildings, structures, or facilities for use jointly by the City and the County. The City and the County each appoint two members to the five-member Commission, with the fifth member being appointed by the other four members. All property held or acquired by the Commission is held or acquired in the name of the City and the County for use by the Commission in its corporate capacity. The Commission's costs of operation and debt service are funded through rental payments made by the City and the County based upon their proportionate occupancy of such buildings to the extent not covered by a maximum property tax levy of 1.7 cents for each \$100 of

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2016

actual valuation of taxable property in the County. For the year ended August 31, 2016, the City made rental payments of approximately \$3.0 million to the Commission.

As of August 31, 2016, the Commission has debt outstanding of \$43,699,405. Bond and note proceeds have been utilized by the Commission to acquire, construct, and/or renovate certain buildings occupied by the City and County. The City's proportionate share of these buildings has been recorded in capital assets in accordance with the terms of the joint venture agreement regarding the ultimate transfer of assets to the City and County.

For certain bonds it is anticipated that property tax levies by the Commission will be sufficient to meet bond principal and interest payments. Should revenues from such property tax levies not be sufficient to meet debt service requirements in any given year, the City and County would contribute the necessary payments based on their proportionate building occupancy. Such contributions are expected to be minimal and will be expensed in the appropriate funds when incurred.

For all other debt, funded through rental payments, the City's proportionate share is recorded as capital assets and the corresponding debt is reflected as capital lease long-term obligations in the City's statement of net position. Lease payments are not recorded as capital lease payments in the Debt Service Funds' financial statements but rather are recorded as current expenditures in the various individual funds at the time the payment is made.

Complete separate financial statements for the Commission may be obtained at the Lincoln-Lancaster County Public Building Commission, 920 "O" Street, Room 203, Lincoln, Nebraska 68508.

(22) JOINT ANTELOPE VALLEY AUTHORITY

Joint Antelope Valley Authority was a joint administrative entity created April 15, 2000, in accordance with Article XV, Section 18 of the Constitution of the State of Nebraska and Nebraska Revenue Statutes Sections 13.801 through 13.827 (1997) authorizing the creation of a joint entity by public agencies. Per an interlocal cooperative agreement by and between the Board of Regents of the University of Nebraska, a public body corporate, the City of Lincoln, Nebraska, a municipal corporation, and the Lower Platte South Natural Resources District, a political subdivision of the State of Nebraska, this joint administrative entity was created to be known as Joint Antelope Valley Authority (JAVA). JAVA constituted a separate administrative entity, exercising the public power granted by the interlocal cooperation agreement on behalf of the three aforementioned "Partners" to coordinate planning and implementation of a public project described in the Antelope Valley Study and the U.S. Army Corps of Engineers Antelope Creek Feasibility Study (the Project). The Project generally included community revitalization, transportation, and drainage/flood control improvements.

During the implementation period of the agreement, JAVA had the power and authority to acquire and condemn property rights, borrow, mortgage, pledge, or secure loans and bond its appropriated revenues and assets; provided, however, that JAVA had no power and authority to bond the credit or revenues of the three Partners or each Partner, or levy taxes.

On July 14, 2016, JAVA's partners passed a resolution authorizing the complete termination of JAVA's interlocal agreement and dissolution of JAVA. Upon termination of JAVA each project was allocated to the partner based upon their future maintenance responsibility.

Prior to termination, total assets of JAVA were approximately \$200 million. The City's equity distribution of the Project, following the net transfers between the partners to reassign future maintenance responsibility, amounted to approximately \$153 million.

Complete separate financial statements for JAVA may be obtained at the City of Lincoln Public Works Business Office, 555 South 10th Street, Lincoln, Nebraska 68508.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2016

(23) JOINTLY OWNED FACILITIES

Laramie River Station (LRS)

LES is a 12.76% co-owner of the Missouri Basin Power Project; 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% 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 approximately \$24.8 million are reflected in utility plant at December 31, 2015.

LRS has certain postretirement 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 postretirement obligations was \$1.2 million at December 31, 2015.

LES has a participation power sales agreement with the County of Los Alamos, New Mexico (the County) whereby the County purchases from LES 10 MW of LES's capacity interest in LRS. The agreement provides for the County to pay LES monthly fixed payments for the repayment of debt service. The amount is subject to change each July 1 based on debt costs of LES relative to the current market rates, until termination of the agreement. The agreement remains in effect until either the final maturity occurs on any LRS related debt or LRS is removed from commercial operation. During 2015 LES billed the County approximately \$4 million for demand and energy charges.

The LRS project participants, including LES, filed a rate case in 2004 with the federal Surface Transportation Board (STB) challenging the reasonableness of the freight rates from the Burlington Northern Santa Fe (BNSF) railroad for coal deliveries to LRS. In early 2009 the STB issued its decision and awarded the LRS project participants a favorable decision estimated by the STB at approximately \$345 million in rate relief. The STB awarded \$119 million to the LRS participants for past freight overcharges plus an expectation of present value rate benefits of approximately \$245 million due to a new tariff the STB ordered to be charged through 2024. BNSF remitted \$15 million to LES, which had been placed in a separate custodial account pending an appeal filed by BNSF. A portion of these funds was due to MEAN and the County of Los Alamos, and were subsequently remitted to these entities based on the settlement discussed below.

On January 28, 2015, Western Fuels and BNSF filed a joint petition with STB asking the STB to hold the rate proceeding in abeyance due to the fact that the parties have reached a preliminary settlement that calls for dismissal of the case and vacation of the rate prescription ordered by STB. The settlement was finalized in 2015. LES will retain approximately 85% of its proportionate share of the overall value of the original award, including approximately \$10.8 million in the escrow fund. The settlement eliminated restrictions on settlement proceeds and the funds from the escrow account have been transferred into the appropriate accounts. This settlement resolves all outstanding legal issues with BNSF related to the 2004 freight issues.

Walter Scott Energy Center (WSEC #4)

MidAmerican Energy's Walter Scott Energy Center includes four coal-fired units. LES maintains ownership interest in 12.66% or 103 MW of WSEC #4. In order to minimize unit outage risk, LES has executed a power purchase and sales agreement with MidAmerican Energy to "swap" capacity and energy from LES' WSEC #4 ownership with capacity and energy from WSEC #3. Under this agreement, beginning in 2009, LES will schedule 50 MW of capacity and energy from WSEC #3 and 53 MW of capacity and energy from WSEC #4. This twenty year unit 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 approximately \$140 million are reflected in utility plant at December 31, 2015.

(24) 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 by the Mayor of Lincoln who must be confirmed by the City Council, and one 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 approximately \$862,000 in 2015. The total amount of payments to LES for energy was approximately \$497,000 in 2015.

Nebraska Utility Corporation

On May 17, 2001, LES, in conjunction with the University of Nebraska Lincoln (UNL), created the Nebraska Utility Corporation (NUCorp) to purchase, lease, construct, and finance facilities and acquire services to meet energy requirements of UNL. The Board of Directors of NUCorp is comprised of five members: three members appointed by 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 twenty-year management agreement, appointed LES to supervise and manage the system and business 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 payment to LES for management services was approximately \$96,000 in 2015. The total amount of payments to LES for energy was approximately \$9.5 million in 2015.

(25) SUBSEQUENT EVENTS

In September 2016 LES issued \$116,645,000 of Revenue Refunding Bonds, Series. The proceeds of the bonds, along with other available funds, were deposited into an escrow account to refund approximately \$133 million of Revenue and Refunding Bonds, Series 2007A, Series 2007B, and Series 2012. The Series 2007A and 2007B refunded bonds were called for redemption on September 2, 2016. The refunded Series 2012 bonds will be called for redemption on September 1, 2022.

In December 2016 the City issued \$14,735,000 of General Obligation Highway Allocation Fund Refunding Bonds, Series 2016. The bond proceeds, together with other City funds, were used to redeem \$17,405,000 of outstanding Series 2006 bonds on January 3, 2017.

CITY OF LINCOLN, NEBRASKA
Required Supplementary Information
August 31, 2016

**Schedule of Changes in the Police and Fire Pension (PFP) Net Pension Liability
and Related Ratios**

For the Fiscal Year Ended August 31

	2016	2015	2014
Total Pension Liability			
Service cost	\$ 8,539,932	\$ 7,929,376	\$ 7,289,994
Interest	19,098,818	17,507,641	16,897,591
Differences between expected and actual experience	(3,351,824)	7,390,055	736,647
Effect of assumption changes or inputs	-	(23,499,491)	22,725,982
Benefit payments, including refunds of member contributions	<u>(14,426,427)</u>	<u>(13,708,805)</u>	<u>(13,430,163)</u>
Net change in total pension liability	9,860,499	(4,381,224)	34,220,051
Total pension liability - beginning	<u>261,733,723</u>	<u>266,114,947</u>	<u>231,894,896</u>
Total pension liability - ending (a)	<u><u>\$ 271,594,222</u></u>	<u><u>\$ 261,733,723</u></u>	<u><u>\$ 266,114,947</u></u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 7,170,104	\$ 8,045,293	\$ 7,865,929
Contributions - employee	2,817,102	2,604,101	2,613,971
Net investment income	14,795,745	(5,843,555)	30,932,275
Benefit payments, including refunds of member contributions	(14,426,427)	(13,708,805)	(13,430,163)
Administrative expense	<u>(493,860)</u>	<u>(444,578)</u>	<u>(407,146)</u>
Net change in plan fiduciary net position	9,862,664	(9,347,544)	27,574,866
Plan fiduciary net position - beginning	<u>203,995,271</u>	<u>213,342,815</u>	<u>185,767,949</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 213,857,935</u></u>	<u><u>\$ 203,995,271</u></u>	<u><u>\$ 213,342,815</u></u>
PFP Net Pension Liability - Ending (a) - (b)	<u><u>\$ 57,736,287</u></u>	<u><u>\$ 57,738,452</u></u>	<u><u>\$ 52,772,132</u></u>
Plan fiduciary net position as a percentage of the total pension liability	78.74%	77.94%	80.17%
Covered-employee payroll	\$ 42,381,059	\$ 37,887,505	\$ 38,107,652
PFP net pension liability as a percentage of covered-employee payroll	136.23%	152.39%	138.48%

Note to schedule:

Results for the other years within the last ten years are not available and will be developed prospectively from 2014. Information prior to 2015 was restated after a change in the actuarial firm providing services.

Changes of benefit and funding terms:

8/31/2016 valuation - City Ordinance No. 20343, as passed by the City Council, merged the COLA Pool fund into the general pension fund. No benefits were impacted, only the funding of the benefits.

Changes in actuarial assumptions:

8/31/2016 valuation - Expected future investment return was increased from 6.40% to 7.50% compounded annually.

8/31/2015 valuation - Expected future investment return was reduced from 6.75% to 6.40% compounded annually.

8/31/2014 valuation - Expected future investment return was reduced from 7.50% to 6.75% compounded annually. Assumed salary increase rates were reduced.

Mortality tables were updated from the 1994 Group Annuity Mortality tables with a 2 year set forward for males and 1 year set forward for females to the RP2000 Mortality table with generational improvements using Scale AA.

Assumed rates of retirement were generally lowered for Plans A, B and C.

The payroll growth assumption was reduced from 4.25% to 3.00%.

CITY OF LINCOLN, NEBRASKA
Required Supplementary Information
August 31, 2016

Schedule of Employer Contributions for the Police and Fire Pension
For the Fiscal Year Ended August 31

	2016	2015	2014
Actuarial determined employer contribution	\$ 9,666,852	\$ 8,418,199	\$ 7,377,763
Actual employer contributions	7,170,104	8,045,293	7,865,929
Annual contribution deficiency (excess)	<u>\$ 2,496,748</u>	<u>\$ 372,906</u>	<u>\$ (488,166)</u>
Covered-employee payroll - current	\$ 42,381,059	\$ 37,887,505	\$ 38,107,652
Actual contributions as a percentage of covered-employee payroll	16.92%	21.23%	20.64%

Note to Schedule:

Results for the other years within the last ten years are not available and will be developed prospectively from 2014.

Valuation date:

8/31/2014 8/31/2013 8/31/2012

Actuarially determined contribution rates are calculated as of August 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry Age Normal	Entry Age Normal
Amortization method:	30 years, level percent, closed	30 years, level percent, open
Remaining amortization period:	30 years	30 years
Asset valuation method:	5-year smoothed market	5-year smoothed market
Inflation:	2.50%	4.25%
Salary increases:	3.50% - 7.30%	4.25% - 8.25%
Investment rate of return:	6.75%	7.50%

Schedule of Investment Returns for the Police and Fire Pension

Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Annual money-weighted rate of return, net of investment expense	7.36%	-3.52%	16.67%	12.42%	5.47%	12.64%	9.60%	-16.77%	-6.40%	14.05%

Schedule of Funding Progress for City OPEB

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
September 1, 2015	\$ 0	\$ 17,273	\$ 17,273	0.0 %	\$ 129,096	13.4 %
September 1, 2013	0	18,738	18,738	0.0	123,231	15.2
September 1, 2011	0	24,902	24,902	0.0	118,498	21.0

APPENDIX C

**DEFINITIONS AND SUMMARIES
OF CERTAIN PRINCIPAL DOCUMENTS**

APPENDIX C

DEFINITIONS AND SUMMARIES OF CERTAIN PRINCIPAL DOCUMENTS

The summaries of the Declaration of Trust and the Lease contained in this **Appendix C** do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents, copies of which may be viewed at the principal corporate office of the Trustee, or will be provided by the Trustee to any prospective purchaser requesting the same, upon payment by such prospective purchaser of the cost of complying with such request.

Definitions

The definitions of certain words and terms used in this Official Statement are set forth below:

“Additional Certificates” means any Certificates executed and delivered pursuant to the Declaration of Trust.

“Authorized Representative” means the Mayor or the Interim Finance Director of the City or any other person designated as an Authorized Representative by the Mayor, such designation being approved by the governing body of the City by a resolution or ordinance that is filed with the Trustee.

“Basic Rent” means the Basic Rent Payments comprised of a Principal Portion and an Interest Portion as set forth in the Lease.

“Basic Rent Payment” means a payment of Basic Rent.

“Basic Rent Payment Date” means each April 15 and October 15 during the Lease Term, commencing on April 15, 2018.

“Business Day” means a day other than (a) a Saturday, Sunday or legal holiday, (b) a day on which banks located in any city in which the principal corporate trust office or designated payment office of the Trustee is located are required or authorized by law to remain closed, or (c) a day on which the Securities Depository (as defined in the Declaration of Trust) or the New York Stock Exchange is closed.

“Cede & Co.” means Cede & Co., as nominee name of The Depository Trust Company, New York, New York, and any successor nominee of the Securities Depository with respect to the Certificates.

“Certificate Payment” means the payments to be made to the Owners of the Certificates, whether representing Interest Portion only or Principal Portion and Interest Portion of Basic Rent under the Lease.

“Certificates” means the Series 2017 Certificates and any Additional Certificates.

“City” means The City of Lincoln, Nebraska, a city of the primary class duly created, organized and existing under and by virtue of the laws of the State of Nebraska, and its successors.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

“Completion Certificate” means the certificate of the City given in accordance with the Lease.

“Completion Date” means the date of completion of the Equipment as set forth in the Completion Certificate provided pursuant to the Lease.

“Compliance Agreement” means the Tax Compliance Agreement between the City and the Trustee executed and delivered by the City in connection with the execution and delivery with each series of Certificates.

“Contract” means one of any agreements between the City and various parties, if any, providing for the acquisition and installation of various portions of the Equipment.

“Costs of Equipment” means all reasonable or necessary expenses related or incidental to the acquisition and installation of the Equipment, including the expenses of studies, surveys, title policies, architectural and engineering services, legal and other special services and all other necessary and incidental expenses, including interest on the Certificates to the Completion Date. Costs of Equipment includes Costs of Issuance.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City and related to the authorization, execution, sale and delivery of the Certificates, including advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee, legal fees of parties to the transaction and all other initial fees and disbursements contemplated by the Lease and the Declaration of Trust.

“Declaration of Trust” means the Declaration of Trust dated October 12, 2017, made by the Trustee, as the same may from time to time be amended or supplemented in accordance with its terms.

“Directive” means an instrument in writing executed in one or more counterparts by the Owners of Certificates, as determined from the records of the Registrar kept pursuant to the Declaration of Trust, or their lawful attorneys-in-fact, representing not less than a majority of the aggregate unpaid Principal Portion represented by the then Outstanding Certificates.

“Disclosure Certificate” means the Continuing Disclosure Undertaking executed and delivered by the City in connection with the execution and delivery of a series of Certificates, as from time to time amended.

“Equipment” means the equipment identified and described in the Lease.

“Event of Default” means an Event of Default as described in the Declaration of Trust.

“Event of Lease Default” means an Event of Default as described in the Lease.

“Fiscal Year” means the fiscal year of the City, currently the twelve-month period beginning September 1 and ending on August 31.

“Funds” means, collectively, the Funds created and held under the Declaration of Trust and all accounts therein.

“Government Obligations” means (a) direct noncallable obligations of the United States of America and obligations the timely payment of principal and interest on which is fully and unconditionally guaranteed by the United States of America, and (b) trust receipts or certificates evidencing participation

or other direct ownership interests in principal or interest payments to be made upon obligations described in clause (a) above that are held in a custody or trust account free and clear of all claims of persons other than the holders of such trust receipts or certificates, and (c) obligations which are noncallable or for which the call date has been irrevocably determined having an investment rating in the highest rating category of either Moody's or S&P as a result of the advance refunding of such obligations by the deposit of direct noncallable obligations of the United States of America in a trust or escrow account segregated and exclusively set aside for the payment of such obligations and which mature as to principal and interest in such amounts and at such times as will insure the availability of sufficient money to timely pay such principal and interest.

“Impositions” means all taxes and assessments, general and special, if any, that may be lawfully taxed, charged, levied, assessed or imposed upon or against or be payable for or in respect of the Equipment, including any taxes and assessments not of the kind enumerated above to the extent that the same are lawfully made, levied or assessed in lieu of or in addition to taxes or assessments now customarily levied against real or personal property, and further including all water and sewer charges, assessments and other general governmental charges and impositions whatsoever, foreseen or unforeseen, that if not paid when due would impair the security of the Trustee or encumber the Equipment.

“Interest Portion” means the portion of each Basic Rent Payment that represents the payment of interest as set forth in the Lease.

“Investment Securities” means and includes any of the following securities, if and to the extent the same are permitted by law:

- (a) Government Obligations;
- (b) other obligations issued by or on behalf of agencies or instrumentalities of the United States of America except for the Federal Farm Credit Bank;
- (c) negotiable certificates of deposit, demand deposits and other deposit arrangements, repurchase agreements, and investment agreements issued by banks or trust companies, including without limitation, the Trustee and its affiliates, continuously secured (to the extent not fully insured by the Federal Deposit Insurance Corporation), for the benefit of the Trustee by lodging with a bank or trust company (which may or may not be the bank or trust company issuing such negotiable certificates of deposit, repurchase agreement or investment agreement), as collateral security, securities described in (a) and (b) above having a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit, demand deposits and other deposit arrangements; and
- (d) money market mutual funds rated in the highest rating category by a nationally recognized rating service consisting of Government Obligations or repurchase agreements for Government Obligations.

“Lease” means the Lease Purchase Agreement, dated October 12, 2017, between the Trustee, as lessor, and the City, as lessee, as amended and supplemented from time to time in accordance with its terms.

“Lease Revenue Fund” means the fund by that name established pursuant to the Declaration of Trust.

“Lease Revenues” means the Basic Rent Payments, Supplemental Rent Payments and all other amounts due and owing pursuant to or with respect to the Lease, including prepayments, insurance proceeds, condemnation proceeds, and any and all interest, profits or other income derived from the investment thereof in any fund or account established pursuant to the Declaration of Trust.

“Lease Term” means the term of the Lease beginning on the date of delivery of the Certificates and ending on October 15, 2027, unless earlier terminated in accordance with the provisions of the Lease.

“Moody’s” means Moody’s Investors Service, Inc., and its successors and assigns, and, if such firm is dissolved or liquidated or shall no longer perform the functions of a securities rating service, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating service designated by the City, with notice to the Trustee.

“Net Proceeds” means the amount remaining from the gross proceeds of any insurance claim, condemnation award or sale under threat of condemnation after deducting all reasonable expenses, including attorneys’ fees, incurred in the collection thereof.

“Notice by Mail” or **“Notice”** of any action or condition **“by Mail”** means a written notice meeting the requirements of the Declaration of Trust mailed by first-class mail to the Owners of specified Certificates, at the addresses shown on the registration books maintained by the Registrar.

“Opinion of Counsel” means a written opinion of any legal counsel having expertise in the matters covered in such opinion and acceptable to the City and the Trustee who may be an employee of or counsel to the City or the Trustee.

“Opinion of Special Tax Counsel” means a written opinion of Gilmore & Bell, P.C., or other legal counsel acceptable to the City and the Trustee who is nationally recognized as expert in matters pertaining to the validity of obligations of governmental issuers and the exemption from federal income taxation of interest on such obligations.

“Outstanding” means, as of the date of determination, all Certificates theretofore executed and delivered pursuant to the Declaration of Trust except (i) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation, (ii) Certificates for the transfer or exchange of or in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Declaration of Trust, (iii) Certificates whose payment or prepayment has been provided for in accordance with the Declaration of Trust, and (iv) Certificates paid or deemed to be paid pursuant to the Declaration of Trust.

“Owner” of a Certificate means the registered owner of such Certificate as shown on the register kept by the Registrar.

“Participants” means those financial institutions for whom the Securities Depository effects book-entry transfers and pledges of securities deposited with the Securities Depository, as such listing of Participants exists at the time of such reference.

“Prepayment Date” means any date set for prepayment of the Principal Portion of Basic Rent represented by Certificates.

“Prepayment Price” means, with respect to any Certificate (or portion thereof) the amount specified in the Declaration of Trust.

“Principal Portion” means the principal portion of the Basic Rent Payments as set forth in the Lease.

“Proceeds” means the aggregate moneys initially paid to the Trustee for the Certificates.

“Project Fund” means the Project Fund as defined in the Declaration of Trust.

“Purchase Price” means the amount designated as such in the Lease that the City shall pay to the Trustee to purchase the Trustee’s interest in the Equipment.

“Rebate Fund” means the fund by that name established pursuant to the Declaration of Trust.

“Record Date” means as of the close of business on the fifteenth day (whether or not a Business Day) prior to each Basic Rent Payment Date.

“Registrar” means the Trustee when acting in that capacity, or its successor as Registrar.

“Rent” means, collectively, Basic Rent and Supplemental Rent.

“Rent Payment” means a payment of Rent.

“Representation Letter” means the Representation Letter from the City to the Securities Depository.

“Securities Depository” means, initially, The Depository Trust Company, New York, New York, and its successors and assigns.

“Series 2017 Certificates” means the \$3,450,000 principal amount Certificates of Participation, Series 2017, evidencing a proportionate interest in Basic Rent Payments to be made by The City of Lincoln, Nebraska, pursuant to a Lease Purchase Agreement, executed and delivered pursuant to the Declaration of Trust.

“Special Tax Counsel” means Gilmore & Bell, P.C., or any other attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds or other obligations issued by states and political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America.

“State” means the State of Nebraska.

“Supplemental Declaration of Trust” means any amendment or supplement to the Declaration of Trust entered into pursuant to the provisions of the Declaration of Trust.

“Supplemental Lease” means any amendment or supplement to the Lease entered into pursuant to the provisions of the Lease.

“Supplemental Rent” means all amounts due under the Lease other than Basic Rent.

“Supplemental Rent Payment” means a payment of Supplemental Rent.

“Trust Estate” means the assets, property and interests held by the Trustee pursuant to the Declaration of Trust and the Lease.

“Trustee” means Union Bank and Trust Company, Lincoln, Nebraska, and its successor or successors and their respective assigns.

SUMMARY OF THE DECLARATION OF TRUST

General Provisions

The Declaration of Trust is made by the Trustee. The Declaration of Trust authorizes the Trustee to execute and deliver the Series 2017 Certificates, provides the terms of the Series 2017 Certificates and provides for various Funds related to the Equipment and the Lease.

Trust Estate

Under the Declaration of Trust, the Trustee holds all of the assets, property and interests received by it under the terms of the Declaration of Trust and the Lease and all agreements and instruments contemplated thereby (except the Rebate Fund and any compensation, indemnification or other amounts which may be due directly to the Trustee thereunder, collectively, the **“Trust Estate”**), as trustee, upon the terms and trusts set forth under the Declaration of Trust for the equal and proportionate benefit, security and protection of all present and future Owners of the Certificates.

Additional Certificates

Upon the execution and delivery of a Supplemental Lease that provides for an increase in the amount of Basic Rent payable under the Lease and so long as no Event of Default exists, Additional Certificates evidencing the right of the Owners thereof to receive the Principal Portion and the Interest Portion of such additional Basic Rent may be executed and delivered under and equally and ratably secured by the Declaration of Trust on a parity with the Series 2017 Certificates and any other Additional Certificates, at any time and from time to time, upon compliance with the conditions provided in the Declaration of Trust, for the purpose of providing funds to pay all or any part of the cost of (a) repairing, replacing or restoring the Equipment, (b) improving, upgrading or modifying the Equipment, (c) the acquisition of additional Equipment, and (d) refunding any or all of the Certificates.

Establishment of Funds

The following funds and accounts are established under the Declaration of Trust:

- (a) Project Fund;
- (b) Lease Revenue Fund; and
- (c) Rebate Fund.

Application of Lease Revenues

Lease Revenues shall be deposited, as received pursuant to the Lease, as follows:

- (a) The Basic Rent shall be deposited to the Lease Revenue Fund.

(b) Optional prepayments of the Principal Portion of Basic Rent in amounts equal to the applicable Prepayment Price, shall be deposited to the Lease Revenue Fund.

(c) Payments of Supplemental Rent pursuant to the Lease shall be applied as provided in the Lease.

Undesignated payments of Rent which are insufficient to discharge the full amount then due shall be applied first to the Interest Portion of Basic Rent, next to the Principal Portion of Basic Rent and finally to Supplemental Rent.

Disbursements from the Project Fund

Payment shall be made from money in the Project Fund upon receipt by the Trustee of a requisition certificate therefor signed by an Authorized Representative of the City. The Completion Date of the acquisition and installation of the Equipment and the payment of all Costs of Equipment (other than Costs of Equipment for which sufficient amounts are retained in the Project Fund) shall be evidenced by the filing with the Trustee of the Completion Certificate pursuant to the Lease. As soon as practicable following the receipt by the Trustee of the Completion Certificate, any balance remaining in the Project Fund shall be transferred and deposited without further authorization as provided in the Lease. In the event of the acceleration of all of the Certificates pursuant to the Declaration of Trust, any money then remaining in the Project Fund shall be transferred and deposited to the credit of the Lease Revenue Fund and will be used to pay Basic Rent.

Application of Money in the Lease Revenue Fund

Except as otherwise provided in the Declaration of Trust, all amounts in the Lease Revenue Fund shall be used and withdrawn by the Trustee solely to pay Basic Rent represented by the Certificates when due and payable or on a Prepayment Date.

Rebate Fund

Money shall be deposited in and disbursed from the Rebate Fund in accordance with written instructions from the City to the Trustee prepared in accordance with the provisions of the Compliance Agreement.

Investment of Money in Various Funds

Money held in the Project Fund, the Lease Revenue Fund and the Rebate Fund shall, subject to the requirements of the Compliance Agreement and as provided in the Declaration of Trust, be invested and reinvested by the Trustee, pursuant to written direction of the City, signed by an Authorized Representative of the City, in Investment Securities that mature or are subject to redemption by the owner prior to the date such funds will be needed. In the absence of such instructions the Trustee is authorized to invest money in Investment Securities described in paragraph (d) of the definition of Investment Securities in this **Appendix C**.

The Trustee shall sell and reduce to cash a sufficient amount of such Investment Securities held by the Trustee in any fund under the Declaration of Trust whenever the cash balance in such fund is insufficient for the purpose of such fund. Any such Investment Securities shall be held by or under the control of the Trustee and shall be deemed at all times a part of the fund or account in which such money is originally held, and the interest accruing thereon and any profit realized from such Investment Securities shall be

credited to such fund or account, and any loss resulting from such Investment Securities shall be charged to such fund or account.

Amendments to the Declaration of Trust or the Lease

The Declaration of Trust and the Lease and the rights and obligations of the City and of the Owners of the Certificates and of the Trustee may be modified or amended from time to time and at any time by an amendment or supplement thereto which the parties thereto may enter into when the written consent of the Trustee and the City, if not a party thereto, and the Owners of a majority in aggregate Principal Portion of Basic Rent Payments represented by the Certificates then Outstanding shall have been filed with the Trustee. No such modification or amendment shall (a) extend the stated maturity of any Certificate, or reduce the amount of principal represented thereby, or extend the time of payment or reduce the amount of any Prepayment Price provided in the Declaration of Trust for the payment of any Certificate, or reduce the rate of interest with respect thereto, or extend the time of payment of interest with respect thereto without the consent of the Owner of each Certificate so affected, (b) reduce the specified percentage of Certificates the consent of the Owners of which is required to effect any such modification or amendment or, except in connection with the delivery of any Additional Certificates, permit the creation of any lien on the money in the Project Fund or the Lease Revenue Fund or deprive the Owners of the trust created by the Declaration of Trust with respect to the money in the Project Fund or the Lease Revenue Fund or (c) create a preference or priority of any Certificate or Certificates over any other Certificate or Certificates without the consent of the Owners of all of the Certificates then Outstanding.

Notwithstanding the foregoing paragraph, the Declaration of Trust or the Lease and the rights and obligations of the City, of the Trustee and of the Owners of the Certificates may also be modified or amended from time to time and at any time by an agreement which the parties thereto may enter into without the consent of any Certificate Owners, only to the extent permitted by law and only for any one or more of the following purposes: (a) to add to the covenants and agreements of the Trustee in the Declaration of Trust, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Certificates (or any portion thereof), or to surrender any right or power reserved under the Declaration of Trust to or conferred upon the City; provided, however, that no such covenant, agreement, pledge, assignment or surrender will in the sole judgment of the Trustee materially adversely affect the interests of the Trustee or the Owners of the Certificates; (b) to add to the covenants and agreements of the City in the Lease, other covenants and agreements thereafter to be observed or to surrender any right or power therein reserved to or conferred upon the Trustee or the City; provided, however, that no such covenant, agreement or surrender will in the sole judgment of the Trustee materially adversely affect the interests of the Owners of the Certificates; (c) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Declaration of Trust or the Lease, or in regard to matters or questions arising under the Declaration of Trust or the Lease as the Trustee and the City may deem necessary or desirable and not inconsistent with such agreements, or as may be requested by the City or the Trustee and which shall not, in any such case in the sole judgment of the Trustee materially adversely affect the interests of the Owners of the Certificates; (d) to modify, amend or supplement the Declaration of Trust in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and that will not in the sole judgment of the Trustee materially adversely affect the interests of the Owners of the Certificates; (e) to provide for any additional procedures, covenants or agreements necessary to maintain the exclusion of the Interest Portion of Basic Rent from gross income for purposes of federal income taxation; (f) to provide for the execution and delivery of Additional Certificates; or (g) to make any other change that in the sole judgment of the Trustee does not have a materially adverse effect on the rights of the Certificate Owners.

Defaults

The occurrence of any of the following events, subject to the provisions of the Declaration of Trust, is hereby defined as an “Event of Default”:

- (a) Default in the due and punctual payment of any Interest Portion of Basic Rent represented by a Certificate; or
- (b) Default in the due and punctual payment of the Principal Portion of Basic Rent represented by a Certificate, whether at the stated payment date thereof or the Prepayment Date set therefor in accordance with the terms of the Declaration of Trust; or
- (c) Any Event of Lease Default.

Acceleration

Upon the occurrence of an Event of Default, the Trustee may, and upon receipt of a Directive shall, by notice in writing delivered to the City, declare the Principal Portion and Interest Portion of Basic Rent represented by all Certificates Outstanding to the end of the then current Fiscal Year immediately due and payable.

Other Remedies Upon an Event of Default

Upon the occurrence of an Event of Lease Default, the Trustee may exercise any remedies available under the Lease and, to the extent consistent therewith, may sell, lease or manage any portion of the Equipment or the Trustee’s interest in the Equipment and apply the net proceeds thereof in accordance with the Declaration of Trust and, whether or not it has done so, may pursue any other remedy available to it under the Lease or at law or in equity.

No remedy by the terms of the Declaration of Trust conferred upon or reserved to the Trustee or to the Certificate Owners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Certificate Owners thereunder or now or hereafter existing at law or in equity or by statute.

Rights of Certificate Owners

If an Event of Default has occurred and is continuing and if instructed to do so by a Directive and if indemnified as provided in the Declaration of Trust, the Trustee shall be obligated to exercise such one or more of the rights and the remedies conferred thereunder as the Trustee, upon the advice of counsel, shall deem to be in the interests of the Certificate Owners; provided that such Directive will not be otherwise than in accordance with the provisions of law and of the Declaration of Trust, and provided further that the Trustee will have the right to decline to follow any such Directive if the Trustee in good faith determines that the proceedings so directed would involve it in personal liability.

Any other provision in the Declaration of Trust to the contrary notwithstanding, the Owners of not less than a majority in aggregate principal amount of Certificates then Outstanding shall have the right, at any time, by a Directive, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the Declaration of Trust, or for the appointment of a receiver or any other proceedings thereunder; provided that such Directive will not be otherwise than in accordance with the provisions of law and of the Declaration of Trust, and provided, further, that the Trustee has been indemnified as provided in the Declaration of Trust and will have the right to decline to follow any such

direction if the Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability.

Defeasance

When (a) the obligations of the City under the Lease have been satisfied in connection with the exercise by the City of its option to purchase the Equipment in accordance with, and only if permitted by, the Lease by the irrevocable deposit in escrow of money or Government Obligations (maturing as to principal and interest in such amounts and at such times as are necessary to make any required payments without reinvestment of any earnings thereon) or both moneys and Government Obligations, and (b) the City has delivered to the Trustee, (1) an Opinion of Counsel to the effect that the conditions for such discharge contained in the Declaration of Trust have been satisfied or irrevocably provided for and (2) an accountant's certificate verifying the sufficiency of money or Government Obligations or both so deposited for the payment of the Principal Portion and Interest Portion of the Certificates and any applicable Prepayment Price to be paid with respect to the Certificates and (c) the City has deposited sufficient moneys to pay the fees, charges and expenses of the Trustee (or has made provision satisfactory to the Trustee for their payment), thereupon the obligations created by the Declaration of Trust shall cease, determine and become void except for the right of the Certificate Owners and the obligation of the Trustee to apply such money and Government Obligations to the payment of the Certificates as set forth in the Declaration of Trust; provided, however, that all provisions of the Declaration of Trust relating to the compensation or indemnification of the Trustee will survive the satisfaction and discharge of the Declaration of Trust.

The Trustee

The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform only such duties as are specifically set forth in the Declaration of Trust. The Trustee will have no implied duties. The permissive right or power to take any action may not be construed as a duty to take action under any circumstances, and the Trustee will not be liable except in the event of its gross negligence or willful misconduct. The Trustee will, during the existence of any Event of Default, exercise such of the rights and powers vested in it by the Declaration of Trust, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

The Trustee may be removed at any time by a Directive. The Trustee will give written notice of any removal pursuant to the Declaration of Trust to the City. The Trustee will resign at any time the Trustee ceases to be eligible in accordance with the Declaration of Trust, or becomes incapable of acting, or is adjudged as bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer takes control or charge of the property or affairs for the purpose of rehabilitation, conservation or liquidation, and thereupon a successor Trustee shall be appointed by a Directive.

The Trustee may at any time resign by giving written notice of such resignation to the City and by giving the Certificate Owners Notice by Mail of such resignation at the addresses listed on the registration books kept by the Registrar pursuant to the Declaration of Trust. Upon receiving such notice of resignation, a successor Trustee will be appointed by a Directive.

SUMMARY OF THE LEASE

General

The Lease has been entered into between the Trustee and the City and contains the terms and conditions under which the Equipment will be leased to and used by the City.

Lease Term

The term of the Lease begins on the date of delivery of the Certificates and ends on October 15, 2027, unless earlier terminated in accordance with the provisions thereof.

Obligations Unconditional

The obligations of the City under the Lease to pay Rent during the Lease Term on or before the date the same become due, and to perform all of its other obligations, covenants and agreements under the Lease shall be absolute and unconditional, without notice or demand, and without abatement, deduction, set off, counterclaim, recoupment or defense or any right of termination or cancellation arising from any circumstance whatsoever, whether now existing or hereafter arising, and irrespective of whether the Equipment shall have been purchased or installed, or whether the Trustee's title to the Equipment or to any part thereof is defective or nonexistent, and notwithstanding any damage to, loss, theft or destruction of the Equipment or any part thereof, any failure of consideration or frustration of commercial purpose, the taking by eminent domain of title to or of the right of temporary use of all or any part of the Equipment, legal curtailment of the City's use thereof, the eviction or constructive eviction of the City, any change in the tax or other laws of the United States of America, the State or any political subdivision thereof, any change in the Trustee's legal organization or status, or any default of the Trustee thereunder, and regardless of the invalidity of any action of the Trustee, and regardless of the invalidity of any portion of the Lease, and the City hereby waives the provisions of any statute or other law now or hereafter in effect contrary to any of its obligations, covenants or agreements under the Lease or which releases or purports to release the City therefrom.

Net Lease

The Lease is intended to be triple net to the Trustee, subject to the Lease, and the obligations of the City to make payment of the Rent Payments and to perform and observe the other covenants and agreements contained in the Lease will be absolute and unconditional in all events without abatement, diminution, deduction, setoff or defense, for any reason, including any failure of the Equipment to be acquired or installed, any defects, malfunctions, breakdowns or infirmities in the Equipment or any accident, condemnation or unforeseen circumstances.

Payment for the Equipment

Costs and expenses of every nature incurred in the acquisition or installation of the Equipment that qualify as Costs of Equipment shall be paid by the Trustee from the Project Fund upon receipt by the Trustee of a completed request of the City signed by the Authorized Representative of the City and containing the statements, representations and certifications set forth in the form of such request attached to the Declaration of Trust.

Completion Date; Excess Funds

The Completion Date shall be evidenced to the Trustee upon receipt by the Trustee of a certificate signed by the Authorized Representative of the City (the “**Completion Certificate**”) stating (a) the date on which the installation of the Equipment was substantially completed, (b) that all other facilities necessary in connection with the Equipment have been purchased and installed, (c) that the Equipment and such other facilities have been purchased, made and installed, in accordance with the plans and specifications therefor and in conformance with all applicable zoning, planning, building, environmental and other similar governmental regulations, (d) that, except for Costs of Equipment described in accordance with clause (e), all Costs of Equipment have been paid, and (e) the amounts, if any, to be retained in the Project Fund for the payment of Costs of Equipment, if any, not yet due or Costs of Equipment whose liability the City is contesting, and amounts that otherwise should be retained and the reasons they should be retained. The Completion Certificate may state that it is given without prejudice to any rights of the City that then exist or may subsequently come into being against third parties. Any amounts remaining in the Project Fund that are not needed to pay any remaining Costs of Equipment will be transferred by the Trustee without further authorization to the Lease Revenue Fund.

Enjoyment of Equipment

The Trustee will provide the City during the Lease Term with quiet use and enjoyment of the Equipment, and the City will, during the Lease Term, peaceably and quietly have, hold and enjoy the Equipment, without suit, trouble or hindrance from the Trustee, except as expressly set forth in the Lease. The City will have the right to use the Equipment for any essential governmental or proprietary purpose of the City, subject to the limitations contained in the Lease.

Basic Rent

The City will promptly pay all Basic Rent in lawful money of the United States of America on each Basic Rent Payment Date in such amounts as are described in the Lease. A portion of each Basic Rent Payment is paid as, and represents payment of, interest. To provide for the timely payment of Basic Rent, the City will pay to the Trustee for deposit in the Lease Revenue Fund no later than 10:00 a.m., City time, on each Basic Rent Payment Date, the amount due on such Basic Rent Payment Date.

The City will, in accordance with the requirements of law and its normal budgeting procedures, fully budget and appropriate sufficient funds for the current Fiscal Year to make the Rent Payments scheduled to come due during the Lease Term, and to meet its other obligations for the Lease Term, and such funds will not be expended for other purposes.

Supplemental Rent

The City shall pay as Supplemental Rent (a) all Impositions (as defined in the Lease); (b) all amounts required under the Lease and all other payments of whatever nature which the City has agreed to pay or assume under the Lease; (c) all expenses, including attorneys’ fees and expenses to the extent permitted by law, incurred in connection with the enforcement of any rights under the Lease by the Trustee; (d) all fees, charges and expenses of the Trustee as further provided in the Lease; and (e) any payments required to be made pursuant to the Compliance Agreement. Amounts required to be paid under this Section will be paid directly to the person or entity owed.

Increased Basic Rent

Notwithstanding any other provision of the Lease, the Trustee and the City may enter into a Supplemental Lease or Supplemental Leases that increase the amount of Basic Rent payable by the City on any Basic Rent Payment Date to provide funds to pay the costs of (a) repairing, replacing or restoring the Equipment, (b) improving, upgrading or modifying the Equipment, (c) additions to the Equipment or the acquisition of additional personal property to be included in the Equipment, and (d) refunding any or all of the Certificates.

Disclaimer of Warranties

The Trustee makes no warranty or representation, either express or implied, as to the value, design, condition or fitness for particular purpose or fitness for use of the Equipment or any part thereof, or warranty with respect thereto. In no event will the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease or the existence, furnishing, functioning or the City's use of the Equipment or any part thereof.

Deficiency of Project Fund

If the Project Fund is insufficient to pay fully all Costs of Equipment and to complete fully the Equipment lien free, the City will pay, in cash, the full amount of any such deficiency by making payments directly to the contractors and to the suppliers of materials and services as the same becomes due. The Trustee is not obligated to pay and will not be responsible for any such deficiency, and the City will hold the Trustee whole and harmless from any obligation to pay such deficiency.

Impositions

The City will bear, pay and discharge, before the delinquency thereof, as Supplemental Rent, all Impositions.

Contest of Impositions

The City will have the right, in its own name or in the Trustee's name, to contest the validity or amount of any Imposition that the City is required to bear, pay and discharge pursuant to the terms of the Lease by appropriate legal proceedings instituted at least ten days before the contested Imposition becomes delinquent and may permit the Imposition so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Trustee notifies the City that, in the Opinion of Counsel, by nonpayment of any such items the interest of the Trustee in the Equipment will be endangered or the Equipment or any part thereof will be subject to loss or forfeiture, in which event the City will promptly pay such taxes, assessments or charges or provide the Trustee with full security against any loss that may result from nonpayment in form satisfactory to the Trustee. The Trustee agrees to cooperate with the City in connection with any and all administrative or judicial proceedings related to Impositions. The City will hold the Trustee whole and harmless from any costs and expenses the Trustee may incur with respect to any Imposition.

Insurance

The City will, during the Lease Term, cause the Equipment to be kept continuously insured against such risks customarily insured against for facilities such as the Equipment and will pay (except as otherwise provided in the Lease), as the same become due, all premiums in respect thereof, such insurance to include the following policies of insurance:

(a) Insurance insuring the Equipment against loss or damage by fire, lightning and all other risks covered by the extended coverage insurance endorsement then in use in the State in an amount not less than the Principal Portion of the Certificates then Outstanding and issued by such insurance company or companies authorized to do business in the State as may be selected by the City. The policy or policies of such insurance will name the City and the Trustee as insureds, as their respective interests may appear. All proceeds from such policies of insurance will be applied as provided in the Lease.

(b) Comprehensive general accident and public liability insurance (including coverage for all losses whatsoever arising from the ownership, maintenance, operation or use of any automobile, truck or other motor vehicle), under which the City and the Trustee are named as insureds, in an amount not less than \$500,000 combined single limit for bodily injuries and property damage.

(c) Workers' compensation and unemployment coverages to the extent, if any, required by the laws of the State.

(d) Performance and labor and material payment bonds with respect to the Contracts in the full amount of the Contracts from surety companies qualified to do business in the State.

Enforcement of Contract and Surety Bonds

In the event of material default of any contractor or subcontractor under a Contract or any other contract made in connection with the acquisition and installation of the Equipment, or in the event of a material breach of warranty with respect to any materials, workmanship or performance, the City will promptly proceed, either separately or in conjunction with others, to pursue diligently the remedies of the City against the contractor or subcontractor in default and against each surety on a bond securing the performance of such contract. Any amounts recovered by way of damages, refunds, adjustments or otherwise in connection with the foregoing, after deduction of expenses incurred in such recovery and after reimbursement to the City of any amounts theretofore paid by the City not previously reimbursed to the City for correction or remedying of the default that gave rise to the proceedings against the contractor or subcontractor or surety, will be paid to the Trustee for deposit in the Project Fund if received before the Completion Date and, if such funds are received after the Completion Date, for deposit in the Lease Revenue Fund to be used solely for the purpose of paying Basic Rent under the Lease.

Maintenance and Modification of Equipment by the City

The City will at its own expense (a) keep the Equipment in a safe condition, (b) with respect to the Equipment, comply with all applicable health and safety standards and all other industrial requirements or restrictions enacted or promulgated by the State, or any political subdivision or agency thereof, or by the government of the United States of America or any agency thereof, and (c) keep the Equipment in good repair and in good operating condition and make from time to time all necessary repairs thereto and renewals and replacements thereof; provided, however, that the City will have no obligation to operate, maintain, preserve, repair, replace or renew any element or unit of the Equipment the maintenance, repair, replacement or renewal of which becomes uneconomical to the City because of damage, destruction or obsolescence, or change in economic or business conditions, or change in government standards and regulations. The City will not permit or suffer others to commit a nuisance in or about the Equipment or itself commit a nuisance in connection with its use or occupancy of the Equipment. The City will pay all costs and expenses of operation of the Equipment.

The City may, also at its own expense, make from time to time any additions, modifications or improvements to the Equipment that it may deem desirable for its business purposes and that do not

materially impair the structural strength or effective use, or materially decrease the value, of the Equipment. All additions, modifications or improvements made by the City pursuant to the authority of the Lease shall (a) be made in a workmanlike manner and in strict compliance with all laws and ordinances applicable thereto, (b) when commenced, be pursued to completion with due diligence and (c) when completed, be deemed a part of the Equipment.

During the Lease Term, the Equipment will be used by the City only for the purpose of performing essential governmental or proprietary functions of the City consistent with the permissible scope of the City's authority.

Damage and Destruction

The City will bear the risk of loss with respect to the Equipment during the Lease Term. If (a) the Equipment or any portion thereof is destroyed, in whole or in part, or is damaged by fire or other casualty or (b) title to, or the temporary use of, the Equipment or any part thereof will be nonexistent or deficient or taken under the exercise or threat of the power of eminent domain by any governmental body or by any person, firm or corporation acting pursuant to governmental authority, the City will cause the Net Proceeds of any insurance claim, condemnation award or sale under threat of condemnation to be applied to the prompt replacement, repair, restoration, modification or improvement of the Equipment, unless the City has exercised its option to purchase the Trustee's interest in the Equipment by making payment of the Purchase Price as provided herein. Any balance of the Net Proceeds remaining after such work has been completed will be paid to the City and will be held and appropriated by the City for the exclusive purpose of paying Rent under the Lease.

Purchase Option

The City will have the option to purchase the Trustee's interest in the Equipment, upon giving written notice to the Trustee at least 30 days before the date of purchase, at the following times and on the following terms:

(a) On or after October 15, 2024, upon payment in full of a Purchase Price equal to 100% of the remaining Principal Portions of Basic Rent for the Lease Term, plus Interest Portions of Basic Rent accrued to the prepayment date.

(b) Upon deposit of money or Government Obligations or both with the Trustee in accordance with the Declaration of Trust in the amount necessary to provide for the Basic Rent Payments until and on, and the Purchase Price calculated as described in (a) above on the Certificates, to the prepayment date, which will be on or after October 15, 2024.

Partial Prepayment

The City will have the option to prepay the Basic Rent Payments in part, upon giving written notice to the Trustee at least 30 days before the date of such prepayment, at any time on or after October 15, 2024, at the Prepayment Price equal to the Principal Portion of Basic Rent being so prepaid plus the Interest Portion of Basic Rent accrued thereon to such Basic Rent Payment Date.

The Principal Portion of Basic Rent prepaid pursuant to the provisions of the Lease will be in integral multiples of \$5,000 and will be credited against such Basic Rent Payments as shall be determined by the City in its sole and absolute discretion. Upon any partial prepayment, the amount of each Interest Portion of Basic Rent coming due thereafter will be reduced by the amount of such Interest Portion

attributable to such prepaid Principal Portion determined by applying the annual interest rate corresponding to such prepaid Principal Portion as shown in the Lease.

Assignment and Subleasing by the City

Except as expressly provided in the Lease, none of the City's right, title and interest in, to and under the Lease and in the Equipment may be assigned or encumbered by the City for any reason; except that the City may sublease any one or more parts of the Equipment if the City obtains an Opinion of Special Tax Counsel that such subleasing will not adversely affect the exclusion of the Interest Portion of the Basic Rent Payments from gross income for purposes of federal income taxation. Any such sublease of all or part of the Equipment will be subject to the Lease and the rights of the Trustee in, to and under the Lease and the Equipment.

Events of Default

Any of the following will constitute an "Event of Default" under the Lease:

(a) Failure by the City to make any deposits required by the paragraph "—Basic Rent" in this **Appendix C** to pay Basic Rent in the Lease Revenue Fund at the time specified therein;

(b) Failure by the City to make any Supplemental Rent Payment when due and the continuance of such failure for ten days after written notice specifying such failure and requesting that it be remedied is given to the City by the Trustee;

(c) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Lease, other than as referred to in (a) or (b) above, for a period of 30 days after written notice specifying such failure and requesting that it be remedied is given to the City by the Trustee, unless the Trustee will agree in writing to an extension of such time prior to its expiration; provided that, if the failure stated in the notice cannot be corrected within the applicable period, the Trustee will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected;

(d) Any statement, representation or warranty made by the City in or pursuant to the Lease or the execution, delivery or performance of either of them proves to have been false, incorrect, misleading or breached in any material respect on the date when made;

(e) Any provision of the Lease at any time for any reason ceases to be valid and binding on the City, or is declared null and void, or the validity or enforceability thereof is contested by the City or any governmental agency or authority if the loss of such provision would materially adversely affect the rights or security of the Trustee; or

(f) The City becomes insolvent or admits in writing its inability to pay its debts as they mature or applies for, consents to, or acquiesces in the appointment of a trustee, receiver or custodian for the City or a substantial part of its property; or in the absence of such application, consent or acquiescence, a trustee, receiver or custodian for the City or a substantial part of its property; or in the absence of such application, consent or acquiescence, a trustee, receiver or custodian is appointed by the City or a substantial part of its property and is not discharged within 60 days; or any bankruptcy, reorganization, debt arrangement, moratorium or any proceeding under bankruptcy or insolvency law, or any dissolution or liquidation proceeding, is instituted by or against the State and, if instituted against the City, is consented to or acquiesced in by the City or is not dismissed within 60 days.

Failure of the City to comply with the Disclosure Certificate will not be an Event of Default under the Lease.

Remedies on Default

Whenever any Event of Default exists, the Trustee will have the right, without any further demand or notice, to take one or any combination of the following remedial steps:

(a) By written notice to the City, the Trustee may declare all Rent payable by the City under the Lease to the end of the Lease Term to be due;

(b) With or without terminating the Lease, the Trustee may take possession of the Equipment (in which event the City will take all actions necessary to authorize, execute and deliver to the Trustee for the remainder of the Trustee's leasehold term all documents necessary to vest in the Trustee for the remainder of the Trustee's leasehold term all of the City's interest in the Equipment), and sell the Trustee's interest in the Equipment or lease the Equipment or, for the account of the City, sublease the Equipment, continuing to hold the City liable for the difference between (1) the Rent payable by the City under the Lease for the Lease Term, and (2) the net proceeds of any such sale, leasing or subleasing (after deducting all expenses of the Trustee in exercising its remedies under the Lease, including, without limitation, all expenses of taking possession, removing, storing, reconditioning, and selling or leasing or subleasing the Equipment and all brokerage, auctioneers and attorneys' fees and expenses);

(c) The Trustee may terminate any rights the City may have in any money held by the Trustee under the Declaration of Trust; and

(d) The Trustee may take whatever action at law or in equity necessary or desirable to enforce its rights in the Equipment and under the Lease.

APPENDIX D
BOOK-ENTRY SYSTEM

BOOK-ENTRY SYSTEM

The Series 2017 Certificates are available in book-entry form and beneficial ownership interests therein may be purchased in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Series 2017 Certificates will not receive certificates representing their interests in the Series 2017 Certificates.

The following information concerning The Depository Trust Company (“DTC”), New York, New York and DTC’s book-entry system has been obtained from sources the City believes to be reliable. However, the City takes no responsibility as to the accuracy or completeness thereof and neither the Indirect Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2017 Certificates. The Series 2017 Certificates 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 Series 2017 Certificate will be issued for each maturity of the Series 2017 Certificates, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2017 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017 Certificates on DTC’s records. The ownership interest of each actual purchaser of each Series 2017 Certificate (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2017 Certificates are to be accomplished by entries made on

the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2017 Certificates, except in the event that use of the book-entry system for the Series 2017 Certificates is discontinued.

To facilitate subsequent transfers, all Series 2017 Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2017 Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2017 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2017 Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2017 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2017 Certificates, such as redemptions, defaults, and proposed amendments to the Series 2017 Certificate documents. For example, Beneficial Owners of Series 2017 Certificates may wish to ascertain that the nominee holding the Series 2017 Certificates 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 Series 2017 Certificates within a maturity 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 Series 2017 Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2017 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Series 2017 Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal of or interest on the Series 2017 Certificates to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2017 Certificates at any time by giving reasonable notice to the City or the Trustee. Under such circumstances,

in the event that a successor depository is not obtained, Series 2017 Certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2017 Certificates will be printed and delivered to DTC. The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC. The City and the Underwriter take no responsibility for the accuracy thereof.

APPENDIX E

**FORM OF OPINION OF
SPECIAL TAX COUNSEL**

[FORM OF OPINION OF SPECIAL TAX COUNSEL]

[Closing Date]

The City of Lincoln, Nebraska
Lincoln, Nebraska

Union Bank and Trust Company, Trustee
Lincoln, Nebraska

Piper Jaffray & Co.
Minneapolis, Minnesota

Re: \$3,450,000 Certificates of Participation, Series 2017, Evidencing Proportionate Interests of the Owners in Basic Rent Payments to be Made by The City of Lincoln, Nebraska

Ladies and Gentlemen:

We have acted as special tax counsel in connection with a transaction involving the above-captioned Certificates of Participation (the “Certificates”), evidencing proportionate interests of the owners thereof in Basic Rent Payments to be made by The City of Lincoln, Nebraska (the “City”) under a Lease Purchase Agreement, dated as of the date hereof (the “Lease”), between Union Bank and Trust Company, a state banking corporation (the “Trustee”), and the City. Capitalized terms used herein and not otherwise defined herein will have the meanings assigned to such terms in the Lease.

We have examined (a) the Lease, (b) the Declaration of Trust, (c) the Compliance Agreement, (d) the Disclosure Certificate, (e) certifications of officers and officials of the City and others, and (f) the form of the Certificates. In addition, we have reviewed and considered the Internal Revenue Code of 1986, as amended (the “Code”), and the applicable regulations thereunder promulgated by the United States Treasury Department.

In rendering the opinions set forth herein, we have assumed without undertaking to verify the same by independent investigation, (a) as to questions of fact, the accuracy of all representations of the Trustee and the City set forth in the Lease, the Declaration of Trust, the Compliance Agreement, the Disclosure Certificate and all certificates of and officials of the Trustee, the City and others examined by us, and (b) the conformity to original documents of all documents submitted to us as copies and the authenticity of such original documents and all documents submitted to us as originals.

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

1. The Declaration of Trust has been approved by the City, and the Lease, the Compliance Agreement and the Disclosure Certificate have been duly authorized, executed and delivered by the City and constitute legal, valid and binding agreements of the City, enforceable against the City in accordance with their terms.

2. The Certificates have been duly authorized, executed and delivered in accordance with the Declaration of Trust, are entitled to the benefits and security of the Declaration of Trust and evidence

interests in the right to receive Basic Rent Payments under the Lease, which right to receive Basic Rent Payments is enforceable against the City in accordance with the terms of the Certificates, the Declaration of Trust and the Lease.

3. The interest portion of each Basic Rent Payment represented by the Certificates is excluded from gross income for federal and Nebraska income tax purposes, is not an item of tax preference for purposes of federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinions set forth in this paragraph are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the execution and delivery of the Lease and the Certificates in order that the interest portions of Basic Rent Payments represented by the Certificates be, or continue to be, excluded from gross income for federal and Nebraska income tax purposes. The City has covenanted to comply with all of these requirements. Failure to comply with certain of such requirements may cause the inclusion of such interest portions of Basic Rent Payments in gross income for federal and Nebraska income tax purposes retroactive to the date of execution and delivery of the Lease. The City's obligation to pay Basic Rent Payments under the Lease has not been designated as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Code.

We express no opinion regarding (a) other federal or Nebraska tax consequences arising with respect to the Basic Rent or the Certificates, (b) the treatment for federal or Nebraska income tax purposes of any money received by registered owners of the Certificates other than payments by the City made pursuant to the Lease or (c) the title to or the description of the property subject to the Lease.

The rights of the owners of the Certificates and the enforceability of the Certificates, the Declaration of Trust, the Lease, the Compliance Agreement and the Disclosure Certificate may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent applicable and their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

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

Very truly yours,