

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

NEW ISSUE – FULL BOOK ENTRY

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

In the opinion of Gilmore & Bell, P.C., Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the “Code”), (1) the interest on the 2012 Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, (2) the interest on the 2012 Bonds is exempt from Nebraska income taxation by the State of Nebraska and (3) the 2012 Bonds have not been designated as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Code. See “TAX MATTERS” in this Official Statement.

THE CITY OF LINCOLN, NEBRASKA



\$277,315,000

Lincoln Electric System Revenue and Refunding Bonds Series 2012

Dated: August 9, 2012

Due: As set forth on the inside cover

The Series 2012 Bonds (collectively, the “2012 Bonds”) are issuable as fully registered securities and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the 2012 Bonds. Purchases of beneficial ownership interests in the 2012 Bonds will be made in book-entry form only, in \$5,000 principal amounts or integral multiples thereof. Beneficial Owners of the 2012 Bonds will not receive physical delivery of bond certificates evidencing their ownership interest in the 2012 Bonds so long as DTC or a successor securities depository acts as the securities depository with respect to the 2012 Bonds. So long as DTC or its nominee is the registered owner of the 2012 Bonds, payments of the principal, or redemption price of, and interest on the 2012 Bonds will be made directly to DTC. Disbursements of such payments to DTC Participants are the responsibility of DTC and disbursements of such payments to Beneficial Owners is the responsibility of DTC Participants. See “DESCRIPTION OF THE 2012 BONDS—Book-Entry System” herein. Union Bank and Trust Company is Registrar and Paying Agent for the 2012 Bonds under the Ordinance.

The 2012 Bonds will be dated their date of issue. The 2012 Bonds will bear interest at the rates shown on the inside cover, payable each March 1 and September 1, commencing on March 1, 2013.

Certain of the 2012 Bonds are subject to optional and mandatory redemption prior to maturity as more fully described herein.

The obligation of the City to pay the principal or redemption price of, and interest on the 2012 Bonds is a limited obligation of the City, payable exclusively from and secured by a pledge of the Revenues of the Lincoln Electric System, all as more fully described herein. See “SECURITY FOR THE 2012 BONDS” herein.

The 2012 Bonds shall not be obligations of the State of Nebraska or any of its political subdivisions, other than the City, and neither the faith and credit nor the taxing power of the State of Nebraska or any political subdivision thereof, including the City, is pledged for the payment of the 2012 Bonds.

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

The 2012 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel. Certain legal matters will be passed on for the City by the Lincoln City Attorney, for the Lincoln Electric System by its General Counsel, and for the Underwriters by Kutak Rock LLP, Counsel to the Underwriters. Public Financial Management is serving as Financial Advisor to the Lincoln Electric System in connection with the issuance of the 2012 Bonds. It is expected that the 2012 Bonds will be available for delivery to DTC in New York, New York on or about August 9, 2012.

BofA MERRILL LYNCH

AMERITAS INVESTMENT CORP.

RBC CAPITAL MARKETS

CITIGROUP

WELLS FARGO SECURITIES

Dated: July 12, 2012

MATURITY SCHEDULE

\$277,315,000

**THE CITY OF LINCOLN, NEBRASKA
LINCOLN ELECTRIC SYSTEM REVENUE AND REFUNDING BONDS, SERIES 2012**

\$247,150,000 Serial Bonds

<u>Due September 1</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP⁽²⁾</u>
2013	\$2,960,000	1.000%	0.250%	100.794%	534272 ZJ1
2013	8,885,000	3.000	0.250	102.912	534272 A33
2014	1,740,000	3.000	0.420	105.289	534272 ZK8
2014	11,210,000	5.000	0.420	109.389	534272 A41
2015	10,970,000	4.000	0.590	110.329	534272 ZL6
2021	2,840,000	2.000	1.910	100.745	534272 ZM4
2021	10,615,000	5.000	1.910	125.596	534272 A58
2022	15,250,000	5.000	2.080	126.383	534272 ZN2
2023	1,910,000	3.000	2.270 ⁽¹⁾	106.532	534272 ZP7
2023	14,100,000	5.000	2.220 ⁽¹⁾	124.941	534272 A66
2024	16,775,000	5.000	2.370 ⁽¹⁾	123.418	534272 ZQ5
2025	730,000	2.750	2.730 ⁽¹⁾	100.173	534272 ZR3
2025	16,880,000	5.000	2.480 ⁽¹⁾	122.315	534272 A74
2026	18,475,000	5.000	2.570 ⁽¹⁾	121.421	534272 ZS1
2027	6,990,000	3.000	3.080	99.040	534272 ZT9
2027	12,410,000	5.000	2.660 ⁽¹⁾	120.535	534272 A82
2028	20,230,000	5.000	2.740 ⁽¹⁾	119.754	534272 ZU6
2029	17,735,000	3.125	3.260	98.242	534272 ZV4
2030	13,395,000	3.125	3.330	97.232	534272 B24
2030	4,825,000	5.000	2.880 ⁽¹⁾	118.401	534272 ZW2
2031	15,030,000	3.250	3.400	97.906	534272 ZX0
2031	3,780,000	5.000	2.950 ⁽¹⁾	117.732	534272 A90
2032	19,415,000	3.500	3.450 ⁽¹⁾	100.420	534272 ZY8

\$30,165,000 Term Bonds

<u>Due September 1</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP⁽²⁾</u>
2037	\$ 4,675,000	3.625%	3.700%	98.779	534272 ZZ5
2037	25,490,000	5.000	3.230 ⁽¹⁾	115.099	534272 A25

(1) Yield calculated to par call date.

(2) CUSIP is a registered trademark of the American Bankers Association. CUSIP data contained herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitution for the CUSIP. Neither LES nor the Underwriters take any responsibility for the accuracy of CUSIP numbers herein, which are included solely for the convenience of owners of the 2012 Bonds.

THE CITY OF LINCOLN, NEBRASKA

CITY ADMINISTRATION

CHRIS BEUTLER	Mayor
STEVE HUBKA	Interim Finance Director

LINCOLN ELECTRIC SYSTEM

ADMINISTRATIVE BOARD

PATRICK BEANS	Chair
MARILYN MCNABB	Vice Chair
JERRY HUDGINS	Secretary
CATHY BEECHAM	Member
DAN HARSHMAN	Member
VICKI HUFF	Member
MATT McNAIR	Member
W. DON NELSON	Member
ELIZABETH RAETZ	Member

MANAGEMENT

KEVIN G. WAILES	Administrator and CEO
LAURA L. KAPUSTKA	Vice President and Chief Financial Officer
DOUGLAS D. BANTAM	Chief Operating Officer
SHELLEY R. SAHLING-ZART	Vice President and General Counsel
STEVEN L. ADAMS	Vice President-Corporate Services
JASON L. FORTIK	Vice President-Power Supply
Vacant	Vice President-Customer Services
DANNY L. PUDENZ	Vice President-Energy Delivery

BOND COUNSEL

Gilmore & Bell, P.C.
Lincoln, Nebraska

FINANCIAL ADVISOR

Public Financial Management
Philadelphia, Pennsylvania
and Orlando, Florida

UNDERWRITERS' COUNSEL

Kutak Rock LLP
Omaha, Nebraska

No dealer, broker, sales representative or other person has been authorized by the City of Lincoln (the "City"), Lincoln Electric System ("LES") or the Underwriters to give any information or to make any representations, other than as 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 the City, LES, or the Underwriters. 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 2012 Bonds by any person in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2012 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been furnished by the City and LES and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters. The information and expressions of opinion contained 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 or LES since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 2012 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE 2012 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES OR "BLUE SKY" LAWS. THE SECURITIES ARE OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION.

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OFFICIAL STATEMENT

THE CITY OF LINCOLN, NEBRASKA

\$277,315,000
Lincoln Electric System
Revenue and Refunding Bonds
Series 2012

INTRODUCTION

This Official Statement (which includes the cover page hereof and the Appendices attached hereto) is furnished by The City of Lincoln, Nebraska (the “City”), a municipal corporation existing pursuant to its home rule Charter (the “Charter”) and under the laws of the State of Nebraska (the “State”), to provide information concerning: (a) the City; (b) the City’s electric system (which is hereinafter referred to as the “Lincoln Electric System,” “LES” or the “System” and which is defined in the General Ordinance described below to include all property and assets of the City used for or pertaining to the generation, transmission, distribution and sale of electric power and energy); and (c) the City’s \$277,315,000 aggregate principal amount of Lincoln Electric System Revenue and Refunding Bonds, Series 2012 (the “2012 Bonds”).

The 2012 Bonds are being issued pursuant to Sections 15-244 and 18-1803 to 18-1805, inclusive, Reissue Revised Statutes of Nebraska, as amended, and Article IX, Section 44 of the Charter, and a basic bond ordinance passed by the Lincoln City Council (“Council”) on July 23, 2001 (Ordinance No. 17879, the “General Ordinance”), as supplemented by a series ordinance passed by Council on March 12, 2012 (Ordinance No. 19683, the “2012 Ordinance”). The General Ordinance as amended and supplemented from time to time, including, but not limited to, the 2012 Ordinance, is herein referred to as the “Ordinance.” Capitalized terms used herein which are not otherwise defined shall have the respective definitions set forth in the Ordinance. See “APPENDIX C: SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE – Definitions.”

The City will, following the closing and issuance of the 2012 Bonds, have the following parity bonds (in addition to the 2012 Bonds) outstanding under the Ordinance (the “Outstanding Bonds”): (a) \$12,000,000 aggregate principal amount of its Lincoln Electric System Revenue and Refunding Bonds, Series 2002 (the “2002 Bonds”) (all of which will be paid at maturity on September 1, 2012), (b) \$13,735,000 aggregate principal amount of its Lincoln Electric System Revenue and Refunding Bonds, Series 2003 (the “2003 Bonds”), (c) \$53,710,000 aggregate principal amount of its Lincoln Electric System Revenue Bonds, Series 2005 (the “2005 Bonds”), (d) \$100,595,000 aggregate principal amount Lincoln Electric System Revenue Bonds, Series 2007A (the “2007A Bonds”) and (e) \$153,745,000 aggregate principal amount Lincoln Electric System Revenue Refunding Bonds, Series 2007B (the “2007B Bonds” and, collectively, with the 2007A Bonds, the “2007 Bonds”). The Series 2012 Bonds will be issued on a parity with the Outstanding Bonds under the Ordinance.

The Ordinance provides for the issuance by the City from time to time of Lincoln Electric System Revenue Bonds (including bonds, notes or other obligations or other evidences of indebtedness, as the case may be, as provided in the Ordinance, the “Bonds”) (a) to finance properties and assets, and interests in properties and assets, real and personal and tangible and intangible (i) for the generation, transmission, distribution and sale of electric power and energy or (ii) such other activities and transactions as the LES Administrative Board (the “Board”) and the City shall from time to time determine and (b) to refund outstanding bonds issued under the Ordinance. Pursuant to the Ordinance, the Bonds are payable from

and secured by a pledge of the revenues of LES and certain other moneys as described herein, subject to a prior charge on such revenues for the costs of operation and maintenance of LES, including all administration expenses, variable costs of operation and maintenance incurred for power supply facilities (including LES' ownership interest in electric plants and properties co-owned with others), variable costs associated with power purchase contracts and, in certain circumstances, fixed power supply costs of LES. Additional Bonds or Parity Obligations (as defined in the Ordinance and which, except as provided in the Ordinance, will be on a parity with the 2012 Bonds) may be issued from time to time upon the approval of the Mayor and City Council under the terms and conditions set forth in the Ordinance. The 2002 Bonds, 2003 Bonds, 2005 Bonds, 2007A Bonds, 2007B Bonds, together with the 2012 Bonds any any Additionl Bonds hereafter issued by the City pursuant to the Ordinance are collectively referred to as the "Bonds."

This Official Statement includes summaries of the terms of the 2012 Bonds, the Ordinance and certain contracts and other arrangements relating to LES. The summaries of and references to all documents, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each such summary and reference is qualified in its entirety by references to each such document, report or instrument, copies of which may be obtained, upon request, from Lincoln Electric System, 1040 "O" Street, Lincoln, Nebraska 68508, Attention: Chief Financial Officer. Email inquiries should be addressed to lkapustka@les.com, or call 402-475-4211.

DESCRIPTION OF PROJECT

The proceeds of the 2012 Bonds will be used to fund the refunding plan described below, to reimburse LES for prior capital improvements, to fund a deposit into the 2012 Debt Service Reserve Fund and pay certain costs and expenses relating to the issuance of the 2012 Bonds.

REFUNDING PLAN

A portion of the proceeds of the 2012 Bonds, together with other available funds, will be used for the payment and redemption of (a) all of the outstanding 2002 Bonds exclusive of the 2012 Bonds maturing on September 1, 2012, (b) \$94,435,000 principal amount of the outstanding 2003 Bonds, consisting of a portion of the 2003 Bonds maturing in the year 2021 and all the 2003 Bonds maturing in the years 2022 through 2028, inclusive, (c) \$61,290,000 principal amount of the outstanding 2005 Bonds, consisting of all the 2005 Bonds maturing in the years 2029 through 2032, inclusive, and (d) \$40,000,000 principal amount of LES' outstanding Commercial Paper Notes. The 2012 Bonds are also being issued to fund a deposit to the 2012 Debt Service Reserve Fund and pay certain costs and expenses relating to the issuance of the 2012 Bonds.

On the date of issuance of the 2012 Bonds, a portion of the net proceeds thereof, together with certain other funds of the City, will be deposited into an escrow account (the "Escrow Account") to be held under an Escrow Agreement, dated as of the date of issue of the 2012 Bonds (the "Escrow Agreement") between the City and Union Bank and Trust Company (the "Escrow Agent"). Such deposit will be used to purchase on such date of issuance direct obligations of the United States of America (the "Government Securities") which will be held in the Escrow Account. The Government Securities will mature on such dates and in such amounts as shall provide funds which, together with other funds in the Escrow Account, will be sufficient to pay when due the maturing principal of and interest on the Refunded Bonds through their respective redemption dates and to redeem on the respective redemption dates all of the then outstanding Refunded Bonds. The 2002 Bonds will be redeemed within 30 days after the date of issuance of the 2012 Bonds at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon through the redemption date. The maturities and portions of maturities of the 2003 Bonds to be refunded with 2012 Bond proceeds will be called for redemption on

September 1, 2013 at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon through the redemption date. The maturities of the 2005 Bonds to be refunded with 2012 Bond proceeds will be called for redemption on September 1, 2015 at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon through the redemption date.

ESTIMATED SOURCES AND USES OF FUNDS

2012 Bonds

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the 2012 Bonds. Accrued interest, if any, received upon the delivery of the 2012 Bonds will be deposited into the Bond Fund.

Sources of Funds:

Par Amount of 2012 Bonds	\$277,315,000.00
Original Issue Premium, Net of Discount	35,528,372.45
Releases from Interest and Reserve Funds	<u>11,854,019.51</u>
Total Sources of Funds	<u>\$324,697,391.96</u>

Uses of Funds:

Deposit to Escrow Fund	\$231,740,760.80
Redemption of Commercial Paper Notes	40,000,000.00
Deposit to Construction Fund	45,207,057.52
Deposit to Debt Service Reserve Fund	6,336,587.49
Costs of Issuance (including Underwriters' discount)	<u>1,412,986.15</u>
Total Uses of Funds	<u>\$324,697,391.96</u>

DESCRIPTION OF THE 2012 BONDS

General

The 2012 Bonds will be issued in the aggregate principal amount of \$277,315,000 and will consist of serial and term bonds as set forth on the inside cover of this Official Statement. The 2012 Bonds will be issued in book-entry form only.

The 2012 Bonds will be dated as of their date of issue, will bear interest from that date payable on each March 1 and September 1, beginning March 1, 2013, and will mature on September 1 in the years and the principal amounts, and bear interest at the respective rates, as set forth on the inside cover of this Official Statement. The 2012 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof.

Union Bank and Trust Company has been appointed as Registrar and Paying Agent for the 2012 Bonds (the "Paying Agent").

Interchangeability and Transfer

The 2012 Bonds, upon surrender thereof to the Registrar, with a written instrument of transfer satisfactory to the Registrar, duly executed by the registered owner or his or her duly authorized attorney, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of 2012 Bonds in registered form of the same series, maturity and of any other authorized denomination.

In all cases in which the privilege of exchanging or transferring the 2012 Bonds is exercised, the City shall execute and the Registrar shall deliver the 2012 Bonds in accordance with the Ordinance. For every such exchange or transfer of 2012 Bonds, the Registrar shall require the payment by the registered owner requesting such transfer or exchange of any tax or other governmental charges payable with respect thereto and may charge a sum not exceeding the actual cost for each new 2012 Bond.

No exchange or transfer of any 2012 Bond shall be required to be made during the 15 days next preceding an interest payment date for the 2012 Bonds, nor during the 45 days next preceding the date fixed for the redemption of such 2012 Bond.

Sinking Fund Redemption of Term Bonds Maturing September 1, 2037

The 2012 Bonds maturing on September 1 in the year 2037 are subject to redemption prior to maturity in part by lot by operation of a mandatory sinking fund on September 1 in each of the following years and in the following principal amounts at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the date fixed for redemption. Selection of any 2012 Bonds maturing September 1, 2037, or portions thereof shall be in the sole discretion of the Registrar.

\$4,675,000—3.625% Term Bonds

Year (September 1)	Principal Amount
2033	\$935,000
2034	935,000
2035	935,000
2036	935,000
2037*	935,000

*Maturity

\$25,490,000—5.000% Term Bonds

Year (September 1)	Principal Amount
2033	\$4,550,000
2034	4,810,000
2035	5,085,000
2036	5,370,000
2037*	5,675,000

*Maturity

Optional Redemption

The 2012 Bonds maturing on or after September 1, 2023, shall be subject to redemption prior to maturity at the option of LES, in whole or in part in such principal amounts and from such maturity or maturities as the City, in its discretion, shall select, and by lot within a maturity if less than a full maturity is redeemed, on any day on or after September 1, 2022 at redemption prices equal to 100% of the principal amount thereof plus accrued interest to the date fixed for redemption.

Selection of Bonds for Redemption

If less than all the 2012 Bonds of a particular maturity shall be called for redemption, the portion of any such 2012 Bonds of a denomination of more than \$5,000 principal amount shall be redeemed in the principal amount of \$5,000 or an integral multiple thereof and, in selecting the portions of such 2012 Bonds for redemption, the City and the Paying Agent shall treat each such 2012 Bond as representing that number of such 2012 Bonds of \$5,000 principal amount which is obtained by dividing the principal amount of such 2012 Bonds to be redeemed in part by \$5,000. If less than all 2012 Bonds are to be redeemed, the maturities of 2012 Bonds to be redeemed may be selected by the City. If the City does not give select the maturities to be redeemed, the 2012 Bonds will be redeemed in inverse order of maturity. The particular 2012 Bonds or portions of 2012 Bonds to be redeemed shall be selected at random by the Registrar in such manner as the Registrar in its discretion may deem fair and appropriate.

Notice of Redemption

If the City elects to redeem 2012 Bonds, the Registrar shall give notice of such redemption to the registered owners of the 2012 Bonds called for redemption, certain securities depositories and one or more information services. Such notice shall be given by first class mail to the registered owners of the 2012 Bonds designated for redemption at their addresses appearing on the bond registration books, not less than 30 days prior to the redemption date. The actual receipt by the registered owner of any 2012 Bond, the securities depositories and one or more information services of notice of redemption shall not be a condition precedent to redemption, and failure to receive such notice or any defects in such notice shall not affect the sufficiency of the proceedings for the redemption of 2012 Bonds.

Notice of redemption having been given, the 2012 Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the applicable redemption price, plus interest accrued and unpaid to the redemption date and, if presentation and surrender thereof are required by the Ordinance, upon presentation and surrender thereof at the office specified in such notice of such 2012 Bonds or portions thereof and shall be paid at the redemption price, plus interest accrued and unpaid to the redemption date. If there shall be designated for redemption a portion of a 2012 Bond, if presentation and surrender thereof are required, the City shall execute and the Registrar shall authenticate and deliver, upon the surrender of such 2012 Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the 2012 Bond so surrendered, a 2012 Bond of like maturity in any authorized denomination. If, on the redemption date, moneys for the redemption of all the 2012 Bonds or portions thereof to be redeemed, together with interest to the redemption date, shall be available therefor on said date and if notice of redemption shall have been given as provided, then, from and after the redemption date interest on the 2012 Bonds or portion thereof called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such 2012 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

For so long as the book-entry system is in effect with respect to the 2012 Bonds, the Registrar will mail notices of redemption to DTC or its nominee or its successor and, if less than all of the 2012

Bonds of a maturity are to be redeemed, DTC or its successor and DTC Participants and Indirect Participants will determine the particular ownership interests of 2012 Bonds of such maturity to be redeemed. Any failure of DTC or its successor or a DTC Participant or Indirect Participant to do so, or to notify a Beneficial Owner of a 2012 Bond of any redemption will not affect the sufficiency or the validity of the redemption of 2012 Bonds. See “DESCRIPTION OF THE 2012 BONDS—Book-Entry System.” The City, LES, the Registrar, the Paying Agent and the Underwriters cannot make any assurance that DTC, the DTC Participants or the Indirect Participants will distribute such redemption notices to the Beneficial Owners of the 2012 Bonds, or that they will do so on a timely basis.

Book-Entry System

General. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2012 Bonds. The ownership of one fully registered 2012 Bond for each maturity, as set forth on the inside cover of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as the nominee for DTC. Ownership interests in the 2012 Bonds will be available to purchasers only through a book-entry system maintained by DTC (the “Book-Entry System”). A description of DTC, the Book-Entry System and definitions of initially capitalized terms used herein are found in “APPENDIX E: BOOK-ENTRY SYSTEM.”

Risk Factors. Beneficial Owners of the 2012 Bonds may experience some delay in their receipt of distributions of the principal or redemption price of and interest on the 2012 Bonds because such distributions will be forwarded by the Registrar to DTC, credited by DTC to its Direct Participants, and then credited to the accounts of the Beneficial Owners either directly or indirectly through Indirect Participants.

Because transactions in the 2012 Bonds can only be effected through DTC, DTC Participants and certain banks, the ability of a Beneficial Owner to pledge 2012 Bonds to persons or entities that do not participate in the Book-Entry System, or otherwise to take actions in respect of such 2012 Bonds, may be limited due to the lack of physical certificates. Beneficial Owners will not be recognized by the Registrar as registered owners for purposes of the Ordinance, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and DTC Participants.

SECURITY FOR THE 2012 BONDS

The Pledge and Security Interest Under the Ordinance

The 2012 Bonds, together with the Outstanding Bonds and all other series of Bonds hereafter issued pursuant to the Ordinance, will be payable on a parity basis from and secured by a pledge of and security interest in (1) the Net Revenues of the System and (2) certain Funds established by the Ordinance (including the Electric Revenue Fund and the Bond Fund), subject to the provisions of the Ordinance permitting the application thereof for the purposes and on the terms and conditions set forth in the Ordinance. For a description of the Funds established under the Ordinance and other provisions of the Ordinance, see “APPENDIX C: SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE.”

A 2012 Debt Service Reserve Fund has been established for the 2012 Bonds, into which an amount equal to the Reserve Fund Requirement (hereinafter defined) for the 2012 Bonds will be deposited. The “Reserve Fund Requirement” with respect to the 2012 Bonds, on any date of computation, is an amount equal to six (6) months’ interest on the 2012 Bonds outstanding on such date, as such amount may reduce over time. On the date of issue of the 2012 Bonds, the “Reserve Fund Requirement” is \$6,336,587.49. For a more complete description of the provisions relating to the 2012

Debt Service Fund, see “APPENDIX C: SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE—2012 Debt Service Reserve Fund.”

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

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

Rate Covenant and Coverage Under the Ordinance

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

Limits on Additional Debt

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

OUTSTANDING BONDS

After the issuance of the 2012 Bonds and the application of a portion of the proceeds thereof to redeem or defease the 2002 Bonds and the maturities or portion of maturities of the 2003 Bonds and the 2005 Bonds to be so defeased, and to pay \$40,000,000 principal amount of the outstanding Commercial Paper Notes, the following Bonds and Commercial Paper Notes will be outstanding:

Description	Final Maturity	Outstanding Amount
Bond Outstanding Under the Ordinance:		
2002 Bonds	September 1, 2012	\$12,000,000
2003 Bonds	September 1, 2021	\$13,735,000
2005 Bonds	September 1, 2035	\$53,710,000
2007 Bonds	September 1, 2037	\$254,340,000
2012 Bonds	September 1, 2037	\$277,315,000
Commercial Paper Notes:		
	Variable	\$88,500,000

The payment of the Commercial Paper Notes is subordinate to the payment of the principal of, and interest on, the outstanding Bonds.

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BOND DEBT SERVICE SCHEDULE

Set forth below is a schedule of the debt service requirements, after application of the proceeds of the 2012 Bonds for each full year after September 1, 2012 for the 2003 Bonds, 2005 Bonds, 2007 Bonds and 2012 Bonds.

Period Ending	Series 2012	Series 2007	Series 2005	Series 2003	Aggregate Debt Service
9/1/2013	\$ 24,518,175	\$ 16,259,251	\$ 2,551,225	\$ 4,046,000	\$ 47,374,651
9/1/2014	24,597,156	15,866,751	2,551,225	4,127,500	47,142,633
9/1/2015	22,004,456	20,672,751	2,551,225	1,914,725	47,143,158
9/1/2016	10,595,656	34,707,751	2,551,225	54,625	47,909,258
9/1/2017	10,595,656	34,707,751	2,551,225	54,625	47,909,258
9/1/2018	10,595,656	34,708,251	2,551,225	54,625	47,909,758
9/1/2019	10,595,656	34,706,251	2,551,225	54,625	47,907,758
9/1/2020	10,595,656	34,708,751	2,551,225	54,625	47,910,258
9/1/2021	24,050,656	5,359,226	2,551,225	1,204,625	33,165,733
9/1/2022	25,258,106	5,361,826	2,551,225	-	33,171,158
9/1/2023	25,255,606	5,368,026	2,551,225	-	33,174,858
9/1/2024	25,258,306	5,366,741	2,551,225	-	33,176,273
9/1/2025	25,254,556	5,373,791	2,551,225	-	33,179,573
9/1/2026	25,255,481	5,373,985	2,551,225	-	33,180,691
9/1/2027	25,256,731	5,381,775	2,551,225	-	33,189,731
9/1/2028	25,256,531	5,381,938	2,551,225	-	33,189,694
9/1/2029	21,750,031	8,895,188	2,551,225	-	33,196,444
9/1/2030	21,680,813	8,982,138	2,551,225	-	33,214,175
9/1/2031	21,610,969	9,042,250	2,551,225	-	33,204,444
9/1/2032	21,538,494	9,103,350	2,551,225	-	33,193,069
9/1/2033	6,928,969	9,174,725	19,656,225	-	35,759,919
9/1/2034	6,927,575	9,195,188	19,628,738	-	35,751,500
9/1/2035	6,928,181	9,216,400	19,603,963	-	35,748,544
9/1/2036	6,925,038	28,837,025	-	-	35,762,063
9/1/2037	<u>6,927,644</u>	<u>28,883,800</u>	<u>-</u>	<u>-</u>	35,811,444
Total	\$446,161,756	\$390,634,881	\$109,913,425	\$11,565,975	\$958,276,038

CITY OF LINCOLN

Lincoln, the capital of Nebraska (the “City”), is located in southeastern Nebraska near the center of population of the State. The City is a municipal corporation and a city of the primary class under Nebraska law. It operates under a home rule Charter and has an elected full-time chief executive (“Mayor”) and elected legislative body (“City Council”). Lincoln’s government has a broad range of responsibilities, including operation and maintenance of electric, water, and sanitary sewer systems. The Charter grants the City power to purchase, construct and otherwise acquire, own, maintain and operate

public utility plants, property and facilities within and without the limits of the City. The administration of City government operates under the direction of the Mayor by administrative departments.

The City's general obligation indebtedness carries an "Aaa" rating from Moody's and an "AAA" rating from Standard & Poor's. Lincoln is one of the few cities in the United States having such ratings from both Moody's and Standard & Poor's. The 2012 Bonds are not general obligation indebtedness of the City.

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

LINCOLN ELECTRIC SYSTEM

Organization

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

Service Area

The LES service area includes the corporate area of the City and an area outside the City's corporate limits. The service area covers approximately 200 square miles, of which approximately 91 square miles are within the City limits. Approximately 4% of LES' customers are located outside the City's corporate limits. To the extent that the corporate limits of the City are expanded in the future, Nebraska law provides that the service area of LES may likewise be expanded. The LES service area is totally surrounded by Norris Public Power District. LES and Norris have an agreement providing a mechanism for orderly expansion of the LES service area as the City expands. LES holds an exclusive franchise to serve customers within its service area. Nebraska law contains certain provisions pertaining to the rights of municipalities within the State to acquire the electric distribution systems associated with providing service to residents of the municipality. Only one municipality, the City of Waverly, with a population of approximately 3,300, is located within the LES service area and has been served by LES under a franchise agreement since 1986. A renewal agreement with an initial term of ten years, plus an automatic renewal provision calling for continued five year extension until terminated by either party providing notice to the other was put in place November 1, 2006. LES' financial results would not be materially adversely affected by the loss of the Waverly energy sales and revenues.

LES served 129,163 retail customers as of December 31, 2011, of which 87% were residential, 12% were commercial and industrial and the balance, approximately 1%, was governmental and other. The total number of customers increased 1.7% in 2007, 0.9% in 2008, 0.9% in 2009, 0.3% in 2010 and 0.6% in 2011.

Administration

The LES Administrative Board consists of nine members who are appointed by the Mayor and confirmed by the City Council. Each Board member is eligible for three successive terms of three years each and must be a ratepayer of LES. The present members and their occupations are:

Member	Term Expires December	Occupation
Patrick Beans Chair	2013	Senior Vice President of Corporate Development National Research Corporation
Marilyn McNabb Vice Chair	2012	Retired, former Deputy for Welfare Services State Ombudsman's Office
Jerry Hudgins Secretary	2012	Professor and Department Chair of Electrical Engineering University of Nebraska
Cathy Beecham	2013	Business Administrator LogicGate, LLC
Dan Harshman	2014	Controller Molex
Vicki Huff	2012	Retired, former First Vice President & Trust Marketing Officer Union Bank and Trust Company
Matt McNair	2014	Vice President University of Nebraska Foundation
W. Don Nelson	2014	Retired
Elizabeth Raetz	2013	Vice President of Nursing St. Elizabeth Regional Medical Center

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

Administrator & CEO – Kevin G. Wailes, age 57, has held this position since July 1, 2010. The Administrator & CEO has full authority within approved budgets and policies of LES, as directed by the Administrative Board, to administer, manage, plan and direct the operations of LES. Prior to joining LES, Mr. Wailes served as General Manager of Your Own Utilities, the municipal electric utility serving Tallahassee, Florida. Mr. Wailes joined the City of Tallahassee in May of 1987 as the Assistant Director – Electric Utility, and was named General Manager of the Electric Utility in October of 1995. Prior to joining the City of Tallahassee, Mr. Wailes served as Superintendent of the Lamar Utilities Board, a Colorado municipal electric utility from 1981 to 1987. Mr. Wailes holds a Bachelor of Electrical Engineering from Colorado State University. Among many utility-related positions, he has served on the Board of Directors and as President of the Colorado Association of Municipal Utilities, Chairman of the Executive Board of the Florida Electric Power Coordinating Group, a member of the Board of Directors of the Florida Reliability Coordinating Council, including two years as Chairman, Chairman of the Southern/Florida Reliability Agreement Executive Council, and a member of the Board of Directors,

previously as Secretary Treasurer and as President, of the Florida Municipal Electric Association. Mr. Wailes currently serves on the Board of Directors of the Nebraska Power Association, the Lincoln Chamber of Commerce, the American Public Power Association and as a member of the North American Electric Reliability Corporation Electricity Sub-Sector Coordinating Council.

Vice President and Chief Financial Officer – Laura Kapustka, age 50, has held this position since November 2010. Prior to that, Ms. Kapustka was employed by Omaha Public Power District for over 25 years. Ms. Kapustka has a Bachelor of Science degree in Business Administration and a Masters in Business Administration from the University of Nebraska at Omaha. She also has a risk management designation from the Insurance Institute of America. Ms. Kapustka's responsibilities include: accounting and financial reporting, debt management, financial forecasting, corporate budgeting, risk and insurance management, portfolio management, management oversight of retail rate programs, load forecasting, revenue forecasting, and market research.

Vice President and Chief Operating Officer – Douglas D. Bantam, age 61, has held this position since June 2009. Mr. Bantam previously acted as Vice President of Power Supply and previously held positions at LES as Chief Engineer of Generation Engineering, Supervising Engineer and Senior Engineer in Generation Engineering. Prior to that, Mr. Bantam had been employed by Burns and McDonnell Engineering. Mr. Bantam has been employed by LES for 34 years, has a Bachelor of Science in Electrical Engineering from the University of Nebraska-Lincoln and is a Registered Professional Engineer. Mr. Bantam provides management oversight of four operating divisions which include Power Supply, Energy Delivery, Corporate Services and Customer Services. He also serves as a board member for the Nebraska Utility Corporation. The position of Vice President of Customer Services is currently vacant. In the interim timeframe, prior to the hiring of the new vice president, the following duties are being managed by Mr. Bantam: meter asset management, meter reading, billing, customer accounting and service, credit and collections, energy service/account management, new products and services, and economic development.

Vice President and General Counsel - Shelley R. Sahling-Zart, age 50, has held this position since August 2011. Prior to her current position, she acted as vice president and assistant counsel. Ms. Sahling-Zart has been employed by LES for 24 years, holds a Bachelor of Arts degree in Political Science from Doane College and Juris Doctorate from the University of Nebraska-Lincoln College of Law. She is a member of the American Bar Association and Nebraska State Bar Association. Ms. Sahling-Zart has served two terms on the Board of Directors for the American Public Power Association and also serves on the Board of Directors for the Nebraska Utility Corporation. She is also serving a three-year term on the federal Surface Transportation Board's Rail-Shipper Transportation Advisory Council. Ms. Sahling-Zart is responsible for legal affairs, government relations, strategic planning, customer and corporate communications and records, and corporate policy analysis.

Vice President of Corporate Services – Steven L. Adams, age 58, has held this position since March 2008. Mr. Adams joined the organization following 36 years as a U.S. Air Force and Nebraska Air National Guard Officer. In that capacity, he held multiple levels of command culminating in him serving as the Assistant Adjutant General – Air, Nebraska National Guard. He has a Bachelor's degree from the University of Nebraska and a Master's in Strategic Studies from Air University. Mr. Adams is responsible for all LES buildings and grounds, purchasing, stores, office services, tools, transportation, safety, human resources and information technology.

Vice President of Power Supply – Jason L. Fortik, age 40, has held this position since September 2011. Mr. Fortik has worked at LES since May 1995, most recently serving as Manager of Resource and Transmission Planning in the Power Supply Division. He also has held several engineering positions in both the Power Supply and Energy Delivery Divisions at LES. Mr. Fortik earned a Bachelor

of Science degree in electrical engineering from the University of Nebraska-Lincoln. He also holds a Bachelor of Technology degree in industrial supervision from Peru State College, and an Associate of Applied Science degree in electrical technology from Southeast Community College. He is currently working on a Master's degree in Business Administration at the University of Nebraska-Lincoln.

Vice President of Energy Delivery - Danny L. Pudenz, age 57, has been Vice President of Energy Delivery since June 2000. Prior to that, he served as Division Manager of Operations since 1997. Mr. Pudenz has been employed at LES for 34 years, has a Bachelor of Science in Civil Engineering from Iowa State University and is a Registered Professional Engineer. His duties include oversight of the planning, budgeting, design, construction, operations, and maintenance of the transmission, substation, distribution and communications systems as well as property management and Geographical Information Systems ("GIS") coordination.

Employee Relations and Benefit Programs

LES has approximately 480 employees. It maintains competitive compensation and fringe benefit programs and supports continuing education and training. The overall turnover rate for the past three years has been approximately 2% annually. Approximately 152 employees in the trades and crafts, meter reading, and credit representatives' categories are represented by local bargaining units of the International Brotherhood of Electrical Workers (IBEW) Local 1536. LES' existing two-year contract with trades and crafts employees expires December 31, 2012. The contract may be renewed for one year if neither of the parties gives notice to re-open the contract.

In late 2011 LES received requests from two groups—credit representatives and meter readers—to be recognized as part of the IBEW Local 1536. LES has executed a Memorandum of Understanding with the IBEW to include the credit representatives within the existing trades and crafts bargaining unit. The meter readers requested recognition as part of the IBEW Local 1536, but as a separate bargaining unit. A new contract with the meter reader unit is being negotiated with the expectation that negotiations will be completed by the fall of 2012.

LES has a defined contribution retirement plan covering all employees upon hire. The total retirement contribution, including the employee contribution but net of employee forfeitures, was \$5,728,000 and \$5,420,000 for the years ended December 31, 2011 and 2010, respectively. LES' contribution is equal to 200% of the employees' contributions up to 5% of gross wages for employees hired at LES prior to January 1, 2011. The contributory rate for employees hired after that date is equal to 100% of the employee contribution, up to 10%. Vesting of LES contributions is a stepped vesting schedule, with employees being fully vested after three years. Employee forfeitures are used to reduce employer contributions. Vested benefits are fully funded.

LES has no post retirement benefit program liability.

Payments in Lieu of Taxes

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

In 2011, \$11.3 million of LES' revenues were accrued pursuant to this provision of the City Charter, a 1.2% increase from 2010 resulting from higher retail sales and rate increases. Of the 2011 amount the City received 16.8%, Lancaster County received 14.3%, Lincoln Public School District received 66.3% and the City of Waverly received 2.6%. The estimated amount for 2012 is \$12.0 million. Over the past 45 years, LES has paid \$211.7 million in lieu of taxes.

City Dividend for Utility Ownership

Effective September 1, 2011, LES began collecting a City Dividend for Utility Ownership from its customers. The dividend is a payment to the City of Lincoln for its ownership of LES. The dividend is required by an ordinance that was approved by the Council (the "Dividend Ordinance"). LES is required to make a dividend payment to the City equivalent to 2.4 percent of its Total Net Assets (equity). It will provide approximately \$6.3 million to the City in the first year. The Dividend Ordinance also requires that when the annual dividend equals or exceeds \$7 million, the amount of the annual dividend would increase by 2 percent or the Consumer Price Index, whichever is greater. The dividend is listed on LES electric bills as a separate item.

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

In 2011, \$2.1 million of LES' revenues were paid to the City pursuant to the Dividend Ordinance. The estimated amount for 2012 is \$6.4 million.

Nebraska Power Review Board

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

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

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

RATES

General

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

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

Rate Design

LES' rates are designed by LES staff using cost of service principles and do not include an automatic fuel cost adjustment. Rates are adopted by the LES Administrative Board after a public hearing and then recommended to the City Council for approval. The City Council has final authority to approve LES' rate adjustments and has always approved such adjustments, albeit with occasional modifications to size. The table set forth below under the sub caption "History of Rate Changes" lists average retail rate changes since 2003; rate changes for individual customer classes have been lower and higher than the average rates.

History of Rate Changes

Over the last five years, LES retail sales have represented 88.6% of LES' operating revenues. The average retail rate changes since 2003 are as follows:

Effective Date	Average % Change
April 1, 2003	5.0
October 15, 2004	3.0
August 1, 2005	9.0 ⁽¹⁾
February 13, 2006	4.9
March 1, 2008	5.0
September 1, 2008	9.1 ⁽²⁾
January 1, 2010	2.4
January 1, 2011	2.5 ⁽³⁾
January 1, 2012	3.5

⁽¹⁾ Reflects increased fuel, freight and operations costs at LES' owned generation facilities.

⁽²⁾ Reflects increased natural gas prices.

⁽³⁾ The City Dividend for Utility Ownership, 2.4% of Total Net Assets, was added to bills September 1, 2011, and is not considered by LES to be part of its rates.

For 2011, LES' average billed retail revenue was \$.0732 per kilowatt-hour ("kWh") and for 2012 is budgeted at \$.0761 per kWh.

DISTRICT ENERGY CORPORATION

On December 18, 1989, articles of incorporation creating the District Energy Corporation of Lincoln and Lancaster County, Nebraska (“DEC”) were filed with the Nebraska Secretary of State for the purpose of creating a nonprofit corporation to own, operate, maintain and finance district heating and cooling facilities for existing and future buildings of Lancaster County, Nebraska (the “County”) and Lincoln, Nebraska (the “City”). As a result of amendments to Nebraska law, on March 27, 1992, the County and the City entered into an Interlocal Cooperation Agreement (the “DEC Agreement”) with respect to DEC and on April 5, 1992, and amended and restated articles of incorporation for DEC were filed with the Nebraska Secretary of State. DEC is authorized pursuant to the DEC Agreement and its articles of incorporation to provide for purchasing, leasing, constructing and financing facilities and the acquisition of services in order to furnish energy requirements and related services to the City and the County and to such other persons and entities as the City and the County may be authorized by law to serve. Under the DEC Agreement, LES may appoint at least one member of the DEC Board of Directors. LES has also entered into a Management Agreement with DEC, dated December 15, 1989 (the “DEC Management Agreement”), pursuant to which LES provides operational and financial management services for DEC. The DEC Management Agreement expired on December 15, 2009, but remains in effect on a year-to-year basis until either party gives the other 12 months’ notice of termination. LES receives a management fee based on the fully allocated cost of services provided by LES. For the year ended December 31, 2011, LES received \$811,000 from DEC as a management fee.

NEBRASKA UTILITY CORPORATION

On May 17, 2001 the City on behalf of LES and the Board of Regents of the University of Nebraska (the “Regents”) entered into an Interlocal Cooperation Agreement Establishing the Nebraska Utility Corporation (the “NUCorp Agreement”) and on May 21, 2001, articles of incorporation for the Nebraska Utility Corporation (“NUCorp”) were filed with the Nebraska Secretary of State. NUCorp was created for the purpose of providing for purchasing, leasing, constructing and financing facilities and acquiring services in order to furnish energy requirements, utility and infrastructure facilities and related energy, utility and infrastructure services to the City and the Regents and to such other persons and entities as the City and the Regents may be authorized by law to undertake. The NUCorp Agreement establishes a five-member Board of Directors, of which LES appoints two and the Regents appoint three. LES has also entered into an Energy Management Agreement with NUCorp, dated May 30, 2001 (the “NUCorp Management Agreement”), pursuant to which LES provides financial support relative to electrical and thermal energy systems on the University of Nebraska-Lincoln campus for NUCorp, and manages the business and financial matters of NUCorp. The NUCorp Management Agreement expires on the later of May 30, 2026 or the date on which all long-term indebtedness of NUCorp has been paid or is deemed to be paid. Thereafter the NUCorp Management Agreement remains in effect on a year-to-year basis until either party gives the other 12 months’ notice of termination. LES receives a management fee based on the fully allocated cost of services provided by LES. For the year ended December 31, 2011, LES received \$119,000 from NUCorp as a management fee.

POWER SUPPLY

Summary of Resources

LES satisfies its capacity and energy requirements from the following resources:

- (a) LES-owned generation facilities comprised of (i) output associated with LES’ undivided ownership interest, as a tenant in common, in the Missouri Basin Power Project and its Laramie River Generating Station (“LRS”) operated and maintained by Basin Electric Power

Cooperative (“Basin”), (ii) generation from four LES-owned combustion turbines located at the Rokeby Generating Station and 8th & J Street, and two wind turbines located next to the Terry Bundy Generating Station, (iii) a combined cycle and peaking generating facility located at the Terry Bundy Generating Station (see LES-Owned Generation), and (iv) output associated with LES’ joint ownership interest in the Walter Scott Energy Center Unit #4 (“WSEC #4”) operated and maintained by Mid American Energy Corporation (“MEC”);

(b) Purchases from Nebraska Public Power District (“NPPD”), under separate participation contracts, of a portion of the output of the Gerald Gentleman Station, the Sheldon Generating Station and two wind farms (see “Participation Contracts with Nebraska Public Power District”); and

(c) Other power purchase arrangements include purchases from (i) the United States Department of Energy, Western Area Power Administration (“WAPA”), and (ii) purchases through the Southwest Power Pool (“SPP”).

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Total resources available during 2012 (net after sales of capacity) are projected by LES to be 1,045 megawatts (“MW”).

Unit Name	Fuel Type	Lead Owner	Commercial Operation Date	Net Capability (MW)	LES Share (%)	LES Share (MW)
Owned Units						
Laramie River (Net to LES)	Coal	Basin	1982	1710.0	10.49	179.0
Walter Scott ⁽¹⁾	Coal	MEC	2007	818.0	12.66	104.0
J Street Combustion Turbine	Gas/Oil	LES	1972	27.0	100.0	27.0
Terry Bundy 1 (Steam Unit) ⁽²⁾	Gas/Oil	LES	2004	27.5	100.0	27.5
Terry Bundy 2 (Combustion Turbine) ⁽²⁾	Gas/Oil	LES	2003	46.3	100.0	46.3
Terry Bundy 3 (Combustion Turbine) ⁽²⁾	Gas/Oil	LES	2004	46.5	100.0	46.5
Terry Bundy 4 (Combustion Turbine)	Gas/Oil	LES	2003	47.1	100.0	47.1
Terry Bundy Black Start Diesel	Oil	LES	2004	1.6	100.0	1.6
Rokeyby 1 (Combustion Turbine)	Gas/Oil	LES	1975	63.0	100.0	63.0
Rokeyby 2 (Combustion Turbine)	Gas/Oil	LES	1997	86.0	100.0	86.0
Rokeyby 3 (Combustion Turbine)	Gas/Oil	LES	2001	89.0	100.0	89.0
Rokeyby Black Start Diesel	Oil	LES	1997	3.0	100.0	3.0
Local Wind Turbines 1 & 2 ⁽³⁾	Wind	LES	1998/1999	1.3	100.0	1.3
Power Purchase Program (Non-Firm)	DSM	LES	1999	3.0	100.0	3.0
Participation Units						
Gerald Gentleman	Coal	NPPD	1982	1365.0	8.0	109.2
Sheldon	Coal	NPPD	1968	225.0	30.0	67.5
Elkhorn Ridge Wind Farm ⁽³⁾	Wind	NPPD	2009	80.0	7.5	6.0
Laredo Ridge Wind Farm ⁽³⁾	Wind	NPPD	2011	80.0	12.5	10.0
Firm Contracts						
Western Area Power Administration	Hydro	WAPA	1974			127.0
TOTAL						<u>1044.0</u>

(1) LES is a 12.66% joint owner of Walter Scott #4 operated by MEC.

LES has an agreement with MEC whereby MEC will provide 50 MW of Walter Scott #3 in a swap for 50 MW of LES' 104 MW share of Walter Scott #4.

(2) Terry Bundy units 1, 2 and 3 are normally operated as a 2 on 1 Combined Cycle Unit.

(3) Available for energy production, capacity not accredited with SPP.

The following sections provide a summary description of each of the above-mentioned resources and related contractual arrangements. For detailed information on applicable environmental regulations

see “FACTORS AFFECTING LES AND THE ELECTRIC UTILITY INDUSTRY—Environmental and Other Permits and Approvals.”

LES-Owned Generation

Missouri Basin Power Project.

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

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

The MBPP Participants have entered into a participation agreement (as amended to the date hereof, the “MBPP Participation Agreement”) which provides for the disposition of the LRS output and use of transmission facilities for service to the MBPP Participants under various conditions of operation, and the payment of costs associated with MBPP. The MBPP Participation Agreement became effective in 1977, and extends for 50 years. The MBPP Participation Agreement provides that the administration, construction, completion, operation and maintenance of MBPP shall be the responsibility of a Management Committee, consisting of one representative of each MBPP Participant, with each representative having one vote.

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

	Entitlement in MBPP
Electric Cooperatives:	
Basin	42.27%
Tri-State	24.13
Public Bodies:	
LES ⁽¹⁾	12.76
Western Minnesota	16.47
Heartland	3.00
Wyoming Municipal	1.37
Total	100.00%

⁽¹⁾ Includes capacity sold to non-participants Municipal Energy Agency of Nebraska (“MEAN”), approximately 28MW (1.67%) and Los Alamos, approximately 10MW (.61%).

The MBPP Participation Agreement provides that certain costs of operation and maintenance directly related to kWh output shall be shared and paid for by the MBPP Participants as a function of net

energy generation scheduled and produced for them. Remaining costs are shared and paid for in proportion to the MBPP Participants' respective entitlement shares.

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

LES made sales from LRS to non-participants of approximately 1.67% to the MEAN and 0.61% to the Department of Public Utilities, County of Los Alamos, New Mexico. After these sales, LES currently has for its own use approximately 10.5% of MBPP capacity amounting to 179 MW.

Historical operating statistics and energy costs for LRS Units are summarized in the following table:

LES Share of Laramie River Station					
	2007	2008	2009	2010	2011
Net Capability (MW)	179	179	179	179	179
Net Generation (MWh)	1,334,227	1,402,998	1,218,974	1,415,917	1,370,304
Capacity Factor (%)	85.09	89.47	77.74	90.30	87.39
Energy Cost (\$)	14,816,449	17,497,211	14,734,427	15,572,114	15,972,942
Energy Rate (\$/MWh)	11.10	12.47	12.00	10.94	11.65

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

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

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

MBPP Transmission Facilities. The transmission facilities constructed and operated as a part of MBPP consist of approximately 742 miles of 345 kV and 230 kV transmission lines and various

substation and switching facilities. Basin is the Operating Agent for both the east side and the west side transmission facilities, but has delegated such responsibility for the west side transmission facilities to Tri-State. Although the MBPP transmission facilities are identified as “west side” and “east side” facilities, the cost of all the transmission facilities are shared by the MBPP Participants on an entitlement share basis.

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

Water Supply. The original LRS water requirements are supplied from four sources as follows: (i) water rights in the Boughton Ditch, located about 100 miles upstream from the Grayrocks Dam and Reservoir, (ii) water rights associated with land acquired for the LRS that is inundated by waters stored in the Grayrocks Reservoir, (iii) the unused and unappropriated flows of the Laramie River stored in the Grayrocks Reservoir, and (iv) ground water pumped directly to the plant site from wells on property known as the Johnson Ranch, located about two miles northwest of the LRS. In previous years under drought conditions, MBPP has also purchased water from other area landowners. These purchased water quantities were delivered directly to the generating station, through pipelines laid on the ground, to supplement the normal reservoir quantities. Grayrocks Dam and Reservoir is the primary water supply for MBPP and is located on the main stem of the Laramie River. The dam was completed in July 1980 with a reservoir storage capacity of approximately 104,000 acre-feet and a surcharge capacity of 42,700 acre-feet. The principal spillway was designed with the capacity to pass the largest flood experienced during the 57 years of record for the Laramie River. Water for cooling is pumped from Grayrocks Reservoir by pipeline to LRS.

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

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

Fuel for the MBPP is delivered exclusively by the Burlington Northern and Santa Fe railroad (“BNSF”). The Laramie River Station is considered captive to BNSF transportation. Since initial commercial operation of the Laramie River Station, coal was delivered under a freight contract that provided predictable and competitive rates to the facility. This contract expired in 2004 and Basin and Western Fuels Association were unsuccessful in reaching agreement with BNSF to extend the contract. Coal deliveries are now provided under a BNSF freight tariff specifically addressing the MBPP service. With the 2004 change from contract to tariff rate structure the freight charges for delivery to LRS were significantly increased. Due to the increased freight cost, MBPP filed a complaint with the U.S. Surface Transportation Board (“STB”). On October 19, 2004, Western Fuels Association and Basin Electric filed a complaint with the STB alleging that the BNSF rates for the movement of coal from the Powder River Basin to the Laramie River Station are unreasonably high and asked the STB to set reasonable rates.

By December of 2005, the parties had filed all of the documents and testimony required for a decision in the case. However, on February 27, 2006, the STB initiated a rulemaking procedure to develop standards and guidelines for analyzing certain revenues and expenses used in deciding these cases. The rules were finalized on October 30, 2006 and the STB applied them retroactively to all cases pending.

On September 10, 2007, the STB issued its decision which in essence provided no significant rate relief. However, it did acknowledge that the October 30, 2006, rulemaking may have adversely affected the type of evidence submitted and thus allowed Western Fuels and Basin Electric to resubmit some of the key evidence in the case.

On February 18, 2009, the STB issued its Order holding that the BNSF rates charged to Western Fuels for the coal deliveries to the Laramie River Station were unreasonable. The STB’s preliminary analysis reflected an overall reduction in the rates to the LRS of approximately 60%. The decision required the BNSF to make a lump-sum reparations payment to Western Fuels for the period fourth quarter 2004 through March 19, 2009. The reparations payment would ultimately total \$119,958,226 (including accrued interest).

The BNSF was also required to implement a reduction of the tariff for the LRS deliveries during the period March 20, 2009 through 2024. Without consulting Western Fuels or Basin Electric, as required by the STB Order, the BNSF reduced the freight rates for subsequent deliveries to the LRS by approximately 40%. This reduction was less than the amount noted in the STB preliminary analysis. The STB Order further noted that if the parties could not agree on the calculations of the actual reduction and refund amounts, the STB would make the final decision.

On July 23, 2009, the STB issued its ruling on the rate calculation concluding that the BNSF tariff should be reduced by 48%. On September 23, 2009, the parties jointly filed a Statement of Damages and unopposed petition for an Order Directing Payment.

On November 18, 2009, the BNSF paid Basin Electric \$119,958,226 in reparations. Basin Electric paid to the MBPP Participants their proportionate share of the funds. LES is holding its share in escrow pending a final decision. On December 1, 2010, the BNSF filed a petition for a writ of certiorari with the U.S. Supreme Court (to review the decision of the D.C. Circuit), which was subsequently denied by the Court. The BNSF appealed the STB decision to the Court of Appeals for the D.C. Circuit. On May 11, 2010, the Court decided two of the three issues in favor of Western Fuels/Basin Electric. On the third issue, the Court remanded the decision back to the STB directing them to explain in greater detail why their methodology for allocating variable costs did not constitute double counting of certain revenues. On June 25, 2010, the BNSF petitioned the D.C. Circuit for a rehearing.

This motion was denied on September 2, 2010 and on September 14, 2010 the case was remanded to the STB. The briefing on the remand issue was completed in April 2011. On June 13, 2012, the STB issued an order that explained and affirmed its previous decision, and discontinued the proceeding effective June 15, 2012. It is unknown at this time if BNSF will seek an appellate option regarding the decision.

In 2010, Berkshire Hathaway, a large holding company, acquired the BNSF for a total price of approximately \$43 billion. As part of the acquisition, Berkshire Hathaway paid a substantial premium over the railroad's pre-acquisition book value. This premium is approximately \$8.1 billion using the STB's regulatory costing methodology. The current regulatory structure permits BNSF to include the \$8.1 billion premium in its Annual R-1 report, which will be used by the STB to create BNSF's 2010 Uniform Railroad Costing System ("URCS") data set, which resulted in a substantial increase in BNSF's variable costs as well as an increase in shipper rates. In May 2011 the Western Coal Traffic League ("WCTL") filed a petition for a declaratory order seeking to exclude the premium from BNSF's regulatory rate base. The STB opened Docket No. FD 35506 in September 2011 and written comments and evidence were received through December 2011. A public hearing and oral arguments were held on March 22, 2012. A decision of the STB is pending. Basin Electric Power Cooperative, on behalf of the MBPP participants, has requested that the Laramie River Station rates be retroactively adjusted to remove the Berkshire Hathaway premium if the STB ultimately deems the inclusion of the premium in the regulatory rate base to be improper. The impact of the premium to the Laramie River Station participants is estimated at about \$25 million over the remaining term of the STB's prescription period in the Laramie rate case (through 2024). The annual impact on Laramie transportation charges is about \$1.9 million. The annual rate impact to LES is estimated at nearly \$600,000 per year.

Clean Air Act. Based on analyses of projected SO₂ emissions from Laramie River Station and the allowances under the current program, SO₂ allowances are sufficient for operation of LRS. In the event that the actual generation exceeds projections, it may be necessary to reduce SO₂ emissions or acquire additional allowances. LRS currently operates within the Clean Air Act's NO_x emissions limitations.

For electric utility steam generating units, the Clean Air Act directed the Environmental Protection Agency ("EPA") to perform a study of the reasonably anticipated risks to public health from the emission of the listed toxic substances from electric utility steam generating units. The new regulations proposed by the EPA include a provision for the subcategorization of certain coals by heating value rank, and therefore may provide some regulatory relief for lower ranked coals used at LRS. The costs, however, of implementing these controls cannot be estimated at this time since the level of control or systems to implement them have not yet been established.

On November 16, 2010, the Wyoming Department of Environmental Quality, Air Quality Division ("DEQ/AQD") and Basin Electric Power Cooperative ("Basin Electric"), entered into a settlement agreement to fully and finally resolve and dispose of all matters related to Basin Electric's Appeal and Petition for Review docketed before the Wyoming Environmental Quality Council as Docket No. 10-2802 wherein Basin Electric challenged condition 16 of Best Available Retrofit Technology ("BART") Permit MD-6047 for the three coal-fired boilers at the LRS.

The current Title V Operating Permit was issued for the LRS on June 24, 2009. The current Phase II Acid Rain Permit was issued for the LRS on June 24, 2009.

Clean Water Act. At the present time, the required permits under the Clean Water Act are in place for LRS.

Regional Haze Program. LRS is subject to the Regional Haze Program. The DEQ/AQD has considered all relevant statutory and regulatory factors concerning BART, reasonable progress goals and long-term strategy for Regional Haze and has determined that the emission reductions and other terms provided for in this settlement agreement meet all requirements applicable to the LRS under the Regional Haze Rule through December 31, 2018 and Wyoming statutes and regulations respecting Regional Haze and Basin Electric is prepared to reduce emissions at the LRS and meet the other terms of the settlement agreement to comply with the said determination of the DEQ/AQD concerning Regional Haze requirements.

Walter Scott Energy Center Unit #4 (“WSEC #4”). The WSEC #4 project consists of a fourth unit constructed at MidAmerican Energy Company’s (“MEC”) Walter Scott Energy Center on the Missouri River south of Council Bluffs, Iowa. This 818 MW coal-fired unit utilizes high efficiency supercritical boiler technology and state of the art emission control facilities. MEC is the plant’s Operating Agent for the fourteen joint owner utilities.

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

Participant	Percentage	Share of Capacity (MW)
MidAmerican Energy Company	59.66%	488
Lincoln Electric System	12.66%	104
Central Iowa Power Cooperative	9.55%	78
Municipal Energy Agency of Nebraska	6.92%	57
Corn Belt Power Cooperative	5.60%	46
City of Cedar Falls, Iowa	2.14%	18
City of Spencer, Iowa	1.14%	9
City of Eldridge, Iowa	0.56%	5
City of New Hampton, Iowa	0.53%	4
City of Montezuma, Iowa	0.42%	3
City of Waverly, Iowa	0.40%	3
City of Alta, Iowa	0.14%	1
City of Sumner, Iowa	0.14%	1
City of West Bend, Iowa	0.14%	1

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

Water Supply. Unlike the other units on the site which use the Missouri River for their water supply, WSEC #4 utilizes ground water for its primary source of plant water. Six high capacity wells have been drilled on MEC property surrounding the plant. Five of the wells can supply WSEC #4 peak

load conditions with the sixth well providing emergency capacity. The unit also utilizes a cooling tower, as opposed to using river water, as its primary cooling system, further reducing water consumption.

Fuel Supply. The WSEC #4 site can be served by dual rail carriers (BNSF and Union Pacific Railroad Company (“UP”). WSEC #4, along with the other coal-fired generating stations operated by MEC, is fueled by low-sulfur western coal from the Powder River Basin. MEC’s coal supply portfolio includes multiple suppliers and mines under short-term and multi-year agreements of varying quantities. MEC’s coal supply portfolio has approximately 90% of its 2012 requirements under fixed-price contracts. MEC regularly monitors the western coal market, looking for opportunities to enhance its coal supply portfolio.

Environmental. WSEC #4 is required to hold SO₂ allowances under the current Acid Rain Program (“ARP”). Because WSEC #4 is a new unit, all SO₂ allowances will be purchased by or transferred to this unit. Beginning in 2010, CAIR required a 50 percent reduction below the ARP emissions cap. Iowa has chosen to implement the federal CAIR in its State Implementation Plan (“SIP”). The reduction will be achieved by reducing the value of SO₂ allowances associated with WSEC #4 (i.e., two allowances will be required for each ton of emissions). In 2015, the reduction will be 65 percent below the ARP cap, requiring 2.86 allowances for each ton of emissions.

Beginning in 2009, WSEC #4 was required to obtain NO_x allowances equal to the amount of NO_x emitted. State budgets for NO_x emissions under CAIR are based on caps established by the EPA. The Phase I cap took effect in 2009. The Phase II cap, which will be lower, will take effect in 2015.

If implemented unchanged, the Cross-State Air Pollution Rules (“CSAPR”) will also require WSEC #4 to hold CSAPR NO_x and SO₂ allowances.

The allowances are shown in the table below.

NO_x Allowance Allocations to WSEC #4

NO_x Control Period	2009 - 2014	2015 and After	Unit of Measure
Annual	713	356	Tons
Ozone	311	155	Tons

Lincoln Electric System’s share will be 12.66 percent of the allocated allowances.

WSEC #4 uses activated carbon injection to control mercury emissions.

An application was submitted to the Iowa Department of Natural Resources (“IDNR”) on March 31, 2006 to modify the WSEC wastewater discharge permit. The IDNR issued the final modified permit on October 15, 2006.

Historical operating statistics and energy costs for LES' share of WSEC #4 are summarized below:

LES Share of Walter Scott Energy Station #4					
	2007	2008	2009	2010	2011
Net Capability (MW)	51	104	104	104	104
Net Generation (MWh)	432,430	790,475	768,451	738,650	768,020
Capacity Factor (%)	96.79	89.34	86.65	83.49	86.81
Energy Cost (\$)	3,611,303	7,311,640	7,967,383	8,466,918	9,349,744
Energy Rate (\$/MWh)	8.35	9.25	10.37	11.46	12.17

Local Resources.

General. LES owns five simple cycle combustion turbines, which are referred to as the J Street Station, the Rokeby Station Unit 1, Unit 2 and Unit 3 and Terry Bundy Generating Station Unit 4. Terry Bundy Generating Station also includes a 2 on 1 (2 combustion turbines and 1 steam unit) combined cycle unit. Additionally LES owns two wind turbines, referred to as the Salt Valley Wind Farm unit 1 and unit 2. Although the local resources will provide approximately 43% of LES' projected 2012 generating resource capacity, it is anticipated that they will be used primarily for peaking or intermediate service and only provide approximately 6% of LES' energy requirements. The historical operation of LES' local generation resources is shown below.

LES Local Generation					
	2007	2008	2009	2010	2011
Net Capability (MW)	432	432	432	437	437
Net Generation (MWh)	248,084	144,823	64,215	125,442	101,284
Capacity Factor (%)	6.56	3.83	1.70	3.28	2.65
Energy Cost (\$)	16,269,065	11,193,878	3,690,192	6,124,223	4,888,898
Energy Rate (\$/MWh)	65.58	77.29	57.47	48.82	48.27

J Street Generating Station ("J Street"). J Street is located at 725 J Street close to the down town area of the city and has one Westinghouse 251B simple cycle combustion turbine. The site also is equipped with a small auxiliary diesel generator to maintain unit availability in the event of a loss of system power. A maintenance building that includes shop and office space is located adjacent to turbine compound. The unit has a generating capacity of 27MW and entered commercial operation in 1972.

Rokeby Generating Station ("Rokeby"). Rokeby is located at 8000 SW 12th Street and the site includes two ABB/Alstom Frame 11N simple cycle combustion turbines and a General Electric Frame 7B

unit. All Rokeby turbine generators have been equipped with the required inlet structure to allow for inlet air cooling to significantly increase the summer capacity. The Rokeby site also includes the LES Back-Up Control Center and Turbine Operations Building, and a 3 MW Black Start generator. The Rokeby facilities provide the operations and maintenance support for the LES-owned peaking generation. The Back-Up Control Center in the lower level of the operation structure at Rokeby is equipped to support system emergency operations in the event of a loss of the primary LES Service Center. Rokeby utilizes groundwater resources for various plant processes such as cooling tower make-up, fire suppression, service water, water injection to the combustion turbines and other plant processes. The use of groundwater can require treatment such as chemical additives and/or the utilization of the site's membrane Reverse Osmosis ("RO") de-ionization system. The ABB/Alstom turbines have generating capacities of 86MW and 89MW and entered commercial operation in 1996 and 2001, respectively. The General Electric turbine has a generating capacity of 63MW and entered commercial operation in 1975.

Terry Bundy Generating Station ("TBGS"). The TBGS was constructed as a combination of combustion turbines and a steam turbine generator. Combining these two cycles provides a significantly higher efficiency when compared to LES' other simple cycle turbines. The site is located in the northeast quadrant of LES' service territory, and has ready access to fuel, water and transmission resources. Because the Lincoln area has insufficient ground or surface water to support the operation requirements of TBGS, the plant uses up to 3,000 gpm of treated effluent from Lincoln's Northeast Waste Water Treatment Plant located two miles south of the plant. The effluent source water provides for TBGS functions such as cooling tower make up, boiler make up in the steam cycle, fire suppression, service water, water injection to the combustion turbines for emissions control and other plant processes. After cycling through the TBGS plant processes, the wastewater generated is collected in an onsite 11 million gallon holding pond and pumped back to the wastewater treatment plant for treatment. The final commercial operation date for all units on the site was August 1, 2004. This project provides LES with approximately 175 MW of generating capacity.

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

Salt Valley Wind Farm ("Wind Turbines"). The Wind Turbines are located at 9700 north 70th Street just north of interstate 80 on the east edge of the city. Both Wind Turbines are Vestas model V47s rated at 660kw each. Vestas is currently under contract to provide all major maintenance and 24 hour alarm monitoring services for the site. The farm has a combined generating capacity of 1.32MW with unit one entering commercial operation in 1998 and unit two in 1999.

Fuel Supply. J Street, Rokeby and TBGS utilize natural gas with number 2 fuel oil as a backup. For J Street, natural gas is delivered through the city gas distribution piping to a gas compression plant located on the site and then to the turbine. Fuel oil is hauled by truck from the Rokeby tank to the J Street Station if gas is not available or oil is less expensive for the operation of that unit. J Street currently has approximately 130,000 gallons of fuel oil in storage at this location with capacity for 215,000 gallons. At Rokeby, natural gas is delivered from an interstate pipeline to the site through two high pressure lines constructed specifically for the Rokeby site. Provisions are in place to perform online switching to fuel oil. The Rokeby fuel oil is supplied from a pipeline operated by Magellan Pipeline and stored in a 2 million gallon oil tank at Rokeby. Oil from the Rokeby tank is hauled by truck to the J Street Station if gas is not available or oil is less expensive for the operation of that unit. LES currently has approximately 800,000 gallons of fuel oil in storage at Rokeby. The natural gas for TBGS is delivered from an interstate pipeline to the generating site through an LES-owned 6 mile high pressure gas pipeline. LES has established contracts with the interstate pipeline operator for long-term firm transportation and

interruptible transportation for both generating sites. TBGS has 2 million gallons of fuel oil storage tank capacity on site. Fuel oil must be hauled to the TBGS site.

Environmental and Other Permits and Approvals. LES combustion turbines operate under federally enforceable air pollution permits issued by the Lincoln Lancaster County Health Department (“LLCHD”). These permits include Title V Operating Permits in conformance with the Clean Air Act Amendments Title V Operating Permit Program, and Phase II Acid Rain Permits. The current Title V Operating Permit was issued for TBGS on August 20, 2009. The current Phase II Acid Rain Permit was issued for TBGS on January 8, 2010.

The current Title V Operating Permit was amended for Rokeby on August 1, 2009. A renewal Title V Operating Permit Application was submitted to LLCHD on May 23, 2005. The current Phase II Acid Rain Permit was issued for Rokeby on January 1, 2010. The current Title V Operating Permit was issued for J Street on May 10, 2006. LES also maintains National Pollutant Discharge Elimination System (“NPDES”) permits covering all water discharges from the TBGS and Rokeby sites.

TBGS, Rokeby, and the J Street Station burn very low sulfur fuels. The primary fuel is pipeline quality natural gas. The secondary fuel is low sulfur #2 fuel oil. TBGS Units 2, 3, and 4, and Rokeby Units 2 and 3 are subject to acid rain regulations and LES maintains sufficient SO₂ allowances for each year of operation.

TBGS, Rokeby, and the J Street Station are not subject to the CAIR, but are subject to CSAPR. TBGS, Rokeby, and the J Street Station are not subject to the Mercury Air Toxics Standard (“MATS”) rule.

If implemented unchanged, CSAPR will require the Rokeby Station, the J Street Station, and TBGS to hold NO_x and SO₂ allowances.

The current Title V Operating Permit was issued for TBGS on August 20, 2009. The current Phase II Acid Rain Permit was issued for TBGS on January 8, 2010.

The current Title V Operating Permit was amended for Rokeby on August 1, 2009. A renewal Title V Operating Permit Application was submitted to LLCHD on May 23, 2005. The current Phase II Acid Rain Permit was issued for Rokeby on January 1, 2010.

The current Title V Operating Permit was issued for J Street on May 10, 2006.

LES also maintains NPDES permits covering all water discharges from the TBGS and Rokeby sites. The process of pumping wastewater directly to the treatment plant at TBGS is authorized by a NPDES Pretreatment Permit which was issued on January 1, 2009 and makes the site a “zero discharge” facility.

The Nebraska Department of Environmental Quality published its updated NPDES Industrial Stormwater General Permit on July 1, 2011. Since 2002 TBGS has had the proper authorization and program in place to maintain compliance. On January 25, 2012 the Nebraska Department of Environmental Quality (“NDEQ”) acknowledged that according to the information submitted, the TBGS meets the terms and conditions of the No-Exposure Exclusion from the NPDES Industrial Stormwater Program. The No Exposure option is available to all facilities whose industrial materials and activities are protected by a storm resistant shelter to prevent exposure to rain, snow, snowmelt, and/or runoff.

Rokeby Generation Station is authorized to discharge from a series of outfalls onsite to stream segment LP2-30100 of the Platte River Basin through NPDES Permit No. 0123935 issued on November 1, 2007. A renewal application was submitted on June 30, 2011 to the Nebraska Department of Environmental Quality (“NDEQ”) which was 180 days before the December 31, 2011 date the permit was due to expire. On January 5, 2012 NDEQ administratively extended Rokeby Station’s authorization to discharge under the existing permit. The new NPDES Permit was published for a 30-day public comment period which closed on March 11, 2012. NDEQ is currently conducting a standard review of any comments and hearing requests, and a new NPDES permit is expected to be issued mid-year.

As necessary, LES will make application to the appropriate federal and state authorities for any permits, certifications and renewals required by federal and state law and regulations for the operations of the TBGS, Rokeby, and the J Street Station, and for the construction of capital additions and improvements. Any changes in the environmental regulatory requirements imposed by federal or state law which are applicable to LES’ generating stations could result in increased capital and operating costs being incurred by LES.

Participation Units

The following information has been provided by the Nebraska Public Power District (“NPPD”), the owner and operator of Gerald Gentleman Station and Sheldon Station. LES has no reason to believe that, as of the date of this Official Statement, that any of the information contained in such information is incorrect or incomplete.

Gerald Gentleman Station.

General. LES purchases power and energy from NPPD’s Gentleman Station (“Gentleman Station”), pursuant to the Gentleman Station Participation Power Sales Agreement between NPPD and LES (as amended to the date hereof, the “Gentleman Participation Agreement”). LES is entitled, pursuant to the Gentleman Participation Agreement, to 8% (approximately 109 MW) of the power and energy of the two units. The Gentleman Station is located at a site near the Sutherland Reservoir, approximately 22 miles west of North Platte, Nebraska. Sutherland Reservoir is a part of a canal system and water storage facilities that NPPD owns and operates between Ogallala and North Platte, Nebraska. The Gentleman Station is a coal-fired, steam-electric generating station, consisting of the Gentleman Station Unit No. 1 and Unit No. 2, each having a single coal-fired steam generating boiler and a turbine-generator unit. Current accredited net capability of the Gentleman Station Unit No. 1 is 665 MW and the Gentleman Station Unit No. 2 is 700 MW. Each boiler is designed to burn low sulfur coal with a range of characteristics representative of coal available in the Gillette, Wyoming region. The Gentleman Station Unit No. 1 began supplying power and energy in February 1979 and was declared to be in commercial operation in April 1979. The Gentleman Station Unit No. 2 began supplying power and energy in July 1981 and was declared to be in commercial operation in January 1982.

Fixed cost payments for participation in the Gentleman Station are allocated in proportion to entitlement share and on a take-or-pay basis, that is, payable whether or not the station is operating. The cost of fuel to LES is based on the amount of energy scheduled by LES pursuant to the Gentleman Participation Agreement.

The Gentleman Participation Agreement terminates on the later of (i) the last maturity of the debt attributable to Gentleman Station, or (ii) the date on which NPPD retires Gentleman Station from commercial operation. LES will be responsible for decommissioning costs based on its 8% participation share. The historical operation of the LES share of Gentleman Station is summarized in the following table.

LES Share of Gerald Gentleman Station					
	2007	2008	2009	2010	2011
Net Capability (MW)	109	109	109	109	109
Net Generation (MWh)	771,043	865,416	884,825	850,659	873,909
Capacity Factor (%)	80.75	90.63	92.67	89.09	91.52
Energy Cost (\$)	7,109,276	7,888,890	8,319,388	8,534,885	9,252,141
Energy Rate (\$/MWh)	9.22	9.12	9.40	10.03	10.59

Fuel Supply. Coal for the Gentleman Station is supplied under a coal sales contract with Alpha Coal Sales LLC. This contract permits NPPD to purchase between a certain minimum and maximum number of tons annually through the term of the contract which ends December 31, 2013.

NPPD also has a coal purchase and sale agreement with Cloud Peak Energy Resources LLC. The agreement, subject to a right to terminate the agreement upon 60 days' notice, allows for purchases of coal through confirmation letters at prices and quantities that are agreed to at the time of the purchase and cannot exceed NPPD's authorized quantities.

Coal supplied pursuant to the coal sales contracts is mined near Gillette, Wyoming, and is loaded into rail cars owned or leased by NPPD for unit train delivery by Union Pacific Railroad Company ("UP") to the Gentleman Station. NPPD's operating practice is to schedule deliveries of coal to the Gentleman Station so as to meet the operating requirements of the Gentleman Station, and to maintain an inventory of coal in the event scheduled deliveries of coal are interrupted, which are projected to be sufficient to meet the Gentleman Station's total requirements for a minimum of 45 consecutive days, or 60 days going into the peak seasons, with the plants generating at maximum operating levels 24 hours each day. The quantity of coal NPPD has the right to purchase under its coal sales contracts was sufficient to meet the firm load operating requirements at the Gentleman Station until December 31, 2013. Current coal sales contracts provide for partial operating requirements through 2014. A combination of future coal sales contracts and spot market purchases will be utilized to provide for operating requirements through and beyond 2014.

NPPD has a railroad spur track which connects the Gentleman Station with the BNSF and a railroad spur track which connects the Gentleman Station with the UP. NPPD has a coal transportation contract with UP under which UP will transport coal to the Gentleman Station beyond the expiration of the aforementioned coal contracts. The quantity of coal which NPPD has the right to ship under the UP coal transportation contract is sufficient to obtain deliveries of coal to meet the operating and coal supply inventory requirements of the Gentleman Station.

Sheldon Station.

General. LES entered the Sheldon Power Sales Participation Agreement ("Sheldon Participation Agreement"), dated August 7, 1980, with NPPD, for 30% (approximately 68 MW) of the power and energy of NPPD's Sheldon Generating Station ("Sheldon"). Sheldon is located approximately 22 miles southwest of Lincoln, Nebraska. Sheldon is a coal-fired, steam-electric generating station, consisting of

Unit No. 1 and Unit No. 2, each having a single coal-fired steam generating boiler and a turbine-generator unit with nominal ratings of 105 and 120 MW, respectively. Sheldon has a total summer accredited net capability of 225 MW.

Pursuant to the Sheldon Participation Agreement, LES is required to pay 30% of all costs (excluding fuel costs) attributable to Sheldon whether or not it is operating. The cost of fuel to LES is based on the amount of energy scheduled by LES. In addition, NPPD is required to provide replacement energy to LES when the unit is left off-line for NPPD economic reasons. The Sheldon Participation Agreement terminates December 31 of the year which occurs on the later of (i) the last maturity of the debt attributable to Sheldon or (ii) the date on which NPPD retires Sheldon from commercial operation. LES will be responsible for decommissioning costs based on its 30% participation share of Sheldon. The historical operation of the LES share of Sheldon is shown below.

LES Share of Sheldon Station					
	2007	2008	2009	2010	2011
Net Capability (MW)	68	68	68	68	68
Net Generation (MWh)	481,897	458,894	511,815	398,633	456,397
Capacity Factor (%)	80.90	77.04	85.92	66.92	76.62
Energy Cost (\$)	5,356,449	5,413,268	6,509,774	5,915,056	7,212,845
Energy Rate (\$/MWh)	11.12	11.80	12.72	14.84	15.80

Fuel Supply. The Sheldon coal supply can be provided under the same contracts as the Gentleman Station that have UP access. NPPD’s operating practice is to schedule deliveries of coal to Sheldon so as to meet the operating requirements of Sheldon, and to maintain an inventory of coal in the event scheduled deliveries of coal are interrupted, which are projected to be sufficient to meet Sheldon’s total requirements for a minimum of 45 consecutive days, or 60 days going into the peak seasons, with the plants generating at maximum operational levels 24 hours each day. The quantity of coal NPPD has the right to purchase under its coal sales contract is sufficient to meet the operating and coal supply inventory requirements at Sheldon until December 31, 2012, and partial requirements until December 31, 2014.

Union Pacific is the only railroad that can serve Sheldon and NPPD has a rail transportation contract with UP under which UP will transport coal for Sheldon until beyond the expiration of the aforementioned coal contracts. The quantity of coal which NPPD has the right to ship under the UP coal transportation contract for Sheldon is sufficient to obtain deliveries of coal to meet the operating and coal supply inventory requirements of Sheldon.

Environmental and Other Permits

Federal Clean Air Acts and Federal Clean Water Act Requirements. Congress enacted the Clean Air Act Amendments of 1990 (“Clean Air Act Amendments”) with the intent of improving ambient air quality throughout the United States. One objective of these amendments is to reduce emissions of sulfur dioxide (“SO₂”) and nitrogen oxides (“NO_x”), two gaseous pollutants formed during the

combustion of fossil fuels, by fossil fuel-burning power plants. This aspect of the Clean Air Act Amendments established the allowance market system known as the Acid Rain Program. The Acid Rain Program was implemented in two phases. Phase I, which started in 1990, required approximately 261 fossil-fired units in 21 states to limit SO₂ emission rates to 2.5 lbs/mmBtu by January 1, 1995. Phase II then required all fossil-fired units over 75 MWe to further limit SO₂ emission rates to 1.2 lbs/mmBtu by January 1, 2000.

NPPD's Sheldon Station Unit No. 1 and Unit No. 2 and Gerald Gentleman Station Unit No. 1 and Unit No. 2 burn low sulfur Wyoming coal, which has resulted in NPPD's SO₂ emission rates being below the limits identified above. Sheldon Station and Gerald Gentleman Station are subject to the Clean Air Act Amendments' SO₂ emission allowance system. An "allowance" is an authorization to emit one ton of SO₂ during or after a specified year. Under the emission allowance system, each affected generating facility is issued, annually, a number of allowances, for a future year based upon a variety of factors. Under this system some utilities, including NPPD, were issued bonus allowances for certain affected facilities through 2009. No utility may emit more tons of SO₂ in a year than is authorized by its total allowances. Allowances issued to one generating facility may be used by a utility to offset the emissions of another generating facility. Allowances not needed by the recipient utility for its current emissions may be banked for future use, or they may be sold or otherwise transferred to others. Since the inception of the program, NPPD has banked its extra allowances. Even with the termination of bonus allowances, it is estimated at this time that NPPD has banked sufficient allowances to cover projected operations through 2015. At some point in time it may be necessary for NPPD to purchase additional allowances, or to reduce its SO₂ emissions. A Phase II Acid Rain Permit requires the operation of generating units in accordance with the SO₂ and NO_x requirements in the Clean Air Act. The SO₂ requirements of the Acid Rain Permits require the sources to hold allowances, as of the allowance transfer deadline, in the facility's compliance account in an amount not less than the total annual emissions of SO₂ for the previous calendar year from the facility. Phase II Acid Rain Permits for SO₂ are issued by the Nebraska Department of Environmental Quality ("NDEQ") for Gerald Gentleman Station. The acid rain permit for Gerald Gentleman Station will expire January 20, 2013. The acid rain permit for SO₂ for Sheldon Station is issued by the Lincoln-Lancaster County Health Department ("LLCHD"). The acid rain permit for Sheldon Station will expire December 31, 2014.

The NO_x and particulate matter requirements for Gerald Gentleman Station Units No. 1 and 2 require the facility to operate at emission rate levels below applicable regulatory limits. Gerald Gentleman Station Units currently operate below these NO_x and particulate matter emission limits. The carbon monoxide ("CO") requirements for Gerald Gentleman Station Unit No. 1 and Sheldon Station Unit No. 2 require those units to operate at emission rate levels below applicable regulatory limits. Gerald Gentleman Station Unit No. 1 and Sheldon Station Unit No. 2 currently operate below these CO emission limits. There are no emission regulations under the Clean Air Act Amendments governing CO emissions at Gerald Gentleman Station Unit No. 2 and Sheldon Station Unit No. 1. A Prevention of Significant Deterioration ("PSD") and Best Available Retrofit Technology ("BART") construction permit for the installation of low NO_x burners for Gerald Gentleman Station Unit No. 2 was issued on May 11, 2010. It will subject Gerald Gentleman Station Unit No. 2 to CO emission limits after installation of the low NO_x burners. The permit will also subject Gerald Gentleman Station Unit No. 1 and Unit No. 2 to new NO_x limits. The conditions of the permit are contingent upon approval of the Nebraska State Implementation Plan by the Environmental Protection Agency ("EPA") or upon installation of the low NO_x burners on Gerald Gentleman Station Unit No. 2.

The NDEQ issued operating permits for Gerald Gentleman Station Unit No. 1 and Unit No. 2 in August 1981 and in February 1983, respectively. Both operating permits were subject to (i) all air pollution control equipment being operated and maintained pursuant to Nebraska Air Pollution Control Rules and Regulations and (ii) compliance with any new or amended applicable Rules and Regulations

within the time period specified by such Rules and Regulations or by the NDEQ. The Clean Air Act Amendments Title V Operating Permit Program established the requirement for each affected facility having to obtain a Title V operating permit. The current Title V Operating Permit for Gerald Gentleman Station was issued by the NDEQ on August 26, 2002. A Gerald Gentleman Station Title V Operating Permit Renewal Application was submitted to the NDEQ on February 26, 2007. Gerald Gentleman Station will operate under the existing operating permit until the NDEQ renews the permit. The new Title V Operating Permit for Gerald Gentleman Station is expected to be issued by the NDEQ in 2012.

The LLCHD issued an operating permit for Sheldon Station. This permit requires that (i) any and all air pollution control equipment or combustion processes must be operated and maintained as necessary for continued compliance with applicable regulations and standards and (ii) the facility must demonstrate compliance with any new or amended air pollution control regulations and standards applicable to such facility. The Title V Operating Permit for Sheldon Station will expire on December 5, 2015.

EPA is currently reviewing the particulate matter 2.5 ("PM2.5") standards and is expected to propose new PM2.5 standards in early 2012. Once new PM2.5 standards are finalized, NPPD will need to evaluate the new standard and determine potential impacts to NPPD. The impact to NPPD facilities is unknown at this time.

On January 22, 2010, the EPA added a 1-hour nitrogen dioxide ("NO2") standard of 100 ppb. NPPD does not anticipate that this standard will impact NPPD's major generating facilities.

On June 2, 2010, EPA replaced the annual and 24-hour primary SO2 standard with a new 1-hour SO2 standard set at 75 ppb. On July 12, 2011 the EPA proposed a new secondary SO2 standard and is expected to finalize the standard in 2012. Once SO2 evaluation protocols are established and provided by the EPA and NDEQ, NPPD will need to evaluate the new standards and determine potential impacts to NPPD. The SO2 standard may require some level of SO2 reductions at Gerald Gentleman Station and Sheldon Station. The impact to NPPD facilities is unknown at this time.

The EPA issued final regulations for a Regional Haze Program in June 1999. The purpose of the regulations is to improve visibility in the form of reducing regional haze in 156 national parks and wilderness areas ("Class I areas") across the country. Haze is formed, in part, from emissions of SO2 and NOx. Because these pollutants can be transported over long distances, all 50 states, including those that do not have Class I areas, will have to participate in planning, analysis, and in many cases, emission control programs under the regional haze rule. Regional planning organizations will be used to determine the impact of facilities on the visibility in Class I areas. Nebraska is a member of the Central States Regional Air Planning Association. NPPD's Sheldon Station Unit No. 1 and Gerald Gentleman Station Units No. 1 and No. 2 qualify for the first phase of Regional Haze evaluation. Sheldon Station Unit No. 2 does not qualify due to its initial start-up date. In 2006, NPPD completed computer modeling which shows that the emissions from Gerald Gentleman Station Units No. 1 and No. 2 contribute to visibility impairment in Class I areas, but the emissions from Sheldon Station Unit No. 1 do not. The NDEQ confirmed these results. An analysis was conducted to determine what additional emission control technology would be appropriate to install at Gerald Gentleman Station Units No. 1 and No. 2 to reduce emissions of SO2 and NOx. The BART Report was submitted to the NDEQ in August 2007 and a revised report was submitted in February 2008. The BART Report proposed that the Best Available Retrofit Technology to meet regional haze requirements at Gerald Gentleman Station would be low NOx burners on Units No. 1 and No. 2. Since low NOx burners were previously installed on Unit No. 1 in May 2006, installation of low NOx burners on Unit No. 2 would need to be completed. The construction permit for the installation of low NOx burners on Gerald Gentleman Station Unit No. 2 was issued on May 11, 2010. The permit establishes a CO limit for Gerald Gentleman Station Unit No. 2 and also establishes the NOx BART emissions limits for Gerald Gentleman Station Units No. 1 and No. 2. The

limit becomes effective for both units once the installation and performance testing of the low NOx burners on Unit No. 2 is complete. The NDEQ included this determination in the draft Nebraska State Implementation Plan for Regional Haze which was put on public notice on December 27, 2010. The public hearing for the Regional Haze State Implementation Plan was held on January 21, 2011. As a result of comments received, the NDEQ requested NPPD to conduct a supplemental side-by-side BART analysis comparing scrubbers to dry sorbent injection. The supplemental analysis was submitted to the NDEQ by NPPD on March 15, 2011. The NDEQ submitted the State Implementation Plan to the EPA for approval on June 30, 2011. Until the EPA acts on the State Implementation Plan, NPPD will not know what additional emission control technology will be required, and therefore, cannot project the associated costs at this time, however, such costs could be substantial. The low NOx burners are estimated to cost \$40 million. If scrubbers and selective catalytic reduction are also required, the estimated cost could be \$1 billion to \$1.5 billion.

On November 9, 2011 the EPA agreed in a consent decree with environmental group plaintiffs to a schedule for taking action on each of the 45 Regional Haze state implementation plans (“SIP”). The consent decree by itself does not establish any specific control requirement on any specific emission source. Rather, the consent decree establishes a schedule by which EPA will promulgate rules under the Regional Haze Program to take one or more of the following actions on each SIP: approve a SIP, disapprove a SIP, approve a SIP in part and disapprove a SIP in part or issue a federal implementation plan. Under the consent decree, EPA agreed with respect to the Nebraska Regional Haze SIP to promulgate a proposed rule by February 15, 2012 and promulgate the final rule by June 15, 2012.

On December 23, 2011, EPA issued a proposal to revise rules pertaining to the Regional Haze Program that would approve the trading program in the Cross-State Air Pollution Rule (“CSAPR”) as an alternative to determining BART for power plants. As a result, states in the CSAPR region may substitute the trading program in CSAPR for source-specific BART for SO₂ and/or NO_x emissions as specified by CSAPR. A state subject to a trading program established in accordance with CSAPR need not require BART-eligible fossil fuel-fired electric steam generating plants in the state to install, operate, and maintain BART for the pollutant covered by such trading program in the state. A state that chooses to meet the emission reduction requirements of the CSAPR by submitting a SIP revision that establishes a trading program and is approved as meeting the requirements of CSAPR also need not require BART-eligible fossil fuel-fired electric steam generating plants in the state to install, operate, and maintain BART for the pollutant covered by such trading program in the state. The NDEQ would have to submit to EPA a revision to the Nebraska Regional Haze SIP in order for Gerald Gentleman Station to qualify for treatment under the proposed rule.

On March 29, 2010, EPA declared its position that air pollutants that are regulated under the Clean Air Act under any program must be taken into account when considering permits issued under other programs, such as the PSD permit program. A PSD permit is required before commencement of construction of new major stationary sources or major modifications of such sources. As a result of this determination, the effect of the new motor vehicle rule will be to require the analysis of emissions and control options with respect to Green House Gas (“GHG”) emissions from new and modified major stationary sources as of January 2, 2011, which is the date the new motor vehicle rule took effect. Permitting requirements for GHGs will include, but are not limited to, the application of Best Available Control Technology (“BACT”) for GHG emissions and monitoring, reporting, and record keeping for GHGs.

On May 13, 2010, EPA issued a final rule for determining the applicability of the PSD program to GHG emissions from major sources. The rule, known as the “Tailoring Rule,” establishes criteria for identifying facilities required to obtain PSD permits and the emissions thresholds at which permitting and other regulatory requirements apply.

Beginning on January 2, 2011, sources that are subject to PSD or Title V permits due to their non-GHG emissions (such as fossil-fuel based electric generating facilities for their NO_x, SO₂, and other emissions) will have to address GHG emissions in new permit applications or renewals. Construction or modification of major sources will become subject to PSD requirements for their GHG emissions if the construction or modification results in a net increase in the overall mass of GHG emissions exceeding 75,000 tons per year on a CO₂e basis. New and modified major sources required to obtain a PSD permit would be required to conduct a BACT review for their GHG emissions. The EPA issued guidance in November 2010 on the technologies or operations that would constitute BACT for GHGs. A PSD permit would require the installation of BACT for GHGs. At this time, since there does not exist any commercially available CO₂ capture and sequester technology, BACT would be some kind of facility efficiency requirements. These would have to be negotiated with the NDEQ and EPA and placed in the PSD permit. With respect to Title V requirements, as of January 2, 2011, the final Tailoring Rule does not amend or reinterpret existing Title V regulations on transitions to new pollution control requirements.

On October 30, 2009, the EPA published the final rule for mandatory monitoring and annual reporting of GHG emissions from various categories of facilities including fossil fuel suppliers, industrial gas suppliers, direct GHG emitters (such as electric generating facilities and industrial processes), and manufacturers of heavy-duty and off-road vehicles and engines. This rule does not require controls or limits on emissions, but requires data collection which began on January 1, 2010. The first annual reports were filed on September 30, 2011. Future reporting will be due by March 31 each year.

The costs to NPPD for compliance with these new regulations are not fully known at this time. The requirements for monitoring, reporting, and record keeping with respect to GHG emissions from existing units should not have a material adverse effect, but the consequences in connection with new units or modifications of existing units could be significant, as could any new proposed regulations affecting permitting and controls for NPPD facilities.

The EPA reached a legal settlement to establish New Source Performance Standards (“NSPS”) for new and modified power plants and emission guidelines for existing power plants. EPA committed to issuing proposed regulations by July 26, 2011 and final regulations by May 26, 2012. However, the issuance of the new guidelines has been delayed and no new timeline has been announced at this time. In addition to the NSPS requirements established for new and modified sources, EPA must establish emission guidelines that states use to develop plans for reducing emissions from existing sources. The guidelines include targets based on demonstrated controls, emission reductions, costs and expected timeframes for installation and compliance, and can be less stringent than the requirements imposed on new sources. Under existing EPA regulations, states must submit their plans to EPA within nine months after the guidelines’ publication unless EPA sets a different schedule. Each NSPS must be reviewed at least every eight years and, if appropriate, revised. There is currently no information on how these standards will be set and what impact they may have on NPPD.

In March 2005, the EPA issued the Clean Air Interstate Rule (“CAIR”), which was intended to reduce overall NO_x and SO₂ emissions on a regional basis effective in 2009 and 2010, respectively, with a second phase taking effect in 2015. On July 11, 2008, the United States Court of Appeals for the D.C. Circuit vacated EPA’s CAIR regulations, remanding CAIR to EPA to issue new regulations consistent with Clean Air Act and the Court’s decision. On December 23, 2008, the Court modified its remand order so that existing CAIR regulatory programs would remain in effect until the EPA issued revised regulations. Nebraska was not included in the March 2005 CAIR Rule, therefore there was no effect on NPPD generating facilities. On July 6, 2010, the EPA issued a proposed rule (the “Transport Rule”) in response to the D.C. Circuit Court of Appeals decision that would require significant reductions in SO₂ and NO_x emissions in a number of states, now including the State of Nebraska. Nebraska is included in the proposed Transport Rule for control of fine particulates which includes annual NO_x and

SO2 standards. The Transport Rule was finalized on July 6, 2011 and is now known as CSAPR. The final rule, which was issued with an effective date of January 1, 2012, affected the operation of NPPD's coal-fired generating stations. As a result, NPPD filed a petition for reconsideration with the EPA on October 5, 2011. The State of Nebraska and many other states and utilities filed petitions for review with the United States Court of Appeals for the D.C. Circuit challenging CSAPR and a number of petitioners also filed motions for a stay of its implementation and the effective date. On December 30, 2011, the D.C. Circuit Court of Appeals entered an order which granted all motions to stay CSAPR, directed petitioners to prepare the briefing for the cases so they can be heard by the Court by April 2012, and stating the Court expected EPA to continue administration of CAIR pending the Court's resolution of the petitions for review. In subsequent orders, the Court set March 16, 2012, as the deadline for submittal of final briefs by all parties and set oral arguments on the petitions for review for April 13, 2012. NPPD is currently in the process of procuring and designing low NOx burners for installation at Gerald Gentleman Station Unit No. 2. The low NOx burners are scheduled to be installed in late spring of 2012. It is anticipated that the low NOx burners will reduce the NOx emissions from Unit No. 2 by approximately 40 percent. Water lances are currently being installed on Sheldon Station Unit No. 2. The lances will reduce slagging which will allow full operation of the over fire air system. It is anticipated that the lances will reduce NOx emissions from Sheldon Station Unit No. 2 by up to 50 percent. The NOx reductions from this equipment will still not allow NPPD to meet the limits in CSAPR. NPPD is currently analyzing other options that will allow NPPD to comply with CSAPR. Compliance options include, but are not limited to, reduced generation from NPPD's coal-fired facilities, increased generation from NPPD's natural gas-fired facilities, and/or purchasing allowances. While NPPD cannot determine the long-term impact of this regulation, the impact to 2012 is estimated to be approximately \$6.0 million, which does not include any costs associated with the installation of low NOx burners on Gerald Gentleman Station Unit No. 2. The low NOx burners are estimated to cost \$40 million, and had been included in NPPD's planned capital additions.

On March 16, 2011, the EPA issued a proposed rule intended to reduce emissions of toxic air pollutants from power plants. The final rule was released by EPA on December 21, 2011 ("Mercury and Air Toxics Standards Rule") and is largely the same as the proposed rule. EPA expects the Mercury and Air Toxics Standards Rule will reduce emissions from new and existing coal- and oil-fired steam utility electric generating units of heavy metals, including mercury, arsenic, chromium, nickel, dioxins, furans, and acid gases, including hydrogen chloride and hydrogen fluoride. These toxic air pollutants are also known as hazardous air pollutants.

For all existing and new coal-fired electric generating units, the Mercury and Air Toxics Standards Rule establishes numerical emission limits for mercury, particulate matter, a surrogate for toxic non-mercury metals, and hydrogen chloride, a surrogate for acid gases. NPPD expects that it can meet the new emissions limits with its existing pollution control equipment and the installation of activated carbon injection equipment at Gerald Gentleman Station and Sheldon Station. Capital costs for such equipment are estimated to be between \$15 million and \$20 million with annual operation and maintenance costs estimated to be between \$5 million and \$7.5 million.

Generating units have three years to comply with the Mercury and Air Toxics Standards Rule after the rule becomes effective in early 2012. Upon request, a one-year extension for compliance could possibly be granted.

The NDEQ has issued permits and permit renewals to NPPD to establish and operate disposal areas for solid waste and ash at Sheldon Station and Gerald Gentleman Station. The permit for Sheldon Station's current ash disposal area will expire on September 15, 2012. The permit for the Gerald Gentleman Station's current ash disposal area will expire on December 15, 2014. The Gerald Gentleman Station's permit for disposal of construction/demolition solid waste will expire on March 15, 2017.

The EPA has proposed two options to regulate the disposal of coal combustion residuals (“CCR”) under the Resource Conservation and Recovery Act (“RCRA”) but under different programs of RCRA. One option would regulate CCR as hazardous waste under Subtitle C. The other option would regulate CCR as municipal or special waste under Subtitle D. Regulation as hazardous waste under Subtitle C could result in significant economic impacts as utilities would most likely not be able to market CCR products for “beneficial use” (e.g., flyash as an aggregate in concrete or flue-gas desulfurization solids for manufacture of wallboard). As less CCR materials could be marketed for use, greater volumes of CCR materials would be required to be stored in landfills. As current landfills would fill quicker than anticipated, additional landfills would need to be developed at significant costs. Regulation as hazardous waste under Subtitle C would impose stringent regulatory requirements associated with the handling, storage, and disposal of large volumes of hazardous wastes. Regulation as a municipal or special waste under Subtitle D would result in relatively minor impacts on NPPD operations to dispose of CCR due to the stringency of the current Nebraska solid waste landfill requirements. Current Nebraska landfill regulations include location restrictions, standards for landfill liners, leachate collection and removal systems, as well as additional stringent permitting requirements, such as groundwater monitoring, fugitive dust control, closure and post-closure care, and financial assurance. The public comment period on the proposed options closed on November 19, 2010. It is expected that after consideration of the comments received, the EPA will propose a final rule in 2012. It is unknown at this time what the impacts to NPPD will be until the rule is finalized.

The Federal Clean Water Act contains requirements with respect to effluent limitations relating to the discharge of any pollutant and to the environmental impact of cooling water intake structures. These requirements include, among other things, that with certain exceptions, new and existing sources shall not, after certain specified dates, discharge heated water into the waters of the United States in excess of state water quality standards. Pursuant to Section 316(a) of this act, less stringent limitations on thermal discharges may be imposed by the NDEQ if there is adequate demonstration that the requirements proposed for the control of thermal discharge are more stringent than necessary to assure protection and propagation of fish and wildlife. On September 12, 1996, a memorandum of understanding was signed between NPPD and the Nebraska Game and Parks Commission which allowed NPPD to receive their 316(a) waiver. The NDEQ issued a National Pollutant Discharge Elimination System (“NPDES”) permit for Gerald Gentleman Station with an allowed discharge temperature of 94°F. The current permit has an expiration date of September 30, 2016. The current permit for Sheldon Station was issued by the NDEQ with an expiration date of September 30, 2016.

Section 316(b) of the Clean Water Act requires that NPDES permits for facilities with cooling water intake structures ensure that the location, design, construction, and capacity of the structures reflect the Best Technology Available (“BTA”) to minimize harmful impacts on fish and other aquatic life as the result of impingement or entrainment. EPA issued a proposed rule under Section 316(b) on March 28, 2011. Under a court-approved consent decree with environmental organizations the final Section 316(b) rule must be issued by July 27, 2012. Gerald Gentleman Station has interim Section 316(b) requirements in the current NPDES permit. Under the proposed rule Gerald Gentleman Station will be required to meet the BTA impingement mortality standard specified in the proposed rule no later than eight years after the rule’s effective date. An impingement mortality study for NPPD’s stations will need to be conducted, peer reviewed, and submitted to the NDEQ. The study will take two years to conduct. Gerald Gentleman Station would also be required to meet BTA standards for entrainment mortality. The NDEQ must establish those BTA standards on a case-by-case basis. An entrainment mortality study will need to be conducted, peer reviewed, and submitted to the NDEQ. This study will take two years to conduct. The entrainment mortality study will include a comprehensive technical feasibility and cost evaluation study, including a benefits valuation study, and a non-water quality study and other environmental impacts study. The impact of the proposed rule on NPPD will not be determined until the studies and case-by-case determinations are completed.

NPPD received a Clean Water Act Section 308 information collection request on June 18, 2010 from the EPA for information from Sheldon Station and Gerald Gentleman Station on various effluent data. NPPD submitted the requested information on September 15, 2010. This information is to be used in the developing effluent limitations guidelines and standards for the Steam Electric Power Generating Industry. It is unknown what the impacts to NPPD will be until the limits are finalized.

As part of EPA's nationwide investigation and enforcement program for coal-fired power plants' compliance with Clean Air Act including new source review requirements, on December 4, 2002, the Region 7 office of the EPA sent a letter to NPPD and three other electric utilities pursuant to Section 114(a) of the Federal Clean Air Act requesting documents and information pertaining to Gerald Gentleman Station and Sheldon Station. On April 10, 2003, Region 7 of the EPA sent a supplemental request for documents and information to NPPD and the other three electric utilities. These EPA requests for information are part of an EPA investigation to determine the Clean Air Act compliance status of Gerald Gentleman Station and Sheldon Station, including the potential application of new source review requirements. NPPD provided the documents and information requested to the EPA within the time allowed. As a supplement to the 2002 and 2003 requests, EPA Region 7 sent another letter to NPPD on November 8, 2007, requesting additional documents and information pertaining to Gerald Gentleman Station and Sheldon Station. NPPD provided a response to the new request within the time allowed and provided supplemental information to EPA in February and April 2011 in response to an EPA email inquiry. By letter dated December 8, 2008, EPA Region 7 sent a Notice of Violation ("NOV") to NPPD which alleges that NPPD violated the Clean Air Act by undertaking five projects at Gerald Gentleman Station from 1991 through 2001 without obtaining the necessary permits. In February and August 2009, NPPD representatives met with federal government representatives to discuss the NOV and no additional meetings have been scheduled. In general, enforcement action by EPA against NPPD for alleged noncompliance with Clean Air Act requirements, if upheld after court review, can result in the requirement to install expensive air pollution control equipment that is the Best Available Retrofit Technology and the imposition of monetary penalties ranging from \$25,000 to \$32,500 per day for each violation.

Sheldon Station has Ash Landfill No. 3 that was closed to further use in 2003. A closure plan, approved by the NDEQ, requires NPPD to conduct groundwater monitoring well sampling semiannually and file semiannual reports with the NDEQ. NPPD has been notified by the consulting engineer that conducts the analysis and prepares the reports of the groundwater monitoring well data that statistically significant increases in chloride levels were observed in one of the background monitoring wells. NPPD reported the chloride contamination findings to the NDEQ on January 3, 2005 and discussed the source for the elevated chloride levels, and the action taken to eliminate the source for any further possibility of further contamination. While NPPD is awaiting a final determination by the NDEQ on this issue, the NDEQ has given preliminary indications that no further corrective action will be necessary. The five-year post-closure period for Ash Landfill No. 3 at Sheldon Station ended on December 9, 2007. NPPD provided an independent professional engineer certification to the NDEQ on December 21, 2007 indicating the ash landfill was closed in accordance with the post closure plan. Post closure ground water monitoring has indicated elevated levels of chlorides and selenium. The NDEQ continues to evaluate this information prior to making a determination on the final closure of Ash Landfill No. 3. The NDEQ has requested NPPD to install two additional monitoring wells and continue sampling through at least the fourth quarter of 2012. NPPD installed two additional monitoring wells at Ash Landfill No. 3 in December 2010. Semiannual sampling and analysis of ground water at the new monitoring well locations began in 2011.

As necessary, NPPD will make application to the appropriate federal, state and local authorities for any permits, certifications, and renewals required by federal and state law and regulations for the

operations of Sheldon Station and Gerald Gentleman Station, and the construction of capital additions and improvements thereto.

Any changes in the environmental regulatory requirements imposed by federal or state law which are applicable to NPPD's generating facilities could result in increased capital and operating costs being incurred by NPPD. NPPD is unable to predict whether any changes will be made to current environmental regulatory requirements, if such changes will be applicable to NPPD and the costs thereof to NPPD.

Other Power Purchase Arrangements

Western Area Power Administration ("WAPA"). LES has an allocation from the United States Department of Energy, through WAPA, of firm power under contract from Upper Missouri Basin hydroelectric plants of approximately 54 MW. LES has also received an allocation of 72 MW of firm peaking power from WAPA for the six month summer season and 21 MW for the remaining months. The firm peaking energy can be taken either by LES' projected daily load being within 72 MW of a summer system peak (21 MW during the winter season), or scheduled up to 8% seasonal load factor. The energy which LES receives associated with the firm peaking power is paid to WAPA at the firm power energy rate. Payments for WAPA power are at the standard WAPA wholesale rates. The average energy cost of WAPA power in 2011 was \$16.95/MWh. The WAPA contract expires December 31, 2020.

Wind Plant Participation. LES currently participates in two wind plants, Laredo Ridge (10 MW) and Elkhorn Ridge (6 MW) through Power Sales Agreements ("PSA") with NPPD. NPPD has a Power Purchase Agreement ("PPA") with the wind plant developer/owners. LES only pays for energy received.

Transmission, Distribution and Interconnections

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

A summary of the LES transmission lines is as follows:

Circuit Voltage	Circuit Miles
345 kV	75
161 kV	12
115 kV	123

LES owns two 345-115 kV substations, a 345 kV switching station, a 161-115 kV substation and 43 substations which reduce transmission voltage to distribution voltage. The distribution system is operated at two primary voltage levels, 12.5 kV and 35 kV. The system includes approximately 1,958 miles of primary distribution lines that interconnect the distribution substations to the lower voltage transformers serving approximately 129,200 retail customers.

New distribution systems for developments, subdivisions, shopping centers and apartment complexes are generally served by underground 12.5 kV facilities. In the interest of upgrading electric service to some of the older parts of the City, a portion of the older overhead distribution system has been

replaced with underground lines. Consequently, as of December 31, 2011, 90,800 customers were served by underground facilities.

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

Regional Energy Markets

On April 1, 2009, LES joined the Southwest Power Pool (“SPP”) Regional Transmission Organization (“RTO”). This action was approved by the LES Board of Directors. By joining SPP, LES added the ability to operate in a regional purchase and sales “real-time” market. This market works to optimize the costs and uses of LES’ facilities. This is accomplished through LES making financial offers for its on-line facility generation to the regional market. The regional market then consolidates all of the offers in real-time and calculates the least cost solution to the entire region, while considering transmission restraints. LES is paid for any extra generation that is generated and is billed for any generation utilized to lower its costs.

While LES maintains sufficient generating resources to serve all LES load and reserve obligations, participation in regional energy markets provides significant cost savings and enhances LES system reliability. Based upon the latest studies, LES anticipates purchasing from five to seven percent of its energy needs each year from the wholesale energy market. Since the energy management function is an ongoing hourly effort, this need can vary depending upon the relative cost of wholesale energy and the production costs for LES’ local generating units. In addition to energy purchases, LES will continue to execute off-peak energy sales from available base-load resources. These sales are considered opportunity sales executed almost exclusively in the real-time market. Since LES is matching its own resources to control area load on both short range and long-term basis, LES expects to initiate wholesale power transactions only when economic compared to other resources’ production costs.

The high voltage interconnected transmission system also enables LES to satisfy mandatory reserves through regional reserve sharing. This reserve sharing service is also obtained through SPP. The utilization of the entire RTO drastically reduces the amount of generation that LES might otherwise require for reserves. Some of the other services provided through LES’ membership with SPP include required regional reliability coordination, transmission planning, training, and tariff administration.

A new SPP “day-ahead” market is scheduled to begin March 2014. This new market will include unit commitment for all of the generating units (including LES’) within the SPP RTO region. At that time, SPP will look at available resources for the next day and determine which units need to be committed to run to meet necessary requirements. LES will be required to offer its units (up to anticipated load and reserve requirements) into this market.

The new market will exchange physical transmission rights for delivery of energy to financial rights. SPP participants will be compensated for differences in load costs and generation revenue that would have been delivered physically in the existing market.

Additionally, some new products (regulation services and operating reserves) will be added to the energy market in March of 2014. LES is making preparations now for the new requirements of this advanced market.

LES withdrew its membership from the Mid-Continent Area Power Pool (“MAPP”) at the end of 2009, as all necessary services were being supplied by SPP.

Regional Reliability

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

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

The Midwest Reliability Organization (“MRO”) has applied as a Regional Entity (“RE”) under EPAAct 2005 seeking delegated authority from the ERO to serve as the entity responsible for ensuring the reliability and security of the bulk power system in the upper Midwest portion of North America.

Under EPAAct 2005, the RE’s are dedicated to preserving and enhancing the electric service reliability in a given region and other interconnected adjoining regions. While NERC sets minimum reliability standards, the RE’s are permitted to propose regional standards to accommodate technical differences in the regional grid. RE activities include monitoring and enforcing compliance with standards for all operators and planners within the region; enforcement and sanctioning members and operators for violations of standards; providing education and training to its members and stakeholders; assessing generation adequacy and performance; and collecting and reporting information relevant and required for regional reliability. The MRO is an association of more than 50 electric utilities and other electric industry participants serving the following states and provinces: Minnesota, Iowa, Nebraska, and North Dakota, Saskatchewan and Manitoba and portions of, Wisconsin, Montana, and South Dakota. The RE acts on behalf of consumers and end-users as the reliability compliance and enforcement arm of the ERO.

LES has taken a multi-level approach in order to stay involved in ongoing reliability issues. LES is a member of the MRO NERC Standards Review Forum, a forum that reviews the NERC standards under development and provides their comments and recommendations to NERC. LES also has representatives serving on the following MRO committees: MRO Planning Committee, MRO Operating Committee, Resource Adequacy Subcommittee and the MRO Model Building Committee (as subcommittee chairman).

Future Power Supply

General. As part of a continual planning process, LES reviews its load and resources and participates in statewide and regional planning efforts to determine the most economical way to meet the needs of its customers. LES utilizes an integrated resource planning methodology to evaluate demand side management (“DSM”), purchases and construction alternatives. LES is expecting to meet its future

resource needs with a mix of alternatives which may include DSM, purchases from market participants, participation in regional renewable energy projects, and potentially the participation in a regional base load resource.

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

Historical Resource Summary

The following table shows historical energy production for 2007 through 2011.

Energy (Megawatt-hours)					
	2007	2008	2009	2010	2011
Owned Units:					
LRS	1,334,227	1,402,998	1,218,974	1,415,917	1,370,304
LES Local	248,084	144,823	64,215	125,442	101,284
WSEC #4	432,430	790,475	768,451	738,650	768,020
Participation Units:					
NPPD – GGS	771,043	865,416	884,825	850,659	873,909
NPPD - Sheldon	481,897	458,894	511,815	398,633	456,397
NPPD – Wind	0	0	11,970	15,122	57,573
Firm Contracts:					
WAPA Purchases	263,048	255,400	252,944	253,721	254,444
WSEC #3 Purchases	0	401,328	342,131	391,928	395,871
Wholesale Purchases	435,520	295,480	258,050	185,918	183,925
Net Total Purchased and Generated	<u>3,966,249</u>	<u>4,614,814</u>	<u>4,313,375</u>	<u>4,375,990</u>	<u>4,461,727</u>
Wholesale Sales and Losses	<u>379,899</u>	<u>1,064,736</u>	<u>915,785</u>	<u>824,696</u>	<u>937,442</u>
LES System Energy	3,586,350	3,550,078	3,397,590	3,551,294	3,524,285

The following table shows the historical summer season load responsibility (load plus reserve and requirements) and how that is met with existing resource accredited capability.

Load & Generating Capability (Megawatts)					
	2007	2008	2009	2010	2011
LES Responsibility:	868	868	850	855	851
Owned Units:					
LRS	179	179	179	179	178
LES Local	432	432	432	437	437
WSEC #4	51	101	101	101	101
Participation Units:					
NPPD - GGS	109	109	109	109	109
NPPD - Sheldon	68	68	68	68	68
WAPA Firm Purchases:	127	127	127	127	127
Total Resource Capability:	<u>966</u>	<u>1,016</u>	<u>1,016</u>	<u>1,021</u>	<u>1,020</u>
Surplus:	98	148	166	166	169

FACTORS AFFECTING LES AND THE ELECTRIC UTILITY INDUSTRY

General

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

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

Federal Tax Issues

In September 2002, the U.S. Department of Treasury issued final private use regulations that provide guidance to issuers of tax-exempt bonds for electric output facilities. The regulations took effect November 22, 2002, replacing temporary and proposed regulations released in January 2001. The final regulations provide that tax-exempt bonds may be issued to finance costs attributable to the government use portion of a mixed-use output facility without the bonds being characterized as private activity bonds. Operation of transmission facilities of public power utilities that participate in independent transmission operations approved by the FERC will generally not result in private use. In addition, providing ancillary services that are required as part of an open access transmission tariff under FERC rules does not result in private business use.

Environmental and Other Permits and Approvals

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory, and judicial action regarding such standards and procedures. Consequently, there is no assurance that LES' facilities will remain subject to the regulations currently in effect, will always be in compliance with future regulations, that LES can anticipate the outcome of current regulatory and legislative process, or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures to comply, reduced operating levels or the complete shutdown of individual units not in compliance.

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

The Clean Air Act established an allowance market system known as the Acid Rain Program. The Acid Rain Program was implemented in two phases. Phase I, which started in 1990, required approximately 261 fossil-fired units in 21 states to limit SO₂ emission rates to 2.5 lbs/mmBtu by January 1, 1995. Phase II then required all fossil-fired units over 75 MWe to further limit SO₂ emission rates to 1.2 lbs/mmBtu by January 1, 2000. Under the emission allowance system, each affected generating facility is issued, annually, a number of allowances, for a future year based upon a variety of factors. No utility may emit more tons of SO₂ in a year than is authorized by the total allowances it holds. An "allowance" is an authorization to emit one ton of SO₂ during or after a specified year. The use of allowances is not restricted to a specific unit or plant. Allowances not needed by a utility for its own emissions may be banked for future use, or they may be sold or otherwise transferred. The Act provides that where a utility purchases power from an affected unit under life-of-the-unit, firm power contractual arrangements, allowances and the proceeds of transactions involving allowances will be deemed to be

held or distributed in proportion to each holder's contractual reservation or entitlement, or in accordance with the provisions of a contract between the parties which expressly provides for a different distribution of allowances. LES has been receiving its pro rata share of allowances issued for generating units in which it has entitlements.

The Clean Air Act also provides for a comprehensive program for the control of hazardous air pollutants, commonly referred to as Maximum Achievable Control Technology ("MACT"). For electric utility steam generating units, the Clean Air Act directed the EPA to perform a study of the reasonably anticipated risks to public health from the emission of the listed toxic substances from electric utility steam generating units.

In March 2005, the EPA issued the Clean Air Interstate Rule ("CAIR"), which was intended to reduce overall NO_x and SO₂ emissions on a regional basis effective in 2009 and 2010, respectively, with a second phase taking effect in 2015. Of the three states in which LES has generation holdings, Nebraska, Wyoming, and Iowa, only Iowa was impacted by CAIR. On July 11, 2008, the United States Court of Appeals for the D.C. Circuit vacated EPA's CAIR regulations, remanding CAIR to EPA to issue new regulations consistent with Clean Air Act and the Court's decision. On December 23, 2008, the Court modified its remand order so that existing CAIR regulatory programs would remain in effect until the EPA issued revised regulations. On July 6, 2010, the EPA issued a proposed rule (the "Transport Rule") in response to the D.C. Circuit Court of Appeals decision that would require significant reductions in SO₂ and NO_x emissions in a number of states, including the States of Nebraska and Iowa. The Transport Rule was finalized on July 6, 2011 and is now known as the Cross-State Air Pollution Rule. The final rule, which was issued with an effective date of January 1, 2012, affected the operation of the coal-fired generating stations in certain targeted states. As a result, the State of Nebraska and many other states and utilities filed petitions for review with the United States Court of Appeals for the D.C. Circuit challenging CSAPR and a number of petitioners also filed motions for a stay of its implementation and the effective date. On December 30, 2011, the D.C. Circuit Court of Appeals entered an order which granted all motions to stay CSAPR, directed petitioners to prepare the briefing for the cases so they can be heard by the Court by April 2012, and stating the Court expected EPA to continue administration of CAIR pending the Court's resolution of the petitions for review. In subsequent orders, the Court set March 16, 2012, as the deadline for submittal of final briefs by all parties and set oral arguments on the petitions for review for April 13, 2012.

On November 9, 2011 the EPA agreed in a consent decree with environmental group plaintiffs to a schedule for taking action on each of the 45 Regional Haze state implementation plans ("SIP"). The consent decree by itself does not establish any specific control requirement on any specific emission source. Rather, the consent decree establishes a schedule by which EPA will promulgate rules under the Regional Haze Program to take one or more of the following actions on each SIP: approve a SIP, disapprove a SIP, approve a SIP in part and disapprove a SIP in part or issue a federal implementation plan. Under the consent decree, EPA agreed with respect to the Nebraska Regional Haze SIP to promulgate a proposed rule by February 15, 2012 and promulgate the final rule by June 15, 2012.

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

BART-eligible fossil fuel-fired electric steam generating plants in the state to install, operate, and maintain BART for the pollutant covered by such trading program in the state. The earliest expected date that CSAPR NO_x and SO₂ allowances will be required is 2013.

Greenhouse Gases. In October 30, 2009, the EPA published the final rule for mandatory monitoring and annual reporting of GHG emissions from various categories of facilities including fossil fuel suppliers, industrial gas suppliers, direct GHG emitters (such as electric generating facilities and industrial processes), and manufacturers of heavy-duty and off-road vehicles and engines. This rule does not require controls or limits on emissions, but requires data collection which began on January 1, 2010. The first annual reports were filed on September 30, 2011. Future reporting will be due by March 31 each year.

On March 29, 2010, EPA declared its position that air pollutants that are regulated under any program of the Clean Air Act must be taken into account when considering permits issued under programs of any other regulatory act or standard, such as the Prevention of Significant Deterioration (“PSD”) permit program. A PSD permit is required before commencement of construction of new major stationary sources or major modifications of such sources. As a result of this determination, the effect of the new motor vehicle rule will be to require the analysis of emissions and control options with respect to Green House Gas (“GHG”) emissions from new and modified major stationary sources as of January 2, 2011, which is the date the new motor vehicle rule took effect. Permitting requirements for GHGs will include, but are not limited to, the application of Best Available Control Technology (“BACT”) for GHG emissions and monitoring, reporting, and record keeping for GHGs.

On May 13, 2010, EPA issued a final rule for determining the applicability of the PSD program to GHG emissions from major sources. The rule, known as the “Tailoring Rule,” establishes criteria for identifying facilities required to obtain PSD permits and the emissions thresholds at which permitting and other regulatory requirements apply.

Beginning in January 2011, sources that are subject to PSD or Title V permits due to their non-GHG emissions (such as fossil-fuel based electric generating facilities for their NO_x, SO₂, and other emissions) will have to address GHG emissions in new permit applications or renewals. Construction or modification of major sources will become subject to PSD requirements for their GHG emissions if the construction or modification results in a net increase in the overall mass of GHG emissions exceeding 75,000 tons per year on a CO₂e basis. New and modified major sources required to obtain a PSD permit would be required to conduct a BACT review for their GHG emissions. The EPA issued guidance in November 2010 on the technologies or operations that would constitute BACT for GHGs. A PSD permit would require the installation of BACT for GHGs. At this time, since there does not exist any commercially available CO₂ capture and sequester technology, BACT would be some kind of facility efficiency requirements. These would have to be negotiated with the NDEQ and EPA and placed in the PSD permit. With respect to Title V requirements, as of January 2, 2011, the final Tailoring Rule does not amend or reinterpret existing Title V regulations on transitions to new pollution control requirements.

Mercury Regulation. On March 15, 2005, the EPA issued the Clean Air Mercury Rule (“CAMR”), to permanently cap and reduce mercury emissions from coal-fired power plants. On February 8, 2008, the D.C. Circuit vacated EPA’s rule removing power plants from the Clean Air Act list of sources of hazardous air pollutants. At the same time, the Court vacated the CAMR.

On March 16, 2011, the EPA issued a proposed rule intended to reduce emissions of toxic air pollutants from power plants. The final rule was released by EPA on December 21, 2011 (“Mercury and Air Toxics Standards Rule”) and is largely the same as the proposed rule. EPA expects the Mercury and Air Toxics Standards Rule will reduce emissions from new and existing coal- and oil-fired steam utility

electric generating units of heavy metals, including mercury, arsenic, chromium, nickel, dioxins, furans, and acid gases, including hydrogen chloride and hydrogen fluoride. These toxic air pollutants are also known as hazardous air pollutants.

For all existing and new coal-fired electric generating units, the Mercury and Air Toxics Standards Rule establishes numerical emission limits for mercury, particulate matter, a surrogate for toxic non-mercury metals, and hydrogen chloride, a surrogate for acid gases.

Generating units have three years to comply with the Mercury and Air Toxics Standards Rule after the rule becomes effective in early 2012. Upon request, a one-year extension for compliance could possibly be granted.

New Source Performance Standards. The EPA reached a legal settlement to establish New Source Performance Standards (“NSPS”) for new and modified power plants and emission guidelines for existing power plants. EPA committed to issuing proposed regulations by July 26, 2011 and final regulations by May 26, 2012. However, the issuance of the new guidelines has been delayed and no new timeline has been announced at this time. In addition to the NSPS requirements established for new and modified sources, EPA must establish emission guidelines that states use to develop plans for reducing emissions from existing sources. The guidelines include targets based on demonstrated controls, emission reductions, costs and expected timeframes for installation and compliance, and can be less stringent than the requirements imposed on new sources. Under existing EPA regulations, states must submit their plans to EPA within nine months after the guidelines’ publication unless EPA sets a different schedule. Each NSPS must be reviewed at least every eight years and, if appropriate, revised.

Clean Water Act. The Federal Clean Water Act regulates the discharge of process wastewater and certain storm water under the National Pollutant Discharge Elimination System (“NPDES”) permit program. The water quality regulations require compliance with the state water quality standards, including sampling and monitoring of the waters around affected plants. Studies are performed to determine any changes necessary to comply with these regulations.

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

The EPA divided the 316(b) rulemaking process into three phases. Phase I, published in 2001, affected new facilities. Phase II, published in 2004, affected existing electric generating plants that use at least 50 MGD of cooling water. Phase III addresses other existing facilities, as well as new offshore and coastal oil and gas extraction facilities, designed to withdraw at least 2 MGD of water. In November 2010, the EPA signed a Settlement Agreement with Riverkeeper, Inc. regarding an appropriate timeline in which to set Phase III technology standards for cooling water intake structures under Clean Water Act Section 316(b).

EPA issued a proposed rule under Section 316(b) on March 28, 2011, and closed the comment period for the proposed rule on August 18, 2011. Under a court-approved consent decree with environmental organizations the final Section 316(b) rule must be issued by July 27, 2012.

Hazardous Substances and Wastes. Since the enactment of the Resource Conservation and Recovery Act, the Toxic Substances Control Act, and the Comprehensive Environmental Response Compensation and Liability Act, the electric utility industry has found ever increasing environmental

regulations and requirements for dealing with hazardous materials and wastes. LES programs dealing with hazardous materials include audits of all disposal facilities, environmental audits of all properties bought or sold by LES, the issuance of oil and hazardous materials spill plans, and employee education on the proper handling of hazardous materials.

The EPA has proposed two options to regulate the disposal of coal combustion residuals (“CCR”) under the Resource Conservation and Recovery Act (“RCRA”) but under different programs of RCRA. One option would regulate CCR as hazardous waste under Subtitle C. The other option would regulate CCR as municipal or special waste under Subtitle D. Regulation as hazardous waste under Subtitle C could result in significant economic impacts as utilities would most likely not be able to market CCR products for “beneficial use” (e.g., flyash as an aggregate in concrete or flue-gas desulfurization solids for manufacture of wallboard). As less CCR materials could be marketed for use, greater volumes of CCR materials would be required to be stored in landfills. As current landfills would fill quicker than anticipated, additional landfills would need to be developed at significant costs. Regulation as hazardous waste under Subtitle C would impose stringent regulatory requirements associated with the handling, storage, and disposal of large volumes of hazardous wastes. Current Nebraska landfill regulations include location restrictions, standards for landfill liners, leachate collection and removal systems, as well as additional stringent permitting requirements, such as groundwater monitoring, fugitive dust control, closure and post-closure care, and financial assurance. The public comment period on the proposed options closed on November 19, 2010. It is expected that after consideration of the comments received, the EPA will propose a final rule in 2012.

Renewable Resources. The electric utility industry continues to experience significant pressure from customers and regulators to incorporate additional renewable generating resources into generation portfolios. Due to the intermittent production capability, resources such as wind and solar create operational and reliability risks to the system. In addition to operating risks, current generation production cost modeling suggests that renewable resources can increase power costs. However, LES recognizes renewable generation will have a greater role in the future. LES currently owns and operates the Salt Valley Wind Station, located just north of Lincoln, which is comprised of two 660 kW wind turbines. LES has also entered into a power sales agreement with NPPD for 6 MW of wind capacity from its Elkhorn Ridge Wind Plant, located northwest of Norfolk, Nebraska and 10 MW of wind capacity from its Laredo Ridge Wind Plant, located north of Albion, Nebraska. LES is also engaged in negotiations with NPPD to enter into a power sales agreement covering 10 MW of capacity from a wind plant being constructed near Broken Bow, Nebraska, and a 3 MW capacity share of the Crofton Bluffs Wind Plant being constructed in Knox County, Nebraska.

MANAGEMENT DISCUSSION OF OPERATIONS

General

LES is a summer peaking utility and experiences varying weather conditions. The peak loads were 765 MW, 722 MW, 747 MW, 767 MW and 786 MW (including losses, but excluding reserve requirements) in 2007, 2008, 2009, 2010 and 2011, respectively. Variability in the summer peak reflects not only weather changeability but also the effect of economic conditions on load needs from all customer classes. The last couple years have not seen dramatic, single customer growth, but uniform load growth across the spectrum.

Years Ended December 31, 2010 and 2011

Total operating revenues for 2011 were 2.9% greater than 2010. This increase is the netted impact of milder weather offset by a 2.5% rate increase effective January 1, 2011. The City Dividend for Utility Ownership also went into effect on September 1, 2011 and is included in operating revenues.

Operating expenses for 2011 were 4.2% higher than 2010 primarily due to increased energy delivery and transmission costs.

See “APPENDIX B: LES’ INDEPENDENT FINANCIAL STATEMENTS” for additional comments.

LITIGATION

There are no cases pending that will have a materially adverse effect on LES.

CONTINUING DISCLOSURE

LES, on behalf of the City, has covenanted for the benefit of the holders and beneficial owners of the 2012 Bonds to provide certain financial information and operating data relating to LES by not later than May 31 of each year (the “Annual Report”), commencing with the report for the 2012 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of material events may be found in “APPENDIX D: FORM OF CONTINUING DISCLOSURE UNDERTAKING.” These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5) (the “Rule”).

LES covenanted in connection with the issuance of prior Bonds to provide certain financial information, operating data and material event notices in connection with the Rule. LES has been unable to determine whether the required filings were made for fiscal years prior to 2009. LES made the required annual filings on a timely basis for fiscal years 2009, 2010 and 2011. LES has now filed or re-filed all annual filings required to be made in the past five years and believes it is current with respect to all of its undertakings pursuant to the Rule during that period. LES believes that it now has procedures in place that will enable it to meet its continuing disclosure obligations on a timely basis in the future.

FINANCIAL ADVISOR

Public Financial Management (“PFM”), Philadelphia, Pennsylvania and Orlando, Florida, is serving as financial advisor to LES with respect to the sale of the 2012 Bonds. The financial advisor assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the 2012 Bonds and provided other advice. PFM will not participate as an underwriter in any offer to purchase the 2012 Bonds.

UNDERWRITING

The 2012 Bonds are being purchased by the Underwriters identified on the cover page of this Official Statement (the “Underwriters”) for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as senior manager. The Underwriters have agreed, subject to certain conditions, to purchase the 2012 Bonds from LES at a price of \$312,005,386.30, which is the principal amount of the 2012 Bonds plus net original issue premium of \$35,528,372.45 less an underwriting fee of \$837,986.15 (which includes reimbursement of certain expenses) for their services in underwriting the 2012 Bonds. The 2012

Bonds may be offered and sold to certain dealers (including underwriters and other dealers depositing such Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed from time to time by the Underwriters.

Citigroup Inc., parent company of Citigroup Global Markets Inc., an underwriter of the 2012 Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2012 Bonds.

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association. Wells Fargo Bank, National Association (“WFBNA”), an underwriter of the 2012 Bonds, has entered into an agreement (“Distribution Agreement”) with Wells Fargo Advisors, LLC (“WFA”) for the retail distribution of certain municipal securities offerings, including the 2012 Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the 2011 Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

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

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of LES.

RATINGS

Standard & Poor’s Ratings Group, a division of The McGraw-Hill Companies (“S&P”), has assigned the 2012 Bonds the rating of “AA” and Fitch Investors Service, L.P. (“Fitch”) has assigned the 2012 Bonds the rating of “AA.” Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained from Standard & Poor’s Ratings Group, 55 Water Street, New York, New York 10041, telephone (212) 438-2124; and Fitch Investors Service, L.P., One State Street Plaza, New York, New York 10004, telephone (212) 908-0500.

There is no assurance that the above ratings will remain for any given period of time or that they may not be lowered, suspended or withdrawn entirely by any or all rating services if they deem circumstances are appropriate. Any downward change in, suspension or withdrawal of any or all ratings may have an adverse effect on the market price of the 2012 Bonds.

TAX MATTERS

The following is a summary of the material federal and State of Nebraska income tax consequences of holding and disposing of the 2012 Bonds. This summary is based upon laws, regulations, rulings and judicial decisions now in effect, all of which are subject to change (possibly on a retroactive basis). This summary does not discuss all aspects of federal income taxation that may be relevant to investors in light of their personal investment circumstances or describe the tax consequences to certain types of owners subject to special treatment under the federal income tax laws (for example, dealers in securities or other persons who do not hold the 2012 Bonds as a capital asset, tax-exempt organizations, individual retirement accounts and other tax deferred accounts, and foreign taxpayers), and, except for the income tax laws of the State of Nebraska, does not discuss the consequences to an owner under any state, local or foreign tax laws. The summary does not deal with the tax treatment of persons who purchase the 2012 Bonds in the secondary market. Prospective investors are advised to consult their own tax advisors regarding federal, state, local and other tax considerations of holding and disposing of the 2012 Bonds. The form of Bond Counsel opinion is attached as Appendix F to this Official Statement.

Opinion of Bond Counsel

In the opinion of Gilmore & Bell, P.C., Bond Counsel, under the law existing as of the issue date of the 2012 Bonds:

Federal and Nebraska Tax Exemption. The interest on the 2012 Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is exempt from income taxation by the State of Nebraska.

Alternative Minimum Tax. Interest on the 2012 Bonds is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Bank Qualification. The 2012 Bonds have not been designated as “qualified tax-exempt obligations” for purposes of Section 265(b) of the Code.

Bond counsel’s opinions are provided as of the date of the original issue of the 2012 Bonds, subject to the condition that the City and LES comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2012 Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The City and LES have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the inclusion of interest on the 2012 Bonds in gross income for federal and Nebraska income tax purposes retroactive to the date of issuance of the 2012 Bonds. Bond Counsel is expressing no opinion regarding other federal, state or local tax consequences arising with respect to the 2012 Bonds but has reviewed the discussion under the heading “TAX MATTERS.”

Other Tax Consequences

Original Issue Discount. For federal income tax purposes, original issue discount (“OID”) is the excess of the stated redemption price at maturity of a 2012 Bond over its issue price. The issue price of a 2012 Bond is the first price at which a substantial amount of the 2012 Bonds of that maturity have been sold (ignoring sales to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers). Under Section 1288 of the Code, OID on tax-exempt bonds accrues on a compound basis. The amount of OID that accrues to an owner of a 2012 Bond during

any accrual period generally equals (1) the issue price of that 2012 Bond, plus the amount of OID accrued in all prior accrual periods, multiplied by (2) the yield to maturity on that 2012 Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (3) any interest payable on that 2012 Bond during that accrual period. The amount of OID accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excludable from gross income for federal income tax purposes, and will increase the owner's tax basis in that 2012 Bond. Prospective investors should consult their own tax advisors concerning the calculation and accrual of OID.

Original Issue Premium. If a 2012 Bond is issued at a price that exceeds the stated redemption price at maturity of the 2012 Bond, the excess of the purchase price over the stated redemption price at maturity constitutes "premium" on that 2012 Bond. Under Section 171 of the Code, the purchaser of that 2012 Bond must amortize the premium over the term of the 2012 Bond using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the owner's basis in the 2012 Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the owner. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the 2012 Bond prior to its maturity. Even though the owner's basis is reduced, no federal income tax deduction is allowed. Prospective investors should consult their own tax advisors concerning the calculation and accrual of bond premium.

Sale, Exchange or Retirement of 2012 Bonds. Upon the sale, exchange or retirement (including redemption) of a 2012 Bond, an owner of the 2012 Bond generally will recognize gain or loss in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale, exchange or retirement of the 2012 Bond (other than in respect of accrued and unpaid interest) and such owner's adjusted tax basis in the 2012 Bond. To the extent a 2012 Bond is held as a capital asset, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the 2012 Bond has been held for more than 12 months at the time of sale, exchange or retirement.

Reporting Requirements. In general, information reporting requirements will apply to certain payments of principal, interest and premium paid on the 2012 Bonds, and to the proceeds paid on the sale of the 2012 Bonds, other than certain exempt recipients (such as corporations and foreign entities). A backup withholding tax will apply to such payments if the owner fails to provide a taxpayer identification number or certification of foreign or other exempt status or fails to report in full dividend and interest income. The amount of any backup withholding from a payment to an owner will be allowed as a credit against the owner's federal income tax liability.

Collateral Federal Income Tax Consequences. Prospective purchasers of the 2012 Bonds should be aware that ownership of the 2012 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the 2012 Bonds. Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of 2012 Bonds should consult their tax advisors as to the applicability of these tax consequences and other federal income tax consequences of the purchase, ownership and disposition of the 2012 Bonds, including the possible application of state, local, foreign and other tax laws.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the 2012 Bonds, Robert Thomas, CPA, an independent certified public accountant, will deliver to the City a report verifying the mathematical accuracy of certain computations relating to (a) the adequacy of the maturing principal amount of the securities held in the Escrow Fund, interest earned thereon and certain uninvested cash to pay the principal and redemption price of, and interest on, the Refunded Bonds (as described under “REFUNDING PLAN”) as such principal and redemption price and interest become due and payable, and (b) the mathematical computations supporting the conclusion that the 2012 Bonds are not “arbitrage bonds” under Section 148 of the Code. Such verification of the accuracy of the computations will be based upon information supplied by the Financial Advisor and on interpretations of the Code provided by Bond Counsel.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization and issuance of the 2012 Bonds are subject to the approval of Gilmore & Bell, P.C., Lincoln, Nebraska, Bond Counsel, whose approving opinion in connection with the issuance of the 2012 Bonds in substantially the form attached hereto as “APPENDIX F: FORM OF OPINION OF BOND COUNSEL” will be delivered to the City. Certain legal matters with respect to the City will be passed upon by the Lincoln City Attorney, certain matters with respect to LES will be passed upon by its General Counsel and certain matters with respect to the Underwriter will be passed upon by Underwriter’s Counsel. Bond Counsel has not reviewed this Official Statement except for (a) the cover page hereof (other than yields or prices), (b) the portions hereof describing the 2012 Bonds, (c) the sections entitled “DESCRIPTION OF THE 2012 BONDS,” “SECURITY FOR THE 2012 BONDS” and “TAX MATTERS and (d) “APPENDIX C: SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE” and “APPENDIX F: FORM OF OPINION OF BOND COUNSEL,” and, except for such portions, Bond Counsel has not participated in the preparation of this Official Statement.

INDEPENDENT ACCOUNTANTS

The financial statements as of December 31, 2011 and 2010, and for the years then ended included in Appendix B in this Official Statement have been audited by Baker Tilly Virchow Krause, LLP, independent accountants, as stated in its report appearing herein, which refers to the implementation of Governmental Accounting Standards Board Statement No. 40 Deposits and Investment Risk Disclosures, an Amendment to GASB No. 3.

The issuance of this Official Statement and the signing thereof by the City’s interim Finance Director and LES’ Administrator and CEO has been authorized by the City.

/s/ Steve Hubka
Interim Finance Director

/s/ Kevin G. Wailes
Administrator and CEO of
Lincoln Electric System

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APPENDIX A

GENERAL INFORMATION ON THE CITY OF LINCOLN

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THE CITY OF LINCOLN

General

Lincoln, the capital of Nebraska, is located in southeastern Nebraska near the center of population of the state. The City was originally incorporated in 1869. It is approximately midway between Chicago and Denver. It has an area of 90.85 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.

City Government

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

City government has a broad range of responsibilities, including electric, water, and sanitary sewer systems, and an impressive park and playground system of over 6,503 acres maintained for public use, nine public swimming pools, and five public golf courses. The City has cooperated actively with the county government in several joint governmental buildings, and in other specific areas of responsibility, including health, planning, civil defense, data processing, tax collection, parks, and jail facilities. There are cooperative agreements with the United States government on parks and flood control, with the University of Nebraska on planning and property transfer, with the area Watershed District on flood control, and with the Lincoln School District on recreation.

Transportation

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

Lincoln is served by two commercial airports with daily shuttle service available between locations. The Lincoln Municipal Airport is located less than 10 minutes from downtown and has daily departures to Chicago, Denver, Detroit, and Minneapolis. Eppley Airfield, located in east Omaha, is 65 minutes from downtown Lincoln and offers service from multiple 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, Union Pacific, and AMTRAK. Ground transportation is furnished by Greyhound/Black Hills Stage Lines and local StarTran bus services.

Government Center

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

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

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

Education

The University of Nebraska, with approximately 24,000 students, Nebraska Wesleyan University, with approximately 2,100 students, Union College, with approximately 900 students, Kaplan University, with approximately 930 students and Southeast Community College, with approximately 10,300 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 35,000 is served by 6 high schools, 11 middle schools, and 37 elementary schools. Lincoln is home to nearly 30 private and parochial schools. Lincoln's private school offerings range from pre-K to high school institutions. Affiliations include Roman Catholic, Lutheran, SDA, and nondenominational Christians.

Building Permits and Property Values

LAST TEN YEARS

FISCAL YEAR	COMMERCIAL 1 CONSTRUCTION		RESIDENTIAL 1 CONSTRUCTION		PROPERTY VALUE 2		TOTALS
	# PERMITS	VALUE	# PERMITS	VALUE	COMMERCIAL	RESIDENTIAL	
2011	1,320	\$ 223,215,672	2,336	\$ 155,181,140	\$ 4,477,256,519	\$ 10,648,151,681	\$ 15,125,408,200
2010	1,234	241,509,266	2,225	116,914,465	4,438,463,100	10,546,474,527	14,984,937,627
2009	1,196	199,331,086	1,794	104,316,385	4,382,749,195	10,839,440,027	15,222,189,222
2008	1,064	274,267,477	2,261	149,678,215	4,246,365,596	10,723,170,809	14,969,536,405
2007	994	293,968,408	2,820	202,786,768	4,236,340,817	10,402,515,684	14,638,856,501
2006	1,088	263,006,153	3,150	195,885,622	3,814,534,869	9,083,290,211	12,897,825,080
2005	1,092	204,677,969	3,387	277,158,200	3,694,097,147	8,727,702,573	12,421,799,720
2004	1,061	258,670,339	3,846	321,126,701	3,598,787,015	8,402,403,364	12,001,190,379
2003	1,036	269,298,229	3,913	315,662,242	3,094,988,486	7,255,640,292	10,350,628,778
2002	1,013	245,476,386	3,405	262,293,941	2,855,200,333	7,048,688,380	9,903,888,713

¹ City of Lincoln, Building and Safety Department.

² Lancaster County Assessor.

Police and Fire Protection

Lincoln has fourteen fire stations manned by 283 firefighters and three police stations with 321 police officers.

City Employee Information

For the 2011-2012 fiscal year, contracts have been signed with all 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. All contracts expire at the end of August, 2012.

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, 2011		NOVEMBER 30, 2011	
	Number Employed	Percent of Total	Number Employed	Percent of Total
Industry Manufacturing:				
Durable Goods	8,130	4.6	8,064	4.5
Nondurable Goods	4,833	2.8	4,768	2.7
Total Industry Manufacturing	12,963	7.4	12,832	7.2
Nonmanufacturing:				
Natural Resource & Construction	6,621	3.8	6,493	3.7
Transportation, Communications & Utilities	10,491	6.0	10,711	6.0
Wholesale Trade	4,028	2.3	4,150	2.3
Retail Trade	18,370	10.5	19,346	10.9
Information	2,130	1.2	2,184	1.3
Finance, Insurance & Real Estate	13,327	7.6	13,354	7.5
Services (except domestic)	67,979	38.8	69,100	39.1
Government	39,201	22.4	38,948	22.0
Total Nonmanufacturing	162,147	92.6	164,286	92.8
TOTAL	175,110	100.0	177,118	100.0

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

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

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Civilian Labor Force	160,683	157,933	159,298	159,943	157,887	157,632	157,999	158,444	156,940	153,021
Unemployment	6,130	6,802	7,015	4,899	4,462	4,592	5,643	5,346	5,841	5,007
Percent of Labor Force	3.8	4.3	4.4	3.1	2.8	2.9	3.6	3.4	3.7	3.3
Employment	154,553	151,130	152,283	155,044	153,425	153,040	152,355	153,098	151,100	148,013

STATE OF NEBRASKA

Percent of Labor Force										
Unemployment	4.2	4.7	4.7	3.3	3.0	3.2	3.9	3.8	3.8	3.6

Source: State of Nebraska, Department of Labor

**DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

Year	Population 1	Per Capita Personal Income 2	School Enrollment 3
2011	258,379	\$	36,530
2010	254,001		35,896
2009	251,624	37,361	34,973
2008	248,744	37,990	34,061
2007	241,167	36,838	33,466
2006	239,213	35,441	32,934
2005	238,625	33,799	32,505
2004	236,146	33,024	32,270
2003	235,565	32,098	31,889
2002	231,800	31,208	31,867

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 2010 and 2011 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**

Year	Water Customers	Gas Customers	Electricity Customers
2011	79,184	94,231	128,373
2010	78,740	93,916	129,322
2009	77,973	93,679	128,115
2008	77,532	93,419	126,978
2007	76,816	93,301	124,878
2006	75,919	92,824	123,376
2005	74,649	92,152	121,508
2004	73,059	91,046	119,456
2003	72,260	89,642	116,974
2002	69,704	89,085	114,388

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
2011	\$ 36,622,362	69,537,057	18,335,078	21,794,585	15,811,914	21,993,415	15,088,883	26,439,462	225,622,756
2010	35,865,006	64,679,523	19,832,223	21,483,873	15,359,628	21,652,729	12,034,413	17,032,401	207,939,796
2009	34,428,477	63,984,484	16,445,304	22,449,569	11,321,242	20,349,757	9,575,670	16,990,105	195,544,608
2008	35,278,575	61,147,903	16,482,240	21,686,564	14,685,668	21,053,132	10,707,601	14,427,795	195,469,478
2007	33,946,258	60,953,651	17,430,452	21,719,544	11,670,315	20,378,863	14,877,357	11,589,720	192,566,160
2006	34,666,641	60,064,604	16,928,575	20,938,212	12,623,307	25,566,267	8,901,327	11,016,269	190,705,202
2005	32,532,685	58,669,932	17,064,845	21,669,847	14,870,592	19,126,931	8,306,921	10,562,993	182,804,746
2004	30,884,544	55,272,920	13,633,902	22,308,940	14,728,510	18,544,667	10,525,090	7,914,521	173,813,094
2003	28,938,852	50,933,285	12,317,663	19,935,823	16,469,645	17,614,751	7,996,019	8,507,223	162,713,261
2002	27,237,134	49,913,169	10,833,055	16,974,798	14,017,601	17,989,603	12,691,837	7,411,878	157,069,075

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

GENERAL REVENUES BY SOURCE ¹ LAST TEN FISCAL YEARS

Fiscal Year	Taxes And Special Assessment	Inter-Governmental	Permits And Fees	Reimbursement For Services	Investment Earnings	Other	Totals
2011	\$ 144,632,640	71,532,824	18,524,372	7,521,366	5,454,877	11,279,552	258,945,631
2010	131,562,303	61,640,301	16,432,219	7,004,334	5,197,259	6,467,138	228,303,554
2009	130,360,416	75,099,973	17,119,002	6,600,299	5,791,391	7,818,015	242,789,096
2008	130,094,818	73,830,720	18,013,104	6,511,457	6,806,258	7,667,778	242,924,135
2007	125,328,388	63,928,043	19,126,239	6,491,112	10,371,565	7,052,107	232,297,454
2006	121,857,986	60,757,501	18,423,079	7,063,192	4,082,196	7,886,377	220,070,331
2005	119,318,079	63,180,171	16,535,049	6,936,334	4,327,311	12,028,417	222,325,361
2004	114,756,962	58,619,699	15,593,326	6,322,870	5,207,711	10,188,520	210,689,088
2003	107,114,577	52,773,424	12,679,623	6,097,336	4,353,336	8,234,138	191,252,434
2002	105,139,052	59,029,609	12,449,879	5,605,557	4,606,825	10,325,634	197,156,556

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>
2011	\$ 1,103,720
2010	1,136,150
2009	1,071,238
2008	1,418,936
2007	1,448,146
2006	1,667,037
2005	1,413,582
2004	2,104,925
2003	1,814,191
2002	1,867,653

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 2011 tax levy for the 2011-2012 fiscal year is \$100,174,806 below the legal limit, a tax rate per \$100 valuation of .31580. The assessed value upon which the 2011 levy is based is \$15,900,828,813. By charter, only 90% of the property tax levy may be appropriated.

For the 2011-2012 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 2011-2012 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 .12%. An additional 1% can be authorized by a 75% vote of the City Council but was not utilized for the 2011-2012 budget. The 2011-2012 budget is approximately \$18.3 million below the state imposed lid limit.

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

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

Tax Year	Taxes Levied	Collected As Of August 31		Accumulated Collections As Of August 31, 2011	
		Amount	Percent	Amount	Percent
2011	\$ 45,718,972	\$ 44,206,917	96.69 %	\$ 44,206,917	96.69 %
2010	45,197,040	\$ 43,791,366	96.89	45,170,841	99.94
2009	45,884,670	44,385,970	96.73	45,867,726	99.96
2008	45,052,028	43,526,689	96.61	45,039,392	99.97
2007	43,291,440	41,815,295	96.59	43,284,921	99.98
2006	40,930,818	39,549,553	96.63	40,927,221	99.99
2005	38,755,995	37,488,504	96.73	38,749,283	99.98
2004	36,994,112	35,696,288	96.49	36,902,819	99.75
2003	35,007,926	33,648,496	96.12	34,916,463	99.74
2002	33,731,282	32,482,000	96.30	33,720,019	99.97

TEN LARGEST TAXPAYERS

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

Taxpayers	Type of Business	2011 Assessed Valuations	Percentage Of Total Assessed Valuation
B & J Partnership Ltd.	Building Management	\$ 78,862,600	0.50%
Burlington Northern	Railroad	71,668,442	0.45%
Kawasaki	Manufacturing	70,126,972	0.44%
Ameritas Life Insurance Corp	Insurance	61,017,194	0.38%
WEA Gateway LLC	Retail Management	56,997,083	0.36%
BryanLGH	Hospital	53,953,361	0.34%
Pfizer	Animal Health	47,060,705	0.30%
Nebco	Construction/Development	46,160,673	0.29%
Chateau Van Dorn LLC	Real Estate Development	45,364,619	0.29%
Black Hills Utility Holdings	Gas Utility	45,124,751	0.28%
		\$ 576,336,400	3.63%

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
2011	\$ 57,959,545
2010	54,925,013
2009	54,255,376
2008	55,733,297
2007	53,960,485
2006	54,270,346
2005	53,781,209
2004	51,869,477
2003	48,657,268
2002	45,393,491

**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
2011	\$ 31,449,267	57,959,545	30,957	1,755,098	11,699,691	102,894,558
2010	31,486,553	54,925,013	11,895	1,620,431	10,467,534	98,511,426
2009	33,783,984	54,255,376	8,143	1,540,752	10,071,230	99,659,485
2008	32,181,660	55,733,297	18,600	1,511,404	9,670,060	99,115,021
2007	31,454,763	53,960,485	10,492	1,399,939	9,596,588	96,422,267
2006	28,366,526	54,270,346	9,526	1,315,038	8,936,502	92,897,938
2005	26,727,618	53,781,209	12,445	1,159,742	9,169,791	90,850,805
2004	24,546,532	51,869,477	9,263	1,144,747	9,037,781	86,607,800
2003	22,780,085	48,657,268	10,876	1,199,507	8,831,712	81,479,448
2002	23,353,414	45,393,491	8,403	1,163,468	9,097,442	79,016,218

**TAXABLE ASSESSED VALUATION
LAST TEN YEARS ¹**

Tax Year	Real Estate	All Other	Total
2011	\$ 15,125,408,200	755,852,220	15,881,260,420
2010	14,984,937,627	761,515,955	15,746,453,582
2009	15,222,189,222	713,383,515	15,935,572,737
2008	14,969,536,405	684,390,085	15,653,926,490
2007	14,638,856,501	703,307,287	15,342,163,788
2006	12,897,825,080	685,425,215	13,583,250,295
2005	12,421,799,720	716,716,506	13,138,516,226
2004	12,001,190,379	742,915,013	12,744,105,392
2003	10,350,628,778	779,959,389	11,130,588,167
2002	9,903,888,713	820,797,124	10,724,685,837

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									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
City of Lincoln	0.2879	0.2879	0.2879	0.2879	0.2833	0.3009	0.2950	0.2903	0.3145	0.3145
School District No. 1	1.2462	1.2537	1.2668	1.2719	1.2764	1.3142	1.3141	1.3011	1.2830	1.2732
Lancaster County	0.2683	0.2683	0.2683	0.2755	0.2655	0.2841	0.2797	0.2683	0.2683	0.2583
Educational Service Unit #18	0.0145	0.0150	0.0150	0.0141	0.0141	0.0150	0.0150	0.0150	0.0150	0.0150
Community Technical College	0.0600	0.0676	0.0722	0.0689	0.0689	0.0696	0.0655	0.0655	0.0655	0.0636
Lower Platte South Natural Res. Dist.	0.0406	0.0410	0.0410	0.0418	0.0416	0.0422	0.0323	0.0323	0.0359	0.0365
Railroad Transportation Safety Dist.	0.0260	0.0260	0.0260	0.0260	0.0246	0.0260	0.0260	0.0248	0.0220	0.0221
Lancaster County Correctional JPA City	0.0189	0.0194	0.0195	-	-	-	-	-	-	-
Lancaster County Correctional JPA County	0.0106	0.0107	0.0106	-	-	-	-	-	-	-
Agricultural Society of Lancaster County	0.0017	0.0016	0.0015	0.0016	0.0016	0.0018	0.0020	0.0030	0.0012	0.0024
Lancaster County Fairgrounds	0.0038	0.0038	0.0038	0.0043	0.0037	0.0042	0.0042	0.0043	0.0050	0.0052
Public Building Commission	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170
	<u>1.9955</u>	<u>2.0120</u>	<u>2.0296</u>	<u>2.0090</u>	<u>1.9967</u>	<u>2.0750</u>	<u>2.0508</u>	<u>2.0216</u>	<u>2.0274</u>	<u>2.0078</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, 2011

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:							
8,220	03/01/99	Various Purpose Series B	3.000 - 4.250	Serial 1999 to 2011	2007	Semiannually	\$ 260
15,595	07/08/03	Various Purpose	2.625 - 3.750	Serial 2004 to 2017	2013	"	5,215
3,710	07/08/03	Various Purpose	4.000 / 4.125	Term 2020 & 2023	2013	"	3,710
9,950	06/15/05	Storm Sewer Construction	3.250 - 4.250	Serial 2006 to 2025	2015	"	7,660
8,295	06/27/07	Stormwater Drainage and Flood Mgmt	4.625 - 5.000	Serial 2008 to 2027	2017	"	7,265
8,200	02/10/11	Stormwater Bonds	2,000 - 4,500	Serial 2013 to 2030	2020	"	8,200
19,290	06/21/11	Refunding	0.2000 - 5.000	Serial 2011 to 2022	2019	"	19,290
Total General Bonds							\$ 51,600
Tax Allocation Bonds:							
1,035	04/21/04	Tax Allocation Bonds	2,000 - 3,200	Serial 2004 to 2011	2008	Semiannually	160
5,500	04/21/04	Tax Allocation Bonds	3,000 - 4,800	Serial 2004 to 2015	2010	"	2,880
365	08/15/05	Tax Allocation Bonds	4,750	Serial 2006 to 2018	Anytime	"	216
288	10/01/06	Tax Allocation Bonds	5,100	Serial 2008 to 2016	Anytime	"	188
2,205	04/05/07	Tax Allocation Bonds	5,000 - 5,550	Serial 2009 to 2018	2012	"	1,845
601	06/01/07	Tax Allocation Bonds	5,240	Serial 2008 to 2018	Anytime	"	561
388	06/01/07	Tax Allocation Bonds	5,240	Serial 2007 to 2020	Anytime	"	300
369	06/15/07	Tax Allocation Bonds	5,400	Serial 2007 to 2014	Anytime	"	190
42	07/15/08	Tax Allocation Bonds	4,660	Serial 2009 to 2021	Anytime	"	37
71	07/15/08	Tax Allocation Bonds	4,660	Serial 2009 to 2017	Anytime	"	63
474	07/15/08	Tax Allocation Bonds	4,660	Serial 2009 to 2022	Anytime	"	332
547	08/01/08	Tax Allocation Bonds	4,610	Serial 2009 to 2022	Anytime	"	469
200	08/01/08	Tax Allocation Bonds	4,610	Serial 2009 to 2022	Anytime	"	170
611	06/30/09	Tax Allocation Bonds	7,000	Serial 2011 to 2023	Anytime	"	609
3,375	07/28/09	Tax Allocation Bonds	2,500 - 6,400	Serial 2011 to 2023	Anytime	"	3,375
263	04/01/11	Tax Allocation Bonds	3,990	Serial 2011 to 2022	Anytime	"	263
Total Tax Allocation Bonds							\$ 11,658
Tax Supported Bonds:							
35,000	03/17/04	Highway Allocation Fund	2,000 - 5,000	Serial 2007 to 2023	2014	Semiannually	31,965
27,000	12/05/06	Highway Allocation Fund	4,000 - 5,000	Serial 2008 to 2027	2016	"	23,240
Total Tax Supported Bonds							\$ 55,205
Special Assessment Bonds:							
825	08/18/11	Special Assessment	0.400 - 3.700	Serial 2012 to 2026		Semiannually	825
375	08/18/11	Special Assessment	4,200	Term 2031		"	375
Total Special Assessment Bonds							\$ 1,200
West Haymarket Joint Public Agency							
31,515	09/08/10	Facility Bonds Taxable Build America Bonds	3,500 - 4.45	Serial 2020 to 2030	Anytime	Semiannually	31,515
68,485	09/08/10	Facility Bonds Taxable Build America Bonds	4,750 / 5,000	Term 2035 & 2045	Anytime	"	68,485
15,785	12/01/10	Facility Bonds Taxable Build America Bonds	4,000 - 5,000	Serial 2020 - 2025	Anytime	"	15,785
52,180	12/01/10	Facility Bonds Taxable Build America Bonds	5,400 / 5,800 / 6,000	Term 2030 2035 2039	Anytime	"	52,180
32,035	12/01/10	Recovery Zone Economic Development	6,750	Term 2045	Anytime	"	32,035
44,290	08/24/11	Facility Bonds	3,500 - 5,000	Serial 2021 to 2032	2021	"	44,290
55,710	08/24/11	Facility Bonds	4,250 / 5,000	Term 2036 & 2042	2021	"	55,710
Total West Haymarket Joint Public Agency							\$ 300,000
TOTAL GENERAL OBLIGATION BONDS							\$ 419,663
Tax Supported Bonds:							
11,080	3/13/02	Antelope Valley Project	1,500 - 5,000	Serial 2002 to 2016	2012	Semiannually	\$ 5,920
Revenue Bonds:							
39,235	07/31/03	Wastewater Revenue	2,000 - 5,000	Serial 2004 to 2023	2013	Semiannually	\$ 26,350
15,765	07/31/03	Wastewater Revenue	4,625 / 5,000	Term 2025 & 2028	2013	"	15,765
18,000	08/03/05	Wastewater Revenue	4,000 - 5,000	Serial 2006 to 2030	2015	"	15,000
16,710	04/18/07	Wastewater Revenue	4,000 - 4,500	Serial 2008 to 2029	2017	"	14,760
3,750	04/18/07	Wastewater Revenue	4,375	Term 2032	2017	"	3,750
Total Wastewater Bonds							\$ 75,625
11,850	11/22/02	Water Revenue	2,750 - 5,000	Serial 2005 to 2017	2012	Semiannually	6,180
6,660	11/22/02	Water Revenue	5,000	Term 2022	2012	"	6,660
32,180	05/01/03	Water Revenue	5,000	Serial 2004 to 2012	-	"	2,630
40,000	11/16/04	Water Revenue	3,000 - 5,000	Serial 2005 to 2025	2014	"	33,030
10,515	08/04/09	Water Revenue	2,000 - 4,125	Serial 2013 to 2029	2019	"	10,515
4,905	08/04/09	Water Revenue	4,5000	Term 2034	2019	"	4,905
Total Water Bonds							\$ 63,920
4,360	12/18/01	Parking Revenue	3,750 - 5,000	Serial 2002 to 2017	2011	"	1,935
1,640	12/18/01	Parking Revenue	5,125	Term 2021	2011	"	1,640
2,065	12/29/10	Parking Revenue	1,250 - 2,850	Serial 2011 to 2014	N/A	"	1,760
10,775	01/27/11	Parking Revenue and Refunding	5,000 / 5,125 / 5,500	Term 2026 & 2031	2021	"	10,775
Total Parking Bonds							\$ 23,855
4,000	08/17/06	Solid Waste Management Revenue	4,000 - 4,250	Serial 2007 to 2021	2013	Semiannually	\$ 3,020
148,190	10/01/02	Electric Revenue and Refunding Bonds	4,000 - 5,000	Serial 2004 to 2025	2012	"	81,660
93,045	10/01/03	Electric Revenue and Refunding Bonds	3,000 - 5,000	Serial 2004 to 2026	2014	"	78,200
33,265	10/01/03	Electric Revenue and Refunding Bonds	4,750	Term 2028	2014	"	33,265
61,290	10/01/05	Electric Revenue Bonds	5,000	Serial 2029 to 2032	2015	"	61,290
53,710	10/01/05	Electric Revenue Bonds	4,750	Term 2035	2015	"	53,710
183,230	05/15/07	Electric Revenue and Refunding Bonds	4,000 - 5,000	Serial 2009 to 2035	2016	"	176,255
81,850	05/15/07	Electric Revenue and Refunding Bonds	4,500 / 4,750	Term 2034 & 2037	2016	"	81,850
Total Electric Bonds							\$ 566,230
TOTAL REVENUE BONDS							\$ 732,650

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
2012	\$ 6,636	19,029	710	271	3,688	959
2013	8,563	19,575	740	238	3,284	889
2014	8,816	19,283	780	200	3,421	817
2015	9,061	18,971	815	162	3,511	738
2016	9,455	18,603	855	122	3,586	643
2017 - 2021	47,260	87,656	2,020	51	9,322	2,051
2022 - 2026	72,657	74,055	-	-	5,458	830
2027 - 2031	55,835	59,699	-	-	1,255	68
2032 - 2036	60,645	46,279	-	-	-	-
2037 - 2041	73,345	29,401	-	-	-	-
2042 - 2046	67,390	8,882	-	-	-	-
	<u>\$ 419,663</u>	<u>401,433</u>	<u>5,920</u>	<u>1,044</u>	<u>33,525</u>	<u>6,995</u>

Fiscal Year Ended August 31	Business-Type Activities					
	Revenue Bonds		Loans Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 28,020	34,879	195	116	258	24
2013	27,010	33,539	307	112	198	18
2014	28,255	32,258	312	107	205	13
2015	29,500	30,887	318	101	152	7
2016	30,845	29,481	323	96	98	5
2017 - 2021	178,095	123,373	1,694	399	98	2
2022 - 2026	117,595	86,452	1,839	254	-	-
2027 - 2031	119,815	59,989	1,896	97	-	-
2032 - 2036	119,470	29,412	107	1	-	-
2037 - 2041	54,045	3,676	-	-	-	-
	<u>\$ 732,650</u>	<u>463,946</u>	<u>6,991</u>	<u>1,283</u>	<u>1,009</u>	<u>69</u>

Fiscal Year Ended August 31	Major Enterprise Funds					
	Wastewater System		Water System		Electric System	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 3,075	3,620	5,380	2,905	18,680	27,267
2013	3,287	3,500	3,310	2,647	19,610	26,333
2014	3,397	3,370	3,425	2,506	20,595	25,353
2015	3,522	3,217	3,555	2,354	21,620	24,323
2016	3,648	3,057	3,690	2,191	22,675	23,271
2017 - 2021	20,475	12,768	20,915	8,199	131,510	98,220
2022 - 2026	25,189	7,816	16,315	3,406	71,630	72,415
2027 - 2031	18,611	2,161	4,240	1,266	90,790	55,355
2032 - 2036	1,412	58	3,090	283	115,075	29,072
2037 - 2041	-	-	-	-	54,045	3,676
	<u>\$ 82,616</u>	<u>39,567</u>	<u>63,920</u>	<u>25,757</u>	<u>566,230</u>	<u>385,285</u>

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

Net assets of \$2,666,408, \$3,016,975, \$10,291,693, and \$85,335 are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, Tax Allocation Bonds, and Special Assessment Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

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

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

	Governmental Activities	Business-Type Activities
Land	\$ 1,774,450	\$ 210,000
Buildings	18,171,399	-
Improvements	219,925	-
Infrastructure	13,719,213	-
Machinery and Equipment	2,946,000	3,492,756
Construction In Progress	388,181	
Less Accumulated Depreciation, (where applicable)	<u>(5,566,307)</u>	<u>(2,256,254)</u>
Total	<u>\$ 31,652,861</u>	<u>\$ 1,446,502</u>

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

The general obligation debt of all local governmental units which provide services within the City's boundaries and which debt must be borne by properties in the City (commonly called overlapping debt) as of August 31, 2011, is summarized below (unaudited):

<u>Governmental Units</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable ¹</u>	<u>Direct And Overlapping Debt To The City</u>
Direct:			
City	\$ 419,663,000	100.0 %	\$ 419,663,000
Overlapping:			
School District #1	362,755,000	99.5	360,941,000
Lower Platte South N.R.D.	-	75.4	-
Lancaster County	1,400,000	85.4	1,196,000
Public Building Commission	41,660,000	85.4	35,578,000
Lancaster County Correctional Facility	59,570,000	85.4	50,873,000
Lancaster County Fairgrounds	8,480,000	85.4	7,242,000
	<u>473,865,000</u>		<u>455,830,000</u>
Total	<u>\$ 893,528,000</u>		<u>\$ 875,493,000</u>

The City has no direct liability for the School District, Lower Platte South N.R.D., Lancaster County, Public Building Commission, Lancaster County Fairgrounds or Lancaster County Correctional Facility debt summarized above. This results in a per capita direct City debt of \$1,624.21; a per capita direct and overlapping debt of \$3,388.41; a ratio of direct City debt to 2011 actual valuation of 2.64 percent; and a ratio of direct and overlapping debt to 2011 actual valuation of 5.51 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, 2011, the Airport Authority had outstanding \$9,080,000 in aggregate principal amount of its general obligation airport bonds. The Airport Authority anticipates that such bonds will be paid from revenues derived from its operations of the Lincoln Municipal Airport, but the Airport Authority is authorized to levy a property tax, at a rate not to exceed three and five-tenths cents (\$.035) on each \$100 of taxable valuation, on all the taxable property in the City. The Airport Authority has not levied a property tax since 1985 for any purpose, including airport operating expenses or debt service on its bonds.

Debt Payment Record

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

Contingencies

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

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

Fiscal Year	Principal	Interest ²	Total Debt Service	Total General Governmental Expenditures ¹	Ratio Of Debt Service To Total General Expenditures
2011	\$ 6,857,978	\$ 5,147,840	\$ 12,005,818	\$ 225,622,756	5.32 %
2010	7,457,532	5,676,933	13,134,465	207,939,796	6.32
2009	8,036,544	5,814,071	13,850,615	195,544,608	7.08
2008	6,824,828	5,979,172	12,804,000	195,469,478	6.55
2007	5,617,536	4,986,687	10,604,223	192,566,160	5.51
2006	5,770,794	4,670,734	10,441,528	190,705,202	5.48
2005	5,421,699	4,860,926	10,282,625	182,804,746	5.62
2004	4,934,224	2,893,437	7,827,661	173,813,094	4.50
2003	5,435,370	2,986,634	8,422,004	162,713,261	5.18
2002	4,921,172	2,421,303	7,342,475	157,069,075	4.67

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
2011	\$ 119,663,000	\$ 13,305,000	\$ 106,358,000	258,379	\$ 411.64	\$ 15,881,260,420	0.67%	\$ 15,125,408,200	0.70%
2010	118,383,000	13,480,000	104,903,000	254,001	413.00	15,746,453,582	0.67%	14,984,937,627	0.70%
2009	125,181,000	13,604,000	111,577,000	251,624	443.43	15,935,572,737	0.70%	15,222,189,222	0.73%
2008	128,581,000	12,962,000	115,619,000	248,744	464.81	15,653,926,490	0.74%	14,969,536,405	0.77%
2007	133,413,000	11,574,000	121,839,000	241,167	505.21	15,342,163,788	0.79%	14,638,856,501	0.83%
2006	99,347,000	9,733,000	89,614,000	239,213	374.62	13,583,250,295	0.66%	12,897,825,080	0.69%
2005	104,538,000	13,364,000	91,174,000	238,625	382.08	13,138,516,226	0.69%	12,421,799,720	0.73%
2004	98,915,000	20,509,000	78,406,000	236,146	332.02	12,744,105,392	0.62%	12,001,190,379	0.65%
2003	61,759,000	17,083,000	44,676,000	235,565	189.65	11,130,588,167	0.40%	10,350,628,778	0.43%
2002	56,997,000	15,847,000	41,150,000	231,800	177.52	10,724,685,837	0.38%	9,903,888,713	0.42%

¹ Source: Lincoln/Lancaster Planning Department.

² Assessed valuation is 100% of actual

**REVENUE BOND COVERAGE
LAST TEN FISCAL YEAR**

	Gross Revenue	Direct Operating Expenses	Net Available Revenue	Debt Service Requirements			Coverage
				Principal	Interest	Total	
Wastewater System							
2011	\$ 23,546,370	12,543,964	11,002,406	2,865,000	3,647,609	6,512,609	1.69
2010	22,472,095	11,664,593	10,807,502	2,695,000	3,731,444	6,426,444	1.68
2009	22,643,270	11,771,291	10,871,979	2,620,000	3,820,044	6,440,044	1.69
2008	22,347,867	11,393,624	10,954,243	2,415,000	4,030,454	6,445,454	1.70
2007	21,158,743	11,462,964	9,695,779	2,005,000	3,081,481	5,086,481	1.91
2006	19,827,194	11,125,819	8,701,375	2,065,000	3,043,500	5,108,500	1.70
2005	18,248,683	10,482,955	7,765,728	1,500,000	2,403,519	3,903,519	1.99
2004	18,092,619	10,042,919	8,049,700	1,750,000	2,133,704	3,883,704	2.07
2003	15,607,743	9,086,469	6,521,274	1,032,500	266,722	1,299,222	5.02
2002	15,731,749	8,632,287	7,099,462	992,500	316,847	1,309,347	5.42
Water System							
2011	\$ 30,629,506	15,455,027	15,174,479	6,310,000	3,191,857	9,501,857	1.60
2010	26,515,467	14,091,292	12,424,175	6,050,000	3,458,097	9,508,097	1.31
2009	27,838,187	14,995,077	12,843,110	5,795,000	3,128,414	8,923,414	1.44
2008	27,257,184	14,425,521	12,831,663	5,555,000	3,376,201	8,931,201	1.44
2007	29,386,495	14,351,136	15,035,359	5,340,000	3,612,001	8,952,001	1.68
2006	29,014,999	13,808,214	15,206,785	5,130,000	3,834,301	8,964,301	1.70
2005	27,153,937	13,145,665	14,008,272	4,895,000	3,517,932	8,412,932	1.67
2004	24,557,918	12,477,486	12,080,432	3,115,000	2,411,632	5,526,632	2.19
2003	22,094,721	11,631,496	10,463,225	3,010,000	2,898,489	5,908,489	1.77
2002	22,894,652	11,474,433	11,420,219	2,880,000	2,110,590	4,990,590	2.29
Golf							
2011	\$ 2,766,603	2,683,690	82,913	365,000	14,783	379,783	0.22
2010	2,779,424	2,562,064	217,360	350,000	28,783	378,783	0.57
2009	3,133,238	2,516,538	616,700	335,000	41,848	376,848	1.64
2008	2,933,843	2,402,983	530,860	325,000	54,035	379,035	1.40
2007	2,926,985	2,463,827	463,158	315,000	65,060	380,060	1.22
2006	2,993,961	2,467,141	526,820	305,000	74,973	379,973	1.39
2005	3,135,875	2,568,462	567,413	295,000	83,823	378,823	1.50
2004	2,899,670	2,467,141	432,529	290,000	91,653	381,653	1.13
2003	2,648,552	2,408,947	239,605	280,000	98,513	378,513	0.63
2002	2,673,078	2,141,707	531,371	305,000	75,628	380,628	1.40
Parking Facilities ^{1,2}							
2011	\$ 7,698,018	3,606,008	4,092,010	580,000	689,717	1,269,717	3.22
2010	6,869,392	3,340,601	3,528,791	1,435,000	558,519	1,993,519	1.77
2009	7,014,250	2,874,768	4,139,482	1,360,000	624,394	1,984,394	2.09
2008	7,134,709	2,912,511	4,222,198	1,305,000	687,194	1,992,194	2.12
2007	6,645,013	2,781,952	3,863,061	1,240,000	746,374	1,986,374	1.94
2006	6,785,593	2,775,122	4,010,471	1,185,000	799,931	1,984,931	2.02
2005	6,219,935	2,972,709	3,247,226	1,140,000	850,501	1,990,501	1.63
2004	6,299,598	2,733,492	3,566,106	1,145,000	908,456	2,053,456	1.74
2003	5,988,240	2,304,632	3,683,608	1,085,000	962,829	2,047,829	1.80
2002	5,483,546	1,964,389	3,519,157	1,115,000	924,470	2,039,470	1.73
Solid Waste Management							
2011	\$ 7,628,127	6,386,050	1,242,077	210,000	132,425	342,425	3.63
2010	7,377,385	8,482,526	-	200,000	140,425	340,425	-
2009	7,664,336	4,482,819	3,181,517	195,000	148,225	343,225	9.27
2008	8,537,520	5,701,312	2,836,208	190,000	155,825	345,825	8.20

¹ Includes parking meter revenues that were deposited to the General Fund but are pledged per bond ordinance.

² Information in this table does not agree with information in the transmittal letter of the City's CAFR 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. 2011</u>	<u>F.Y. 2010</u>	<u>F.Y. 2009</u>	<u>F.Y. 2008</u>	<u>F.Y. 2007</u>	<u>F.Y. 2006</u>	<u>F.Y. 2005</u>	<u>F.Y. 2004</u>	<u>F.Y. 2003</u>	<u>F.Y. 2002</u>
Cash & Investment Balance - September 1 of Year Indicated	14,597,487	16,286,626	15,738,481	14,632,274	13,475,643	18,948,253	23,521,130	26,784,845	26,589,993	24,802,768
Receipts:										
Property Tax	31,449,267	31,486,553	33,783,984	32,181,660	31,454,763	28,366,526	26,727,618	24,546,532	22,780,085	23,353,414
City Sales & Use Tax	57,959,545	54,925,013	54,255,376	55,733,297	53,960,485	54,270,346	53,781,209	51,869,477	48,657,268	45,393,492
Other Income	<u>33,232,580</u>	<u>27,906,103</u>	<u>27,389,492</u>	<u>26,270,119</u>	<u>27,663,641</u>	<u>25,390,112</u>	<u>25,620,145</u>	<u>23,615,320</u>	<u>24,933,838</u>	<u>26,342,414</u>
Total Receipts	122,641,392	114,317,669	115,428,852	114,185,076	113,078,889	108,026,984	106,128,972	100,031,329	96,371,191	95,089,320
Less Disbursements	<u>120,296,470</u>	<u>116,006,808</u>	<u>114,880,707</u>	<u>113,078,869</u>	<u>111,922,258</u>	<u>113,499,594</u>	<u>110,701,849</u>	<u>103,295,044</u>	<u>96,176,339</u>	<u>93,302,095</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>16,942,409</u>	<u>14,597,487</u>	<u>16,286,626</u>	<u>15,738,481</u>	<u>14,632,274</u>	<u>13,475,643</u>	<u>18,948,253</u>	<u>23,521,130</u>	<u>26,784,845</u>	<u>26,589,993</u>

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

	F.Y. 2011	F.Y. 2010	F.Y. 2009	F.Y. 2008	F.Y. 2007	F.Y. 2006	F.Y. 2005	F.Y. 2004	F.Y. 2003	F.Y. 2002
Cash Balance - September 1 of Year Indicated	2,941,245	3,533,968	4,201,889	4,057,088	2,761,491	3,364,608	3,570,557	2,935,997	3,440,537	3,099,198
Receipts:										
Property Tax	5,337,610	5,517,878	5,689,007	5,709,454	5,460,690	2,973,410	5,607,615	5,387,468	5,883,592	6,340,938
Interest Income	28,331	60,063	131,475	153,977	84,935	86,812	83,286	48,595	32,298	53,873
Bond Proceeds	20,236,484						6,597,635		9,436,083	
Other Income	116,758	124,279	173,446	1,003,173	1,927,112	2,935,603	149,038	691,340	240,110	232,009
Total Receipts	25,719,183	5,702,220	5,993,928	6,866,604	7,472,737	5,995,825	12,437,574	6,127,403	15,592,083	6,626,820
Disbursements:										
Bonds Paid	2,720,000	4,110,000	4,320,000	4,260,000	3,950,000	4,250,000	3,850,000	3,215,000	4,177,765	4,137,254
Bonds Defeased									9,609,774	
Interest Paid	1,753,957	2,178,545	2,335,411	2,456,373	2,217,610	2,342,582	2,197,207	2,271,548	2,309,084	2,144,322
Transfer to Trustee	21,746,822						6,504,876			
Other Disbursements	204,668	6,398	6,438	5,430	9,530	6,360	91,440	6,295		3,905
Total Disbursements	26,425,447	6,294,943	6,661,849	6,721,803	6,177,140	6,598,942	12,643,523	5,492,843	16,096,623	6,285,481
Equity Transfer										
Cash Balance - August 31 of Year Indicated	2,234,981	2,941,245	3,533,968	4,201,889	4,057,088	2,761,491	3,364,608	3,570,557	2,935,997	3,440,537

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

	F.Y. 2011	F.Y. 2010	F.Y. 2009	F.Y. 2008	F.Y. 2007	F.Y. 2006	F.Y. 2005	F.Y. 2004	F.Y. 2003	F.Y. 2002
Cash & Investment Balance - September 1 of Year Indicated	4,302,257	4,161,711	11,148,146	9,991,053	8,846,000	7,583,251	7,830,502	6,910,967	6,586,633	3,778,207
Receipts:										
Special Assessment Collections	996,209	984,301	954,672	1,235,621	1,257,112	1,476,284	1,208,686	1,654,695	1,271,575	1,360,347
Interest on Special Assessments	106,379	148,383	112,749	179,258	188,349	189,927	204,108	267,298	346,725	294,839
City's Share of Costs	233,615	292,420	34,802		187,957	723,038	578,992	116,009	97,107	2,145,574
Developers' Share of Costs										4,617
Bond Proceeds	1,200,000									
Interest on Investments	60,248	135,149	335,273	453,282	340,274	254,809	217,996	140,289	130,555	137,143
Miscellaneous	38,456			33,964	49,403	74,657	30,687	288,482	195,535	474,438
Total Receipts	<u>2,634,907</u>	<u>1,560,253</u>	<u>1,437,496</u>	<u>1,902,125</u>	<u>2,023,095</u>	<u>2,718,715</u>	<u>2,240,469</u>	<u>2,466,773</u>	<u>2,041,497</u>	<u>4,416,958</u>
Disbursements:										
Construction Costs	2,081,765	1,113,691	861,203	742,698	766,768	1,066,513	1,796,239	1,399,323	1,560,456	1,090,434
Bonds Paid					55,000		100,000	105,000	105,000	110,000
Equity Transfer			7,554,009							
Interest Paid on Bonds & Notes	3,758,342				37,581		3,425	10,420	17,534	24,762
Other Refunds & Expenses	<u>337,877</u>	<u>306,016</u>	<u>8,719</u>	<u>2,334</u>	<u>18,693</u>	<u>389,453</u>	<u>588,056</u>	<u>32,495</u>	<u>34,173</u>	<u>383,336</u>
Total Disbursements	<u>6,177,984</u>	<u>1,419,707</u>	<u>8,423,931</u>	<u>745,032</u>	<u>878,042</u>	<u>1,455,966</u>	<u>2,487,720</u>	<u>1,547,238</u>	<u>1,717,163</u>	<u>1,608,532</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>759,180</u>	<u>4,302,257</u>	<u>4,161,711</u>	<u>11,148,146</u>	<u>9,991,053</u>	<u>8,846,000</u>	<u>7,583,251</u>	<u>7,830,502</u>	<u>6,910,967</u>	<u>6,586,633</u>

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APPENDIX B

LES' INDEPENDENT FINANCIAL STATEMENTS

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LINCOLN ELECTRIC SYSTEM

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2011 and 2010

LINCOLN ELECTRIC SYSTEM

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MANAGEMENT DISCUSSION AND ANALYSIS

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LINCOLN ELECTRIC SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2011 and 2010

We are providing this discussion to you the reader of our financial statements to explain the activities, plans and events which impacted our financial position during 2011 and 2010. This overview from management should provide the reader with information that is one of the three components of the entire financial statement. The other two components prepared by Baker Tilly Virchow Krause, LES' auditors, are the financial statements and notes to the financial statements. Please read the entire document to understand the events and conditions impacting Lincoln Electric System (LES).

Overview of Financial Statements

Condensed Balance Sheet presenting LES' assets and liabilities:

	2011	2010
	(Dollars in thousands)	
Current assets	\$ 171,587	\$ 130,597
Restricted assets	21,310	22,496
Other assets	7,989	11,058
Capital assets	814,258	812,037
TOTAL ASSETS	\$ 1,015,144	\$ 976,188
Current liabilities	\$ 208,723	\$ 166,469
Non-current liabilities	528,664	547,604
Total Liabilities	737,387	714,073
Net Assets		
Invested in capital assets, net of related debt	140,572	158,775
Restricted	27,423	28,597
Unrestricted	109,762	74,743
Total Net Assets	277,757	262,115
TOTAL LIABILITIES AND NET ASSETS	\$ 1,015,144	\$ 976,188

Over time, the difference between the assets and liabilities may indicate a change in the financial status of LES, but the financial statement must be viewed from the perspective of the entire document.

Total assets increased \$39.0 million in 2011 from 2010, or 4.0%. Current assets increased by \$41.0 million resulting from the proceeds of additional commercial paper issued to reimburse the revenue fund for capital projects paid from operating funds. A transfer of \$3.7 million was made into the Rate Stabilization Fund in 2011. Other assets decreased \$3.1 million due to amortization of deferrals. Capital assets increased from normal capital spending for utility construction and acquisition projects, net of depreciation.

Current liabilities increased \$42.3 million from the issuance of \$38.5 million of additional commercial paper notes. Non-current liabilities decreased due to payment of bond principal. Net assets increased from net revenue of \$15.6 million.

LINCOLN ELECTRIC SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2011 and 2010

Additional information on changes in utility plant and long-term obligations are provided in footnotes three and four, respectively.

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

	<u>2011</u>	<u>2010</u>
	(Dollars in thousands)	
Operating revenues	\$ 269,043	\$ 261,378
Depreciation expense	40,038	37,291
Other operating expenses	173,257	167,389
Total Operating Expenses	<u>213,295</u>	<u>204,680</u>
Operating income	<u>55,748</u>	<u>56,697</u>
Investment and miscellaneous income	213	395
Interest and amortization expense	(27,997)	(28,624)
Other income (expense)	(13,396)	(11,169)
Total Non-Operating Expenses	<u>(41,180)</u>	<u>(39,398)</u>
Income Before Capital Contributions	14,568	17,299
CAPITAL CONTRIBUTIONS	<u>1,074</u>	<u>1,653</u>
Change in Net Assets	15,642	18,952
NET ASSETS - Beginning of Year	<u>262,115</u>	<u>243,163</u>
NET ASSETS - END OF YEAR	<u>\$ 277,757</u>	<u>\$ 262,115</u>

Operating revenue in 2011 was 3% higher than 2010. Retail revenue was 2% higher due to the impact of a 2.5% rate increase on January 1, 2011. Energy sales were comparable to 2010 as the weather and the economy were similar to last year. Wholesale revenue increased 5% with an energy sales increase of 11%. Other revenue was down 2% due to less revenue from the temporary sale of natural gas transportation capacity, offset by increased transmission fees. The new City Dividend for Utility Ownership which started in September of 2011, added \$2.0 million to operating revenue. Operating expense increased 4% in total. Power cost increased from higher energy sales. Operation and maintenance expense increased from higher transmission expense and less capital construction due to the economy and more maintenance than the prior year. Administrative and general expense was higher because of increased customer expense and regulatory compliance cost. Depreciation expense increased from utility plant additions and amortization of new software and certain depreciation balances.

The Rate Stabilization Fund was increased by \$3.7 million in 2011 and \$2.0 million in 2010. Overall, Net Assets increased by \$15.6 million from 2010.

LINCOLN ELECTRIC SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2011 and 2010

Condensed Statement of Cash Flows:

	2011	2010
	(Dollars in thousands)	
Received from customers	\$ 288,200	\$ 276,893
Paid to suppliers for goods and services	(162,629)	(163,237)
Paid to employees for services	(25,275)	(23,916)
Cash Flows from Operating Activities	100,296	89,740
Cash Flow from Non-capital Financing Activities	(11,118)	(10,327)
Debt principal and interest paid	(46,263)	(46,162)
Net debt issuance costs, proceeds and defeasance costs	38,500	0
Net acquisition, disposal, and cash contribution for capital assets	(41,987)	(42,661)
Cash Flows from Capital and Related Financing Activities	(49,750)	(88,823)
Cash Flows from Investing Activities	(52,606)	(8,975)
Net Change in Cash and Cash Equivalents	(13,178)	(18,385)
CASH AND CASH EQUIVALENTS - Beginning of Year	30,633	49,018
CASH AND CASH EQUIVALENTS - ENDING OF YEAR	\$ 17,455	\$ 30,633

This statement reflects the continued expenditures for construction of the transmission, substation and distribution system which were \$42 million in 2011. Cash from operations was \$100.3 million, up \$10.6 million from 2010 resulting from an electric rate increase in 2011 and lower operating expense. Cash from capital and related financing activities increased \$39.1 million, partially due to \$38.5 million received from the 2011 issuance of additional commercial paper notes.

LINCOLN ELECTRIC SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2011 and 2010

Debt Service Coverage:

LES' debt service coverage was 2.00 in 2011 and 2.01 in 2010. LES' current bond covenants have established a Debt Service Coverage requirement of 1.0. The following table reflects the calculation of the debt service coverage ratio. The ratio reflects LES' year-end funds available to pay its debt service. LES targets a 2.0 debt service coverage.

	2011	2010
	(Dollars in thousands)	
Operating revenue	\$ 269,043	\$ 261,377
Power costs	(119,594)	(118,295)
Operations and maintenance	(20,063)	(16,835)
Administrative and general	(33,600)	(32,259)
(Addition) use of rate stabilization funds ¹	(3,700)	(2,000)
Total operating expenses excluding depreciation	(176,957)	(169,389)
Net operating revenue	92,086	91,988
Interest income ²	193	371
Earnings available for debt service	\$ 92,279	\$ 92,359
Debt service ³	\$ 46,116	\$ 45,870
Debt service coverage ratio	2.00	2.01

¹LES historically transfers funds into the Rate Stabilization Fund to provide stability against one-time expenses which would impact electric rates. In 2011 and 2010, the Administrative Board approved the transfer of unrestricted LES funds into the Rate Stabilization Fund.

²Excludes interest income on Rate Stabilization Fund.

³Debt Service is equal to accrual-based calendar year debt service reduced by capitalized interest and increased to include interest on commercial paper.

Contact Information

This financial report is designed to provide a general overview of LES' financial status for 2011 and 2010. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Vice President and Chief Financial Officer at 1040 "O" Street, Lincoln, Nebraska 68508.

INDEPENDENT AUDITORS' REPORT

Administrative Board
Lincoln Electric System
Lincoln, Nebraska

We have audited the accompanying balance sheets of Lincoln Electric System as of December 31, 2011 and 2010 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended, as noted in the table of contents. These financial statements are the responsibility of Lincoln Electric System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. As discussed in Note 1, the financial statements present only Lincoln Electric System.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Electric System as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of Lincoln Electric System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Administrative Board
Lincoln Electric System

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economical, or historical context. Management's discussion and analysis does not include a discussion of the changes in financial position between 2009 and 2010. 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 financial statements, and other knowledge we obtained during our audit of the 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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 31, 2012

LINCOLN ELECTRIC SYSTEM

BALANCE SHEETS
December 31, 2011 and 2010

ASSETS		2011	2010
		(Dollars in thousands)	
CURRENT ASSETS			
Funds			
Operating	\$	66,903	\$ 30,613
Designated		28,754	24,850
Restricted funds		<u>16,079</u>	<u>15,237</u>
Total Funds		111,736	70,700
Accounts receivable, net		22,033	19,494
Unbilled revenues		9,791	11,433
Accrued interest receivable		234	443
Materials, supplies, and fuel inventory		14,468	14,385
Plant operation assets		11,549	13,070
Prepaid expenses		<u>1,776</u>	<u>1,072</u>
Total Current Assets		<u>171,587</u>	<u>130,597</u>
NON-CURRENT ASSETS			
Restricted funds		21,310	22,496
Deferred charges			
Unamortized debt expense		2,706	3,022
Other		<u>5,283</u>	<u>8,036</u>
Total Non-Current Assets		<u>29,299</u>	<u>33,554</u>
Capital Assets			
Utility plant		1,267,997	1,224,514
Accumulated depreciation		(506,423)	(470,744)
Construction work in progress		<u>52,684</u>	<u>58,267</u>
Total Capital Assets		<u>814,258</u>	<u>812,037</u>
TOTAL ASSETS	\$	<u>1,015,144</u>	\$ <u>976,188</u>

LINCOLN ELECTRIC SYSTEM

BALANCE SHEETS
December 31, 2011 and 2010

	2011	2010
	(Dollars in thousands)	
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Other liabilities		
Accounts payable	\$ 12,700	\$ 12,750
Construction payable	1,402	1,170
Accrual for payments in lieu of taxes	11,651	11,469
Commercial paper	128,500	90,000
Other (includes City Dividend for Utility Ownership)	25,276	23,264
Total other liabilities	<u>179,529</u>	<u>138,653</u>
Current liabilities payable from restricted assets		
Current portion of long-term debt	19,610	18,680
Other (health, dental and Central Lincoln Reliability Project)	801	-
Accrued interest	8,783	9,136
Total current liabilities payable from restricted assets	<u>29,194</u>	<u>27,816</u>
Total Current Liabilities	<u>208,723</u>	<u>166,469</u>
NON-CURRENT LIABILITIES		
Long-term debt, net of discounts, premiums and losses	528,282	547,604
Non-current liabilities payable from restricted assets		
Health and dental plan reserve	382	-
Total non-current liabilities	<u>528,664</u>	<u>547,604</u>
Total Liabilities	<u>737,387</u>	<u>714,073</u>
NET ASSETS		
Invested in capital assets, net of related debt	140,572	158,775
Restricted	27,423	28,597
Unrestricted	109,762	74,743
Total Net Assets	<u>277,757</u>	<u>262,115</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,015,144</u>	<u>\$ 976,188</u>

See accompanying notes to financial statements and independent auditors' report.

LINCOLN ELECTRIC SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS Years Ended December 31, 2011 and 2010

	2011	2010
	(Dollars in thousands)	
OPERATING REVENUES		
Electric retail	\$ 234,313	\$ 229,833
Electric wholesale	27,700	26,446
Other (includes City Dividend for Utility Ownership)	7,030	5,098
Total Operating Revenues	269,043	261,377
OPERATING EXPENSES		
Purchased power	63,430	59,605
Production	56,164	58,690
Operation	14,486	11,648
Maintenance	5,577	5,187
Administration and general	33,600	32,259
Depreciation and amortization	40,038	37,291
Total Operating Expenses	213,295	204,680
Operating Income	55,748	56,697
NON-OPERATING REVENUE (EXPENSES)		
Interest expense on debt	(27,230)	(28,049)
Allowance for funds used during construction	104	286
Amortization of debt expenses and other	(871)	(861)
Payments in lieu of tax	(11,299)	(11,169)
City Dividend for Utility Ownership	(2,097)	-
Interest income	213	395
Total Non-Operating Revenues (Expenses)	(41,180)	(39,398)
Income Before Capital Contributions	14,568	17,299
CAPITAL CONTRIBUTIONS	1,074	1,653
CHANGE IN NET ASSETS (NET REVENUES)	15,642	18,952
NET ASSETS - Beginning of Year	262,115	243,163
NET ASSETS - END OF YEAR	\$ 277,757	\$ 262,115

See accompanying notes to financial statements and independent auditors' report.

LINCOLN ELECTRIC SYSTEM

STATEMENTS OF CASH FLOWS Years Ended December 31, 2011 and 2010

	2011	2010
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from sales to customers and users	\$ 287,977	\$ 276,848
Net customer deposits received (returned)	223	45
Paid to suppliers for goods and services	(162,629)	(163,237)
Paid to employees for services	(25,275)	(23,916)
Net Cash Flows from Operating Activities	100,296	89,740
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Other	-	-
In lieu of taxes	(11,118)	(10,327)
Net Cash Flows From Non-capital Financing Activities	(11,118)	(10,327)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures for utility plant	(41,761)	(43,585)
Net cost/salvage value of retiring plant	(1,057)	(447)
Debt issuance costs	(243)	(282)
Capital contributions	1,074	1,653
Proceeds from commercial paper issued	38,500	-
Principal payments on long-term debt	(18,680)	(17,820)
Interest payments on long-term debt	(27,583)	(28,342)
Net Cash Flows From Capital and Related Financing Activities	(49,750)	(88,823)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales (purchases) of investments	(53,028)	(9,175)
Interest received	422	200
Net Cash Flows from Investing Activities	(52,606)	(8,975)
Net Change in Cash and Cash Equivalents	(13,178)	(18,385)
CASH AND CASH EQUIVALENTS -- Beginning of Year	30,633	49,018
CASH AND CASH EQUIVALENTS -- END OF YEAR	\$ 17,455	\$ 30,633
NONCASH ACTIVITIES		
Recognition of sales tax settlement payment	\$ 22	\$ 332
Allowance for funds in construction and amortization	\$ 104	\$ (1,077)
Adjustment of investments to fair value	\$ 50	\$ 78
City dividend for utility ownership accrued	\$ 2,097	\$ -

LINCOLN ELECTRIC SYSTEM

STATEMENTS OF CASH FLOWS Years Ended December 31, 2011 and 2010

	2011	2010
	(Dollars in thousands)	
RECONCILIATION OF OPERATING INCOME TO NET CASH		
FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 55,748	\$ 56,697
Noncash items included in operating income		
Depreciation charged to other accounts	895	783
Depreciation and amortization	40,038	37,291
Other	(23)	(332)
Changes in assets and liabilities		
Accounts receivable	(2,539)	(5,223)
Unbilled revenues	1,642	680
Materials, supplies, and fuel inventories	(83)	1,497
Plant operation assets	1,521	1,021
Prepaid expenses	(704)	4
Deferred charges	2,753	(1,487)
Accounts payable	509	(1,492)
Other current liabilities	157	334
Other deferred liabilities (including health and dental plan reserve)	382	(33)
	<u>\$ 100,296</u>	<u>\$ 89,740</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE		
BALANCE SHEET		
Operating	\$ 66,903	\$ 30,613
Designated	28,754	24,850
Restricted funds - current	16,079	15,237
Restricted funds - non-current	21,310	22,496
Total Cash and Investments	133,046	93,196
Less: Long-Term Investments	(115,591)	(62,563)
	<u>\$ 17,455</u>	<u>\$ 30,633</u>

See accompanying notes to financial statements and independent auditors' report.

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Lincoln Electric System (LES) is owned by the City of Lincoln, Nebraska (the City). LES is operated under the direction of the Lincoln Electric System Administrative Board, which is appointed by the Mayor and City Council. The City Council, as required by the City Charter, reserves authority to set the rates and charges, to adopt the annual budget, and to incur debt.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements of LES are presented in conformity with accounting principles generally accepted in the United States of America. In reporting financial activity, LES applies all applicable Government Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board Statements (FASB) and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements and have elected not to follow FASB statements issued after that date unless there is no GASB guidance.

LES' financial statements have been prepared using the economic resource measurement focus accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. LES' accounting policies also conform to Financial Accounting Standards Board Accounting Standards Codification (ASC) 980 – Regulated Operations, formerly known as FASB 71, "Accounting for the Effects of Certain Types of Regulation". Accordingly, certain transactions that result from the rate-making process are recorded that would not be recorded under accounting principles generally accepted in the United States of America for nonregulated entities.

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

ASSETS, LIABILITIES, NET ASSETS

Cash Equivalents

All investments with an original maturity of three months or less are considered to be cash equivalents.

Designated Funds

Funds segregated for a specific purpose by LES are presented as designated assets. Designated funds in current assets include the Rate Stabilization Fund and the Missouri Basin Power Project-Burlington Northern Santa Fe (BNSF) Settlement Fund (see Note 8).

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, NET ASSETS (cont.)

Restricted Funds

Mandatory segregation of funds are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. Restricted current asset funds include the Bond Principal and Interest Fund, Health and Dental Plan Claims Reserve Fund, and the University of Nebraska Lincoln (UNL) Central Lincoln Reliability Project Fund. Restricted non-current asset funds include the Bond Reserve Fund and the Health and Dental Plan Incurred But Not Presented Reserve Fund.

Revenue Recognition

Billings for electric revenues are rendered on a cycle basis monthly. Unbilled revenues, representing estimated consumer usage for the period between the last billing date and the end of the period, are accrued in the period of consumption. Receivables are reported net of the allowance for uncollectible accounts of \$1,267,000 and \$880,000 at December 31, 2011 and 2010, respectively.

Expense Recognition

Operating expenses of the utility include cost of sales and service, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as non-operating expenses.

Inventory Valuation

Materials, supplies, and fuel inventories are stated at cost, which does not exceed market. Cost is generally determined on a weighted-average basis.

Jointly-Owned Facilities

Plant operation assets relate to the operation of Laramie River Station (LRS) and Walter Scott 4 (WS4) and are comprised of operating assets, primarily fuel and supplies inventories and operating cash. These assets are managed by the operating agents of LRS and WS4. Operating expenses of LRS and WS4 are included in the corresponding operating expense classifications in the statements of revenues, expenses, and changes in net assets.

Insurance Prepaid Expenses

Insurance payments are accounted for as prepaid expenses and amortized over the life of the policies.

Deferred Charges

LES' share of payments made for the construction of the Dry Fork Coal Mine are included in other deferred charges on the accompanying balance sheets. The mine is expected to provide fuel for LRS over the estimated 25-year life of the mine. The advances will be returned to LES over the estimated life of the mine. In addition, costs related to certain major capital improvements at Sheldon Station have been deferred under ASC 980.

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, NET ASSETS (cont.)

System Planning

LES is engaged in various studies relating to future power needs and sources, as well as transmission and distribution facility requirements. Costs of these studies are deferred pending completion of the studies as they are expected to result in the construction and/or acquisition of additional utility plant.

Utility Plant Accounting

Utility plant is stated at cost, including an allowance for funds used during construction for projects costing in excess of \$500,000 with a budgeted construction period in excess of 12 months. Assets \$2,500 and over are capitalized. The allowance for funds used during construction consists of the project balance times the weighted-average interest rate on debt based on Federal Energy Regulatory Commission (FERC) accounting method. The weighted-average rate for 2011 and 2010 was 4.6%. Provision for depreciation is computed on a straight-line basis with rates ranging between 2% and 20%, depending on the respective asset type. Costs of labor, materials, supervision, and other expenses incurred in making repairs and minor replacements and in maintaining the plant in efficient operating condition are charged to expense. Plant accounts are charged with the costs of betterments and replacements of plant, except minor replacements, and the accumulated provision for depreciation is charged with retirements, together with removal costs, less salvage. Additionally, effective January 1, 2010, the utility implemented GASB No. 51 *Accounting and Financial Reporting for Intangible Assets*. As a result, the GASB No. 51 policy states all software upgrades higher than \$100,000 will be recorded at acquisition costs and amortized over the life of the asset, 5 to 10 yrs. Software assets and accumulated amortization were reclassified from other assets to capital assets as of January 1, 2010.

Debt Issuance Costs

Charges resulting from the issuance of revenue bonds are deferred and amortized over the repayment period of the bonds using the bonds outstanding method for outstanding issues and the straight-line method for defeased issues, which is not materially different from the interest method. Charges resulting from the establishment of a commercial paper note program are deferred and amortized on a straight-line basis over the expected life of the program.

REVENUES AND EXPENSES

Revenue Recognition

Operating revenues, such as electric retail, result from exchange transactions associated with the principle activity of LES. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as interest, result from non-exchange transactions.

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

REVENUES AND EXPENSES (cont.)

City Dividend for Utility Ownership (CDFUO)

In 2011, the Lincoln City Council approved an Ordinance requiring LES to pay an annual dividend to the City of Lincoln for the City's ownership of LES. The Ordinance states LES shall remit to the City a dividend for utility ownership in the system in an amount equivalent to 2.4% of the Total Net Assets of LES as of December 31 based upon the most recent audited year-end financial statements in effect for the February payment provided that, once the amount of the annual dividend for any year exceeds \$7 million, the amount of the annual dividend for the following year and each succeeding year thereafter shall be increased annually by 2.0%, or by the percentage rate by which the Consumer Price Index All Urban Consumers (CPI-U) has increased during the LES fiscal year upon which the dividend is based, whichever is greater. The annual dividend shall be remitted to the City on a semiannual basis on the 20th day of February and August of each year, with each payment representing fifty percent of the annual dividend payment.

The accounting treatment of the CDFUO is based on Accounting Standards Codification (ASC) 980. The CDFUO is assessed on all customer billings beginning on September 1, 2011 and is treated as operating revenue on the operating statement. LES records the estimated liability of the CDFUO as a non-operating expense on the operating statement.

Purchase Power Expense Recognition

Fixed cost payments under the power sales contract with Nebraska Public Power District (NPPD) and participation agreements are charged to purchased power with the exception of any costs approved for deferral under ASC 980.

Retirement Plan Funding

Employee retirement plan costs are funded as incurred.

Other

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

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits and investments at December 31, 2011 and 2010 are shown below (dollars in thousands):

	2011	2010
Classified as restricted non-current:		
Bond and Health/Dental Reserves	\$ 21,310	\$ 22,496
Classified as current assets:		
Operating	66,903	30,613
Restricted bond principal and interest and other funds	16,079	15,237
	<u>82,982</u>	<u>45,850</u>
Designated funds:		
Rate Stabilization Fund	13,699	9,941
Other funds (MBPP- BNSF Settlement Fund)	15,055	14,909
	<u>28,754</u>	<u>24,850</u>
Totals	<u>\$ 133,046</u>	<u>\$ 93,196</u>

A Rate Stabilization Fund was established by the LES Administrative Board and approved by the Lincoln City Council in December 1998. The fund was established to pay for operation and maintenance expenses and extraordinary renewals and replacements or repairs. Funds can be budgeted and deposited monthly or at year-end. The targeted balance in the fund is 15% of the operating budget, less depreciation, and currently would equal approximately \$28.0 million and \$27.3 million in 2011 and 2010, respectively. During 2011 and 2010, LES Administrative Board approved the funding of \$ 3.7 million and \$2.0 million to the Rate Stabilization Fund, respectively.

State Statutes 15-846 and 15-847 R.R.S., 1943 requires banks either to give bonds or pledge government securities (types of which are specifically identified in the Statutes) to the Utility. The Statutes allow pledged securities to be reduced by the amount of the deposit insured by the Federal Deposit Insurance Corporation (FDIC).

At December 31, 2011 and 2010, all bank balances were either covered by the FDIC or collateralized. LES' investment policy is to collateralize all cash investments which exceed FDIC coverages consistent with State Statute requirements.

On November 9, 2010, the FDIC issued a final rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which will provide unlimited insurance coverage for non-interest bearing transaction deposit accounts at FDIC-insured institutions. This unlimited insurance coverage is temporary and will remain in effect until December 31, 2012.

LES' investment policy states that it intends to hold all securities to maturity, however if funds are needed or more optimal investments can be secured, the Chief Financial Officer may authorize the early sale of an investment. Investment securities are carried at cost and adjusted for amortization of premium and accretion of discount, and marked to market value at year end.

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

The utility may invest in U.S. Government securities and agencies, federal instrumentalities, repurchase agreements, commercial paper, money market mutual funds, and interest bearing time deposits or savings accounts as designated in the investment policy.

All investments are held in LES' name as required by the LES investment policy.

As of December 31, 2011, LES had the following investments (in thousands):

Investments	Maturities	Fair Value
Money Market Fund – U.S. Government Obligations	N/A	\$ 11,466
Federal Securities	2/29/12 – 8/23/12	17,869
Federal Instruments	1/12/12 – 6/26/13	103,921
Total		\$ 133,256

As of December 31, 2010, LES had the following investments (in thousands):

Investments	Maturities	Fair Value
Money Market Fund – U.S. Government Obligations	N/A	\$ 15,289
Federal Securities	2/28/11 – 10/31/11	72,444
Federal Instruments	10/14/11 – 1/17/12	6,147
Total		\$ 93,880

Interest Rate Risk: LES has a formal investment policy that limits investment maturities with the intent of managing its exposure to fair value losses arising from increasing interest rates.

As of December 31, 2011, LES investments were classified by maturity as follows (dollars in thousands):

	Fair Value	Maturity in Years	
		Less than 1	1 - 5
Money Market Mutual funds	\$ 11,466	\$ 11,466	\$ -
U.S. Government/Agencies securities	121,790	108,815	12,975
Totals	\$ 133,256	\$ 120,281	\$ 12,975

Credit Risk: LES' investment policy limits investments in commercial paper, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations as described in the table below. Money market funds are the only current investment type that requires a specific rating. At December 31, 2011 and 2010 all money market accounts were rated AAAM. As of December 31, 2011 and 2010 all federal agency securities were rated AAA.

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Concentration of Credit Risk: LES' investment policy places the following limits on the amount that may be invested in any one type of investment and/or issuer.

Investment Type	Portfolio Composition	Limits of Individual Issuers	Maturity Limitations*
U.S. Government securities	100%	None	10 years
U.S. Government agencies	75%	50%	10 years
Federal instrumentalities	80%	30%	10 years
Interest-bearing time deposit or savings accounts	25%	15%	1 year
Repurchase agreements	50%	25%	90 days
Commercial paper: Moody's P1 S&P's A-1	25%	10%	180 days
Money Market Mutual funds: S&P's AAm or AAm-G	50%	25%	N/A

*Operating funds will have maturities no longer than twenty four months and non-operating core funds will not exceed ten year maturities.

Composition of investments at December 31, 2011 and 2010 were as follows:

	Portfolio composition	
	2011	2010
U.S. Government securities	13%	77%
U.S. Government agencies	78%	7%
Money Market Mutual funds	9%	16%

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

NOTE 3 – CHANGES IN UTILITY PLANT

Utility plant activity for the years ended December 31, 2011 and 2010 are as follows (dollars in thousands):

	1/1/11	Increase	Decrease	12/31/11		
Utility plant	\$ 1,224,514	\$ 47,751	\$ (4,268)	\$ 1,267,997		
Construction work in progress (not depreciated)	58,267	52,529	(58,112)	52,684		
Less: Accumulated depreciation	470,744	41,002	(5,323)	506,423		
Totals	\$ 812,037	\$ 59,278	\$ (57,057)	\$ 814,258		
	1/1/10	Increase	Decrease	GASB 51* Reclass	12/31/10	
Utility plant	\$ 1,192,400	\$ 27,364	\$ (2,227)	\$ 6,977	\$ 1,224,514	
Construction work in progress (not depreciated)	41,229	44,847	(27,809)	-	58,267	
Less: Accumulated depreciation	431,691	37,283	(2,675)	4,445	470,744	
Totals	\$ 801,938	\$ 34,928	\$ (27,361)	\$ 2,532	\$ 812,037	

* See Note 1 discussion on utility plant accounting.

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

NOTE 4 – LONG-TERM OBLIGATIONS

Long-term debt at December 31, 2011 and 2010 are presented on the balance sheets as shown below (dollars in thousands):

	2011	2010
Serial:		
2002 Electric revenue and refunding, 4.00% - 5.00%, due from September 1, 2004 to 2025	\$ 70,040	\$ 81,660
2003 Electric revenue and refunding, 3.00% - 5.00%, due from September 1, 2004 to 2026	74,905	78,200
2005 Electric revenue and refunding, 5.00%, due from September 1, 2029 to 2032	61,290	61,290
2007 Electric revenue and refunding, 4.00% - 5.00%, due from September 1, 2009 to 2035	172,490	176,255
Term:		
2003 Electric revenue and refunding, 4.75%, due September 1, 2028	33,265	33,265
2005 Electric revenue, 4.75%, due September 1, 2035	53,710	53,710
2007 Electric revenue, 4.50%, due September 1, 2034	27,805	27,805
2007 Electric revenue, 4.75%, due September 1, 2037	54,045	54,045
Long Term Debt	547,550	566,230
Net unamortized bond discounts (premiums)	342	54
Less: Current maturities of long-term debt	(19,610)	(18,680)
Long-term debt, net of unamortized premiums, discounts, and current maturities	\$ 528,282	\$ 547,604

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

Revenue bond debt service requirements to maturity are as follows (dollars in thousands):

Year Ending December 31	Principal	Interest	Total
2012	\$ 19,610	\$ 26,333	\$ 45,943
2013	20,595	25,353	45,948
2014	21,620	24,323	45,943
2015	22,675	23,271	45,946
2016	23,800	22,146	45,946
2017–2021	120,725	91,862	212,587
2022–2026	75,095	68,966	144,061
2027–2031	95,195	48,970	144,165
2032–2036	120,595	23,550	144,145
2037	27,640	1,244	28,884
Totals	\$ 547,550	\$ 356,019	\$ 903,569

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 4 – LONG-TERM OBLIGATIONS (cont.)

Long-term debt activity for the years ended December 31, 2011 and 2010 are as follows (dollars in thousands):

	1/1/11	Increase	Decrease	12/31/11	Due Within One Year
Revenue bonds	\$ 566,230	\$ -	\$ (18,680)	\$ 547,550	\$ 19,610
Unamortized discounts (premiums)	54	-	288	342	-
Health and dental plan reserve	-	382	-	382	-
Totals	\$ 566,284	\$ 382	\$ (18,392)	\$ 548,274	\$ 19,610

	1/1/10	Increase	Decrease	12/31/10	Due Within One Year
Revenue bonds	\$ 584,050	\$ -	\$ (17,820)	\$ 566,230	\$ 18,680
Unamortized discounts (premiums)	(35)	-	89	54	-
Totals	\$ 584,015	\$ -	\$ (17,731)	\$ 566,284	\$ 18,680

Principal and interest paid for 2011 and 2010 were \$45,947,000 and \$45,947,000, respectively. Total gross revenues as defined for the same periods were \$269,043,000 and \$261,377,000, respectively. On average, annual principal and interest payments are expected to require an estimated 12.9% of gross revenues.

PRIOR-YEAR DEFEASANCE OF DEBT

In prior years, the utility defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in LES' financial statements. At December 31, 2011 and 2010, \$0 and \$138,570,000 of bonds outstanding are considered defeased, respectively.

NOTE 5 – SHORT-TERM OBLIGATIONS

Established by City Ordinance, LES may borrow up to \$150 million under a commercial paper note program. At December 31, 2011 and 2010, LES had \$128.5 million and \$90 million of tax-exempt commercial paper notes outstanding respectively. 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, 2011 and 2010 was 0.20% and 0.31%, respectively. The outstanding commercial paper notes are secured by a revolving credit agreement that provides for borrowings up to \$150 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement, LES can either settle or refinance the commercial paper upon maturity. This agreement expires in 2012.

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE 5 – SHORT-TERM OBLIGATIONS (cont.)

LES uses commercial paper notes as part of their long term financing strategy. As such, commercial paper is typically renewed as it matures. The table below illustrates the change in net position of commercial paper. The weighted average length of maturity of commercial paper for 2011 and 2010 was 42 and 66 days, respectively.

Commercial paper activity for the years ended December 31, 2011 and 2010 are as follows (dollars in thousands):

	<u>1/1/11</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/11</u>	<u>Due Within One Year</u>
Commercial paper notes	<u>\$ 90,000</u>	<u>\$ 994,600</u>	<u>\$ (956,100)</u>	<u>\$ 128,500</u>	<u>\$ 128,500</u>

	<u>1/1/10</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/10</u>	<u>Due Within One Year</u>
Commercial paper notes	<u>\$ 90,000</u>	<u>\$ 518,300</u>	<u>\$ (518,300)</u>	<u>\$ 90,000</u>	<u>\$ 90,000</u>

NOTE 6 – PAYMENTS IN LIEU OF TAXES

As established in the City of Lincoln Charter, LES makes payments in lieu of taxes, aggregating 5% of its electric retail revenues derived from within the city limits of incorporated cities and towns served.

Payments are transferred to the following entities:

City of Lincoln
Lancaster County
Lincoln Public Schools
City of Waverly

NOTE 7 – PARTICIPATION CONTRACTS WITH NPPD

LES has participating interests in the output of two existing NPPD power plants, a 30% (68 MW) and 8% (109 MW) entitlement to the output of the Sheldon Station Power Plant (nominally rated 225 MW coal plant) and Gerald Gentlemen Station Power Plant (nominally rated 1,268 MW coal plant), respectively.

LES is responsible for its respective participating interests in the two facilities' capital additions and improvements. LES' share of debt service payments necessary to retire the respective participating interests of principal and interest on bonds issued by NPPD for the facilities was approximately \$6.8 million in 2011 and 2010. 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 ASC 980. Fixed cost payments under the agreements are on a participation basis whether or not such plants are operating or operable. LES recognized expense for its share of the total capital addition costs of approximately \$11.4 million and \$16.6 million in 2011 and 2010, respectively.

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

NOTE 7 – PARTICIPATION CONTRACTS WITH NPPD (cont.)

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 \$ 19.4 million, \$25.1 million, \$24.2 million, \$21.6 million, and \$22.1 million, respectively, in each of the five years subsequent to December 31, 2011.

NOTE 8 – LARAMIE RIVER STATION (LRS)

LES is a 12.76% co-owner of the Missouri Basin Power Project that includes LRS, a three-unit, 1,650 MW coal-fired generating station in eastern Wyoming and a related transmission system. Costs, net of accumulated depreciation, associated with LRS of approximately \$19.4 million and \$23.3 million are reflected in utility plant at December 31, 2011 and 2010, respectively.

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' 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, LRS is removed from commercial operation, or the County gives LES six-months notice to terminate the agreement. LES billed the County approximately \$3.1 million in 2011 and 2010, for demand and energy charges.

The Laramie River Station (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. This amount has been placed in a separate custodial account pending an appeal filed by BNSF. As such, LES' payment has been recorded as a designated asset and restricted liability pending the outcome of the appeal. A portion of these funds are due to the Municipal Energy Agency of Nebraska (MEAN) and the County of Los Alamos.

NOTE 9 – WALTER SCOTT ENERGY CENTER (WS4)

MidAmerican Energy's Walter Scott Energy Center includes the following units: Unit #1 – a 1954 coal-fired unit built with 43 MW capacity, Unit #2 – a 1958 coal-fired unit built with 88 MW capacity, Unit #3 – a 1979 coal-fired unit built with 675 MW capacity, and Unit #4 a supercritical technology, coal-fired 790 MW unit that became commercial in June, 2007, as well as the associated common equipment and inventories. LES maintains ownership interest in 12.6% or 105 MW of Unit #4. In order to minimize unit outage risk, LES has executed a power purchase and sales agreement with MidAmerican Energy. Under this agreement, beginning in 2009, LES will schedule 50 MW of Unit #3 and 55 MW of Unit #4. This twenty year agreement can be extended through mutual agreement of the parties. LES is responsible for the operation and maintenance expense and maintains a fuel inventory at the plant site. LES issued debt in conjunction with the construction of Unit #4 and has capitalized these costs plus interest.

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

NOTE 10 – JOINTLY GOVERNED ORGANIZATIONS

DISTRICT ENERGY CORPORATION

LES, in conjunction with two other governmental entities, created the District Energy Corporation (DEC) in 1989 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 \$811,000 and \$574,000 in 2011 and 2010, respectively. The increase is partially due to construction management of the new County Adult Detention Facility thermal energy facility. The total amount of payments to LES for energy was approximately \$129,000 and \$95,000 in 2011 and 2010, respectively.

NEBRASKA UTILITY CORPORATION

On May 17, 2001, LES, in conjunction with the University of Nebraska Lincoln (UNL), created the Nebraska Utility Corporation (NUCorp). The purpose of NUCorp is to purchase, lease, construct, and finance facilities and acquire services to meet energy requirements of UNL. The Board of Directors of NUCorp is comprised of five members: three members appointed by the UNL and two members appointed by LES. No participant has any obligation, entitlement, or residual interest.

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 \$119,000 and \$120,000 in 2011 and 2010, respectively. The total amount of payments to LES for energy was approximately \$9 million and \$11 million in 2011 and 2010, respectively.

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

NOTE 11 – EMPLOYEE BENEFIT PLANS

LES has a defined contribution retirement plan created in accordance with Internal Revenue Code Section 401(K) covering all employees upon employment; however, employees are not eligible to receive employer contributions until they have been employed six months. The plan assets are held, managed and administered by a trustee. The plan was established under the authority of the Administrative Board and contributions are established by the Administrative Board. LES' contribution is equal to 200% of the employees' contributions, up to 5% of gross wages 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 gross wages. Vesting of LES contributions occurs over a five-year period. Employee forfeitures are used to reduce employer contributions. Vested benefits are fully funded. Approximate contribution information is shown below (dollars in thousands):

	<u>2011</u>	<u>2010</u>
Employer contribution	\$ 2,312	\$ 3,214
Employee contributions	<u>3,416</u>	<u>2,206</u>
Totals	<u>\$ 5,728</u>	<u>\$ 5,420</u>

In addition, LES offers all full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits the employees to defer a portion of their salary until termination, retirement, or death. All plan assets are held, managed and administered by a trustee.

Assets and liabilities for both plans are not included in the balance sheets as LES has no control over the assets.

NOTE 12 – EMPLOYEE HEALTH AND DENTAL INSURANCE

LES has self-funded health and dental insurance programs with claims processed by a third party administrator on behalf of the utility. A separate reserve has been established into which accruals are made and actual claims and premiums are paid from. As part of the health plan, a reinsurance policy has been purchased which covers claims in excess of \$150,000 per individual. Accruals to the self-insured account in excess of the claims and other costs paid are monitored by LES. Total accrual and payment history is shown below (dollars in thousands):

	<u>2011</u>	<u>2010</u>
Claims reserve – beginning of year	\$ 604	\$ 664
Claims accrued	6,253	6,193
Claims paid/other	<u>(5,916)</u>	<u>(6,253)</u>
Claims Reserve – End of Year	<u>\$ 941*</u>	<u>\$ 604</u>

*Beginning in 2011 this value includes \$382,000 Statutory reserve

LINCOLN ELECTRIC SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2011 and 2010

NOTE 12 – EMPLOYEE HEALTH AND DENTAL INSURANCE (cont.)

As required by Nebraska statute (Neb. Rev. Stat. (Reissue 2007) §13-1619), LES maintains an IBNR (Incurred But Not Reported) claims reserve which is actuarially determined, the balance of which is \$382,000. LES established two separate bank accounts for the self-funded employee health and dental insurance plan reserves to ensure compliance with statutory requirements. The statute also requires that excess insurance be obtained which limits the total claims liability for each plan year to not more than 125% of expected claims liability as projected by an independent actuary or insurer.

NOTE 13 – RISK MANAGEMENT – LIABILITY AND PROPERTY

LES is subject to various risks of loss related to general liability and property. LES has purchased commercially available indemnity insurance to cover these risks as identified by bond covenants. The deductible amounts for this insurance are immaterial to LES. The amount of insurance settlements has not exceeded insurance coverage in the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

FUEL CONTRACTS

At December 31, 2011 and 2010, LES had commitments under a long-term contract for the physical purchase of natural gas. Contract commitments are based on LES' gas procurement strategy.

CONSTRUCTION CONTRACTS

LES has signed construction contracts that continue into subsequent years. The value of any service provided as of December 31, 2011 and the corresponding liability has been accrued in the financial statements.

CLAIMS AND JUDGMENTS

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

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

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SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

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

Definitions

The following are summaries of certain definitions in the Ordinance.

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

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

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

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

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

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

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

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

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

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

“Credit Facility” means a letter of credit, line of credit, liquidity facility or other credit facility issued by a financial institution or other form of credit enhancement, including, but not limited to,

municipal bond insurance and guarantees, delivered to the Paying Agent for all or a portion of a Series of Bonds, which provides for payment, in accordance with the terms of such Credit Facility, of principal, Accreted Value, Appreciated Value, premium and/or interest of all or a portion of a Series of Bonds and/or the purchase price of such Series of Bonds or portion thereof. A Credit Facility may be comprised of one or more credit facilities issued by one or more financial institutions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Project” means any electric generation, transmission, distribution and general plant facilities, together with any other property necessary, desirable or advisable for such activities as the Board is authorized to undertake, and all other property, real and personal, of every kind and nature material or pertinent thereto or necessary therefor, located within or without the City or the State of Nebraska, which may be used or useful in the generation, transmission, distribution, sale, purchase, exchange or interchange of electric power and energy, and in the supplying of electric power and energy to all those contracting with the City therefor and such other activities as the Board is authorized to undertake, as provided in the Act, including any interest therein or right to capacity thereof, and may include, without limitations, a divided or undivided interest in any electric generation, transmission, distribution or general plant facility in which the City shall participate as an owner in common with others, a contract right or other contractual arrangement for the short-term or long-term provision of electric power and energy, transmission and other services to the City on a prepaid basis and the acquisition of water and fuel of any kind for such purposes, including the acquisition of water rights, fuel deposits and facilities for the development, production, processing, manufacture, fabrication, transportation and storage of water and fuel.

“Prudent Utility Practice” means any of the practices, methods and acts which, in the exercise of reasonable judgment, in the light of the facts (including, but not limited to, any practices, methods and

acts engaged in or approved by a significant portion of the electrical utility industry prior thereto) known at the time the decision was made, could have been expected to accomplish the desired result at reasonable cost consistent with reliability, safety and expediency. In applying the standard of Prudent Utility Practice to any matter under the Ordinance, equitable consideration shall be given to the circumstances, requirements and obligations of the City, and there shall be taken into account the fact that the City is a political subdivision of the State of Nebraska with prescribed statutory powers, duties and responsibilities. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at reasonable cost consistent with reliability, safety and expediency. Prudent Utility Practice includes due regard for manufactures' warranties and the requirements of governmental agencies which have jurisdiction.

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

“Revenues” means (i) all revenues, income, rents and receipts derived by the City from or attributable to the ownership and operation of the Electric System, including all revenues attributable to the Electric System or to the payment of the costs thereof received by the City under any contract for the sale of power, energy, transmission or other service from the Electric System or any part thereof or any contractual arrangement with respect to the use of the Electric System or any portion thereof or the services, output or capacity thereof, (ii) the proceeds of any insurance covering business interruption loss relating to the Electric System and (iii) interest received on any moneys or securities held pursuant to the Ordinance; provided, however, that Revenues shall not include (i) any revenues, receipts, rents, money or funds in aid of construction and income to the City when acting in the capacity of project manager with respect to a Project, (ii) customer deposits, or (iii) amounts received upon the sale, exchange or disposition of assets pursuant to the provisions of Section 7.05(b) of the General Ordinance.

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

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

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

Pledge

The Bonds of each Series are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal, Accreted Value and Appreciated Value thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured by a lien upon (i) the Net Revenues, subordinate to the lien thereon of the Prior Lien Bonds pursuant to the Prior Lien Bond Ordinances, and (ii) the other funds, assets and security described under the General Ordinance and under the Series Ordinance creating that Series. In the General Ordinance, the City pledges and places a charge upon all Net Revenues, subordinate only to the lien thereon of the Prior Lien Bonds

pursuant to the Prior Lien Bond Ordinances, to secure the payment of the principal, Accreted Value and Appreciated Value of, premium, if any, and interest on the Bonds and Parity Obligations in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the General Ordinance, permitting the application thereof for the purposes and on the terms and conditions set forth herein, and the Net Revenues constitute a trust for the security and payment of the interest and any premium on and principal, Accreted Value and Appreciated Value of the Bonds and Parity Obligations subordinate only to the lien thereon of the Prior Lien Bonds pursuant to the Prior Lien Bond Ordinances. The City pledges to secure the payment of the principal, Accreted Value and Appreciated Value of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the City in the Bond Fund, subject only to the provisions of the Ordinance permitting the application thereof for the purposes and on the terms and conditions set forth herein. The pledge of Net Revenues herein made shall remain in effect until there are no Bonds or Parity Obligations Outstanding.

Application of Revenues

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

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

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

Construction Fund

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

The Board shall make payments from the Construction Fund in the amounts, at the times, in the manner and on the other terms and conditions established by a resolution of the Board.

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

Bond Fund

The Board shall pay out of the Bond Fund to the respective Paying Agents not less than three (3) Business Days before (i) each Payment Date for any of the Bonds the amount required for the interest and principal; and (ii) before any redemption date for the Bonds, the amount required for the payment of interest on and the Redemption Price of the Bonds then to be redeemed.

Debt Service Reserve Fund

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

Investment of Funds and Accounts

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

Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in any fund or account shall be paid into the respective fund or account in which such investment is held; provided, however, that at the direction of the Board, such interest earned on moneys or investments in any such fund or account or any portion thereof shall be paid into the Construction Fund. Interest earned on any moneys or investments in the Construction Fund shall be held in the Construction Fund for application as provided in Section 5.03 of the General Ordinance or paid into the Electric Revenue Fund.

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

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

Covenant as to Rates, Fees and Charges

Subject to any rate regulation by any state or federal regulatory authority, the City and the Board will fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric System and to the extent legally permissible, revise such rates, charges and fees to produce Revenues each Fiscal Year sufficient:

- (i) to pay all Operation and Maintenance Expenses;
- (ii) to produce Net Revenues, after deducting amounts expended during the Fiscal Year from the Net Revenues for the payment of debt service requirements of the Prior Lien Bonds, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Bonds and Parity Obligations; and
- (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric System reasonably anticipated to be paid from Revenues.

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified above the City and the Board shall within sixty (60) days from the date of receipt of the annual audit for such Fiscal Year either (a) cause such rates and charges to be revised and adjusted to comply with the requirements set forth in this paragraph or (b) obtain a written report from an Independent Consultant after a review and study of the operations of the Electric System has been made concluding that, in their opinion, the rates and charges then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates and charges to comply with the provisions set forth under the heading “Covenant as to Rates, Fees and Charges” and such adjustments and revisions to electric rates and charges are promptly implemented and enacted in accordance with such Independent Consultant’s report.

Certain Other Covenants

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

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

facilities of the Electric System. The proceeds of any such sale, exchange or disposal of property or facilities shall be used (i) to provide for the payment and redemption of Bonds or Parity Obligations or (ii) to acquire capital assets for any Electric System purpose.

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

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

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

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

Amendment of General Ordinance

The General Ordinance and the rights and obligations of the City and of the Owners of the bonds may be amended by a Supplemental Ordinance with the written consent (1) of the Owners of a majority in principal amount of the Bonds affected by such modification or amendment and (2) in case the modification or amendment changes the terms of any Sinking Fund Installment, of the Owners of a majority in principal amount of the Bonds of the particular series and maturity entitled to the benefit of such Sinking Fund Installment. No such modification or amendment may (1) permit a change in the terms of redemption or maturity of the principal of any Bond or any installment of interest or a reduction in the principal, Redemption Price or rate of interest thereon without consent of each affected Owner, or (2) reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is

required to effect any such modification or amendment. For purposes of the foregoing, Owners of Bonds may include the initial Owners thereof regardless of whether such Bonds are being held for resale.

The General Ordinance may be amended without the consent of Owners, (1) to cure any ambiguity, omission, defect or inconsistent provision in the General Ordinance; (2) to insert provisions clarifying the General Ordinance; or (3) to make any other modification or amendment of the Resolution which the Board, in its sole discretion, determines will not have a material adverse effect on the interests of the General Ordinance.

Without the consent of the Owners, the City may adopt a Supplemental Ordinance which (1) closes the General Ordinance against, or provides additional conditions to, the issuance of Bonds or other evidences of indebtedness; (2) adds covenants and agreements of the City or the Board; (3) adds limitations and restrictions to be observed by the City or the Board; (4) authorizes Bonds of an additional series; (5) confirms any security interest, pledge or assignment of the Revenues or of any other moneys, securities or funds; (6) makes any modification which is to be effective only after all Bonds of each series Outstanding as of the date of the adoption of such Supplemental Ordinance cease to be Outstanding; or (7) authorizes Subordinated Indebtedness.

Defeasance

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

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

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

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

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

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

(i) lawful money of the United States of America in an amount equal to the Bond Obligation of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to

be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV of the General Ordinance or provision satisfactory to the Paying Agent shall have been made for the giving of such notice, the amount to be deposited or held shall be the Bond Obligation or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

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

Events of Default; Remedies

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

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

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

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

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

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

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

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

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

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

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

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

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

available for such purpose, whether through the exercise of the remedies provided for in the Ordinance or otherwise, shall be applied as follows:

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

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

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

Restrictions on Actions by Individual Owners. No Owner shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Ordinance or for any other remedy thereunder unless such Owner previously shall have given to the Receiver written notice of the event of default on account of which such suit, action or proceeding is to be taken, and unless the Owners of not less than twenty-five percent (25%) of the Bond Obligation shall have made written request of the Receiver after the right to exercise such powers or right of action, as the case may be, shall have accrued and shall have afforded the Receiver a reasonable opportunity either to proceed to exercise the powers granted in the Ordinance or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Receiver reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, including the reasonable fees of its attorneys (including fees on appeal), and the Receiver shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Receiver, to be conditions precedent to the execution of

the powers and trusts of the Ordinance or for any other remedy hereunder. It is understood and intended that no one or more Owners of the Bonds secured by the Ordinance shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Ordinance, or to enforce any right hereunder, except in the manner provided in the Ordinance, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Ordinance and for the benefit of all Owners, and that any individual rights of action or any other right given to one or more of such Owners by law are restricted by the Ordinance to the rights and remedies provided in the Ordinance.

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

2012 ORDINANCE

The following is a summary of certain provisions of the 2012 Ordinance. Summaries of certain definitions contained the 2012 Ordinance are set forth below. Other terms defined in the 2012 Ordinance for which summary definitions are not set forth are indicated by capitalization. The summary does not purport to be a complete description of the terms of the 2012 Ordinance and, accordingly, is qualified by reference thereto and is subject to the full text thereof. Copies of the 2012 Ordinance may be obtained from Lincoln Electric System or its Financial Advisor.

Tax Covenants. (a) In order to maintain the exclusion from gross income for Federal income tax purposes of interest on the 2012 Bonds, and for no other purpose, the City covenants in the 2012 Ordinance to comply with each applicable requirement of the Internal Revenue Code of 1986, as amended (the "Code"). In furtherance of the covenant contained in the preceding sentence, the City agrees to comply with the Federal Tax Certificate (the "Tax Certificate") executed by the City on the date of the issuance and delivery of the 2012 Bonds, as such Tax Certificate may be amended from time to time.

(b) The City covenants and agrees with the Registrar and Paying Agent and the Owners of the 2012 Bonds that the City shall not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the 2012 Bonds, would cause any of the 2012 Bonds to be "private, activity bonds" or "arbitrage bonds" within the meaning of Sections 141(a) and 148(a), respectively, of the Code, or any successor provisions.

(c) The City shall make any and all payments required to be made to the United States Department of Treasury in connection with the 2012 Bonds pursuant to Section 148(f) of the Code from amounts on deposit in the funds and accounts established under the Ordinance and available therefore.

(d) Upon the authentication and delivery of the 2012 Bonds, the City shall furnish to the Registrar and Paying Agent a certificate of any Authorized Officer of the City to the effect that, on the basis of the facts, estimates and circumstances in existence on the date of such authentication and delivery, it is not expected that the proceeds of the 2012 Bonds will be used in a manner that would cause such 2012 Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code and the Treasury Regulations thereunder and such certificate shall set forth such facts and circumstances which may be in brief and summary terms, and shall state that to the best of the knowledge and belief of such Authorized Officer, there are no other facts or circumstances that would materially change the expectations expressed in such certificate.

(e) Notwithstanding any other provisions of the Ordinance to the contrary, so long as necessary in order to maintain the exclusion from gross income for Federal income tax purposes under Section 103 (a) of the Code of interest on the 2012 Bonds, the covenants contained under the heading "Tax Covenants" shall survive the payment of the 2012 Bonds and the interest thereon, including any payment or defeasance thereof pursuant to the General Ordinance.

2012 Debt Service Reserve Fund. (a) The City shall establish a 2012 Debt Service Reserve Fund to be held by the Board into which an amount equal to \$6,336,587.49 shall be deposited upon the issuance of the 2012 Bonds. The 2012 Debt Service Reserve Fund shall be maintained in an amount equal to six (6) months' interest on the 2012 Bonds Outstanding on the date of such computation, as such amount may be reduced from time to time. All amounts deposited into the 2012 Debt Service Reserve Fund shall be held and administered in accordance with the provisions set forth below.

(b) If any withdrawal from either the 2012 Debt Service Reserve Fund is made for the purpose of subsection (d)(i) below, the amount of such withdrawal shall be restored by the Board in no

more than 12 substantially equal, consecutive, monthly installments, each payable on the last Business Day of the month, commencing with the month in which the withdrawal is made; provided that, if any withdrawal is made and if, prior to the restoration of the amount withdrawn, an additional withdrawal is made, such additional withdrawal shall be restored in equal monthly installments over the remainder of the restoration period for the initial withdrawal.

(c) Any money on deposit in the 2012 Debt Service Reserve Fund shall be applied as follows:

(i) On the date of each required payment from the Bond Fund, moneys in the 2012 Debt Service Reserve Fund shall be applied to cure any deficiency in the Bond Fund with respect to the 2012 Bonds.

(ii) Any amount in the 2012 Debt Service Reserve Fund in excess of the Reserve Fund Requirement on all Outstanding 2012 Bonds shall be transferred to the Bond Fund and credited against the payments of the principal and interest next becoming due on the 2012 Bonds.

(iii) On the interest payment date immediately preceding the final maturity date of 2012 Bonds, money held in the 2012 Debt Service Reserve Fund shall be deposited into the Bond Fund and credited against the deposits required to be made into the Bond Fund with respect to the 2012 Bonds but only to the extent that, immediately following such crediting and transfer, the amount on deposit in the 2012 Debt Service Reserve Fund is equal to the lesser of (A) the Reserve Fund Requirement and (B) the amount of principal and interest due in respect of the 2012 Bonds on such final maturity date.

(d) The City and the Board shall be permitted to substitute a letter of credit, surety bond or other credit enhancement (each, a "credit facility") for funds on deposit in either the 2012 Debt Service Reserve Fund, provided that:

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

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

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

Upon such substitution, funds on deposit in the 2012 Debt Service Reserve Fund which, when added to the face amount of the credit facility, exceed the Reserve Fund Requirement on the Outstanding 2012 Bonds for which such Debt Service Reserve Fund was established, shall be applied as provided in subsection (d)(ii) above. Thereafter, the credit facility shall be considered a part of such Debt Service Reserve Fund and the amount available thereunder shall be included in any calculations of the amount required to be retained in such Debt Service Reserve Fund; provided that, (A) if the sum of the amount available under the credit facility and the amount of moneys on deposit in such Debt Service Reserve

Fund exceed the amount required to be on deposit pursuant to subsection (a) above, the Board shall be permitted (i) to cause the amount available under the credit facility to be reduced by an amount equal to such excess, or (ii) to direct that the excess money be applied as permitted under subsection (d)(ii) above, and (B) if the credit facility is not extended, renewed or replaced at least six months prior to its scheduled expiration or termination date, unless such Debt Service Reserve Fund is otherwise terminated in accordance with the provisions set forth under heading "2012 Debt Service Reserve Fund," the Board shall be obligated to restore the difference between the Reserve Fund Requirement and the value of such Debt Service Reserve Fund computed without regard to the credit facility prior to the expiration or termination date of such credit facility.

(e) The Board shall have the option to terminate the 2012 Debt Service Reserve Fund and to have transferred to the Bond fund all amounts held therein if the Net Revenues for each of the three preceding Fiscal Years are not less than 140% of Debt Service in such Fiscal Year on all Bond and Parity Obligations then Outstanding, based on the audited financial statements for such Fiscal Year. Upon receipt of the audits described in the preceding sentence, the Board shall transfer all amounts held in such Debt Service Reserve Fund to the Bond Fund and use the same to pay debt service on the 2012 Bonds for which such Debt Service Reserve Fund was established.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE UNDERTAKING

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “**Disclosure Certificate**”) is executed and delivered by The City of Lincoln, Nebraska (the “**City**”), acting by and through Lincoln Electric System (“**LES**”), in connection with the issuance of \$277,315,000 The City of Lincoln, Nebraska, Lincoln Electric System Revenue and Refunding Bonds, Series 2012 (the “**Bonds**”). The Bonds are being issued pursuant to Ordinance Nos. 17879 and 19683 adopted July 23, 2001 and March 12, 2012, respectively, by the Council (collectively, the “**Ordinance**”). LES covenants and agrees as follows:

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

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

(a) to the Municipal Securities Rulemaking Board (the “**MSRB**”) in an electronic format as prescribed by the MSRB, (i) annual financial information and operating data of the type described in Section 3 below for each fiscal year ending on or after December 31, 2012, not later than the following May 31, and (ii) when and if available, audited financial statements of LES for each fiscal year ending on or after December 31, 2012.

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

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

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

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

Rating Agency Update Report
FERC 412 Report

Financial information and operating data with respect to LES of the type included in the Official Statement with respect to the Bonds under the headings: “BOND DEBT SERVICE SCHEDULE,” “POWER SUPPLY–Lincoln Electric System Resources,” “–LES Share of

Laramie River Station,” “–LES Share of Walter Scott Energy Station #4,” “–LES Local Generation,” “–LES Share of Gerald Gentleman Station,” “–LES Share of Sheldon Station,” and “–Historical Resource Summary.”

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

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

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

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults, if material;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds or other material events affecting the tax-exempt status of the Bonds;
- (g) Modifications to rights of holders of the Bonds, if material;
- (h) Bond calls, if material, and tender offers;
- (i) Defeasances;
- (j) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) Rating changes;
- (l) Bankruptcy, insolvency, receivership or similar events relating to LES;
- (m) The consummation of a merger, consolidation, or acquisition involving LES or the sale of all or substantially all of the assets of LES, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (n) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

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

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

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

Dated: August 9, 2012.

LINCOLN ELECTRIC SYSTEM

By: _____
Administrator and CEO

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APPENDIX E
BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

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

General

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2012 Bonds. The 2012 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond Certificate will be issued for each maturity of each series of the 2012 Bonds in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC and Its Direct and Indirect Participants

DTC, the world’s largest depository, is a limited purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests

Purchases of the 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2012 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2012 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2012 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their

ownership interests in the 2012 Bonds, except in the event that use of the book-entry system for the 2012 Bonds is discontinued.

Transfers and Exchanges of Beneficial Ownership Interests

To facilitate subsequent transfers, all 2012 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2012 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee does not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2012 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2012 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and Consents

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2012 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2012 Bonds, such as redemptions, tenders, defaults and proposed amendments to the 2012 Bonds documents. For example, Beneficial Owners of 2012 Bonds may wish to ascertain that the nominee holding the 2012 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2012 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of Principal, Interest and Redemption Price

Principal, redemption proceeds and interest payments on the 2012 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Bond Fund Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (or its nominee), the Paying Agent or LES, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption proceeds (if applicable) and interest to Cede & Co., or such other nominee as may be requested by an

authorized representative of DTC, is the responsibility of LES or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of Direct and Indirect Participants.

The Beneficial Owners of the 2012 Bonds will rely on DTC's Direct or Indirect Participants for timely payments and other notices and for otherwise making available to the Beneficial Owner the rights of a Bondholder. No assurances can be provided that in the event of bankruptcy or insolvency of DTC or a Direct or Indirect Participant through which a Beneficial Owner holds beneficial interests in the 2012 Bonds, payment will be made by DTC or the Direct or Indirect Participant on a timely basis.

Discontinuance of DTC Services

DTC may discontinue providing its services as depository with respect to the 2012 Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, 2012 Bond certificates are required to be printed and delivered.

LES may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depository). In that event, 2012 Bond certificates will be printed and delivered.

LES and the Paying Agent will not have any responsibility or obligation to Direct or Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC or any Direct or Indirect Participant; (ii) the payment by DTC or any Direct or Indirect Participant of any amount with respect to the principal or redemption price of, or interest on, the 2012 Bonds; (iii) any notice which is permitted or required to be given to Bondholders under the Resolution; (iv) the selection by DTC or any Direct or Indirect Participant of any person to receive payment in the event of a partial redemption of the 2012 Bonds; or (v) any consent given or other action taken by DTC as Bondholder.

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

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APPENDIX F

FORM OF OPINION OF BOND COUNSEL

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August 9, 2012

City of Lincoln, Nebraska
Acting for and on behalf of
Lincoln Electric System
1040 "O" Street
Lincoln, NE 68508

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

Re: \$277,315,000 The City of Lincoln, Nebraska Lincoln Electric System Revenue and
Refunding Bonds, Series 2012

Ladies and Gentlemen:

We have acted as bond counsel to The City of Lincoln, Nebraska (the "Issuer"), in connection with the issuance of the above-captioned bonds (the "2012 Bonds"). In this capacity, we have examined the law and the certified proceedings, certifications and other documents that we deem necessary to render this opinion.

The 2012 Bonds are issued pursuant to Ordinance No. 17879 adopted on July 23, 2001 by the Council (the "General Ordinance") and Ordinance No. 19683 adopted on March 12, 2012, by the Council (the "Sixth Series Ordinance"). The General Ordinance and the Sixth Series Ordinance are hereinafter collectively referred to as the "Ordinance." Capitalized terms used and not otherwise defined in this opinion have the meanings assigned to those terms in the Ordinance.

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

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

1. The Issuer is validly existing as a political subdivision of the State of Nebraska (the "State") with the power to adopt the Ordinance, perform the agreements on its part contained therein, and issue the 2012 Bonds.

2. The 2012 Bonds have been duly authorized, executed and delivered by the Issuer and are valid and legally binding special obligations of the Issuer.

3. The 2012 Bonds are payable solely from the net income and revenues derived by the Issuer from the operation of the Lincoln Electric System, after providing for the costs of operation and maintenance thereof. The 2012 Bonds do not constitute general obligations of the Issuer and do not constitute an indebtedness of the Issuer within the meaning of any constitutional or statutory provision, limitation or restriction. The taxing power of the Issuer is not pledged to the payment of the 2012 Bonds.

4. The Ordinance has been duly adopted by the governing body of the Issuer and constitutes a valid and legally binding obligation of the Issuer enforceable against the Issuer. The Ordinance creates a valid lien on the revenues and other funds pledged by the Ordinance for the security of the 2012 Bonds on a parity with all Bonds issued pursuant to the General Ordinance outstanding on the date hereof. Additional Bonds and certain other obligations of the City, as provided by the General Ordinance, ranking on a parity, to the extent and as provided in the General Ordinance, with the 2012 Bonds, may be issued under the conditions set forth in the Ordinance.

5. The interest on the 2012 Bonds (including any original issue discount properly allocable to an owner thereof) (a) is excludable from gross income for federal income tax purposes, (b) is exempt from income taxation by the State of Nebraska, and (c) is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinions set forth in this paragraph are subject to the condition that the Issuer complies with all requirements of the Code that must be satisfied subsequent to the issuance of the 2012 Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Issuer has covenanted to comply with all of these requirements. Failure to comply with certain of these requirements may cause the interest on the 2012 Bonds to be included in gross income for federal and Nebraska income tax purposes retroactive to the date of issuance of the Bonds. The Bonds have not been designated as “qualified tax-exempt obligations” for purposes of Section 265(b) of the Code.

We express no opinion regarding the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the 2012 Bonds (except to the extent, if any, stated in the Official Statement). Further, we express no opinion regarding the perfection or priority of the lien on revenues or other funds pledged under the Ordinance or tax consequences arising with respect to the Bonds other than as expressly set forth in this opinion.

The rights of the owners of the 2012 Bonds and the enforceability of the 2012 Bonds and the Ordinance may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights generally and by equitable principles, whether considered at law or in equity.

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

Very truly yours,

