



# LINCOLN WASTEWATER SYSTEM

Financial Statements  
& Schedules

Fiscal Year Ended  
August 31, 2015

# ANNUAL FINANCIAL REPORT

## DEPARTMENT OF PUBLIC WORKS & UTILITIES

### CITY OFFICIALS

Chris Beutler ..... Mayor

### COUNCIL MEMBERS

Trent Fellers ..... Chair

Leirion Gaylor Baird..... Vice-Chair

Jon Camp  
Roy Christensen  
Jonathan Cook  
Carl Eskridge  
Cyndi Lamm  
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### WASTEWATER SYSTEM

Thomas Shafer..... Interim Director of Public Works & Utilities

Donna Garden..... Assistant Director of Public Works & Utilities

# Lincoln Wastewater System

August 31, 2015 and 2014

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RSM US LLP

## Independent Auditor's Report

To the Honorable Mayor and Members of the City Council  
Lincoln Wastewater System, an Enterprise Fund of City of Lincoln, Nebraska  
Lincoln, Nebraska

### Report on the Financial Statements

We have audited the accompanying financial statements of Lincoln Wastewater System, an Enterprise Fund of City of Lincoln, Nebraska (the System), as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of August 31, 2015, and the respective changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the activity of Lincoln Wastewater System, an Enterprise Fund of City of Lincoln, Nebraska and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

The financial statements of the System, as of and for the year ended August 31, 2014, were audited by other auditors whose report dated December 8, 2014 expressed an unmodified opinion on those statements.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 – 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, as presented in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying other statistical information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, for the year ended August 31, 2015 we have also issued our report dated December 1, 2015 and for the year ended August 31, 2014 other auditors have issued their report dated December 8, 2014, on our respective consideration of the 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 those reports 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln Wastewater System's internal control over financial reporting and compliance.

RSM US LLP

Omaha, Nebraska  
December 1, 2015

## **LINCOLN WASTEWATER SYSTEM**

### Management's Discussion and Analysis

This Management's Discussion and Analysis of the Lincoln Wastewater System's (the "System") financial performance provides an overview of the financial activities for the years ended August 31, 2015 and 2014. Please read this information in conjunction with the accompanying basic financial statements and notes to the financial statements.

#### ***Using This Annual Report***

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

#### ***The Statements of Net Position and Statement of Revenues, Expenses and Changes in Net Position***

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

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

#### ***The Statement of Cash Flows***

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

#### ***The System's Net Position***

The System's net position is the difference between its assets plus deferred outflows of resources and liabilities reported in the Statements of Net Position. The System's net position increased by \$7,665,284 in 2015 over 2014 as shown in Table 1.

## Financial Analysis

The following comparative condensed financial statements summarize Lincoln Wastewater System's financial position and operating results for the years ended August 31, 2015, 2014, and 2013.

**Table 1**

### Condensed Statements of Net Position

	August 31		Change	
	2015	2014	Dollars	Percent
Current assets	\$ 16,703,927	\$ 19,976,997	(3,273,070)	(16.38%)
Capital assets	269,530,636	262,080,723	7,449,913	2.84%
Noncurrent assets	14,925,586	16,276,222	(1,350,636)	(8.30%)
Deferred outflows of resources	669,714	860,147	(190,433)	(22.14%)
<b>Total assets and deferred outflows or resources</b>	<b>301,829,863</b>	<b>299,194,089</b>	<b>2,635,774</b>	<b>0.88%</b>
Current liabilities	7,605,636	9,714,904	(2,109,268)	(21.71%)
Long-term liabilities	83,296,977	86,217,219	(2,920,242)	(3.39%)
<b>Total liabilities</b>	<b>90,902,613</b>	<b>95,932,123</b>	<b>(5,029,510)</b>	<b>(5.24%)</b>
<b>Net position</b>				
Net investment in capital assets	187,492,677	175,574,409	11,918,268	6.79%
Restricted for debt service	1,039,387	893,268	146,119	16.36%
Restricted for capital acquisition	471,019	620,596	(149,577)	(24.10%)
Unrestricted	21,924,167	26,173,693	(4,249,526)	(16.24%)
<b>Total net position</b>	<b>210,927,250</b>	<b>203,261,966</b>	<b>7,665,284</b>	<b>3.77%</b>
<b>Total liabilities and net position</b>	<b>\$301,829,863</b>	<b>\$299,194,089</b>	<b>2,635,774</b>	<b>0.88%</b>

### Financial Highlights – Fiscal Year 2015

- Current assets decreased primarily due to decreases in cash and investment balances and an accounts receivable from the Nebraska Department of Environmental Quality (NDEQ).
- Deferred outflows of resources consists of the deferred loss on refunded debt. In 2015, the Lincoln Wastewater System refunded \$13,320,000 of Wastewater Revenue Bonds, Series 2005 resulting in a deferred gain of \$131,673.
- Current liabilities decreased due to the completion of several construction projects during the year.

**Table 2**

**Condensed Statements of Net Position**

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

**Financial Highlights – Fiscal Year 2014**

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

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

	August 31		Change	
	2015	2014	Dollars	Percent
Operating revenues	\$27,029,419	\$25,860,215	1,169,204	4.52%
Nonoperating revenues				
Investment income	280,812	600,438	(319,626)	(53.23%)
Miscellaneous revenue	20,541	-	20,541	100.00%
Total nonoperating revenues	301,353	600,438	(299,085)	(49.81%)
Total Revenues	27,330,772	26,460,653	870,119	3.29%
Operating expenses				
Plant, pumping and treatment	11,220,303	11,241,542	(21,239)	(0.19%)
Operation and maintenance of wastewater lines	6,282,769	6,028,135	254,634	4.22%
Sanitary engineering services	2,060,495	2,154,526	(94,031)	(4.36%)
Accounting and collecting	800,837	774,832	26,005	3.36%
Administrative and general	1,160,227	924,060	236,167	25.56%
Total operating expenses	21,524,631	21,123,095	401,536	1.90%
Nonoperating expenses				
Interest expense	2,558,753	2,699,875	(141,122)	(5.23%)
Net costs recoverable	44,968	41,721	3,247	7.78%
Miscellaneous expense	-	20,541	(20,541)	(100.00%)
Total nonoperating expenses	2,603,721	2,762,137	(158,416)	(5.74%)
Total Expenses	24,128,352	23,885,232	243,120	1.02%
Income before contributions	3,202,420	2,575,421	626,999	24.35%
Capital contributions	4,462,864	1,869,248	2,593,616	(138.75%)
Change in net position	\$ 7,665,284	\$ 4,444,669	\$ 3,220,615	72.46%

**Financial Highlights – Fiscal Year 2015**

- Wastewater revenue increased primarily due to a 5% revenue increase implemented November 2014 and applied solely to the service charge.
- Total operating expenses increased primarily due to increased operating cost, including salary and fringe benefits.
- Capital contributions increased during the year because of increased development activity.

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

	August 31		Change	
	2014	2013	Dollars	Percent
Operating revenues	\$25,860,215	\$24,577,769	\$1,282,446	5.22%
Nonoperating revenues				
Investment income	600,438	-	600,438	100.00%
Total nonoperating revenues	600,438	600,438	600,438	100.00%
Total Revenues	26,460,653	24,577,769	1,882,884	7.66%
Operating expenses				
Plant, pumping and treatment	11,241,542	10,588,163	653,379	6.17%
Operation and maintenance of wastewater lines	6,028,135	5,895,677	132,458	2.25%
Sanitary engineering services	2,154,526	2,112,338	42,188	2.00%
Accounting and collecting	774,832	758,989	15,843	2.09%
Administrative and general	924,060	945,682	(21,622)	(2.29%)
Total operating expenses	21,123,095	20,300,849	822,246	4.05%
Nonoperating expenses				
Investment loss	-	289,792	(289,792)	(100.00%)
Interest expense	2,699,875	2,773,486	(73,611)	(2.65%)
Net costs recoverable	41,721	41,721	-	0.00%
Miscellaneous expense	20,541	-	20,541	100.00%
Total nonoperating expenses	2,762,137	3,104,999	(342,862)	(11.04%)
Total Expenses	23,885,232	23,405,848	479,384	2.05%
Income before contributions	2,575,421	1,171,921	1,403,500	119.76%
Capital contributions	1,869,248	2,801,073	(931,825)	(33.27%)
Transfers out	-	(11,722)	11,722	(100.00%)
Change in net position	\$ 4,444,669	\$ 3,961,272	\$ 483,397	12.20%

**Financial Highlights – Fiscal Year 2014**

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

### ***Debt Activity***

In April 2015, the Lincoln Wastewater System issued \$12,220,000 in Sanitary Sewer Refunding Bonds at an average interest rate of 3.06% to refund \$13,320,000 of Wastewater Revenue Bonds, Series 2005, with interest rates ranging from 1.0% to 4.0%. The City completed the advance refunding to reduce its total debt service payments over the next 15 years by \$2,376,871 for an economic gain (difference between the present values of the old and new debt service payments) of \$1,304,075.

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

### ***Capital Asset Activity***

Lincoln Wastewater System's investment in capital assets as of August 31, 2015 amounts to \$269,530,636 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment. Major capital asset events during 2015 include replacement of a liftstation and solids dewatering improvements for approximately \$3.5 million and \$3.9 million respectively.

### ***System Credit and Bond Ratings***

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

### ***Commitments and Contingencies***

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$2,200,000 at August 31, 2015.

### ***Forward-Looking Information***

The approved Capital Improvement Program for Fiscal Year 2015/16 - 2019/20 identifies the need for \$61,085,000 to fund capital improvements for the Wastewater System. Approximately \$38,050,000 of that total is projected to be funded by revenue bonds. Future user fee increases will be necessary to make the needed improvements possible.

In August 2015, the Lincoln City Council approved a 3% revenue increase, which will be attained through increases in the various service charges.

### ***Contact Information***

This financial report is intended to provide users a general overview of the System's financial performance for 2015 and 2014. If you have questions about this report or need additional financial information, please contact the Business Office of the Public Works & Utilities Department at 555 South 10<sup>th</sup> Street, Lincoln, NE 68508.

**LINCOLN WASTEWATER SYSTEM**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

**Statements of Net Position**

**August 31, 2015 and 2014**

<b>Assets and Deferred Outflows of Resources</b>	<b>2015</b>	<b>2014</b>
Current assets:		
Equity in pooled cash and investments	\$ 11,327,569	\$ 12,144,838
Receivables:		
Accounts receivable	2,164,305	2,168,903
Unbilled revenues	2,631,813	2,632,016
Due from other governments	-	2,249,364
Due from other funds	-	69,765
Impact fees	471,019	620,596
Total receivables	5,267,137	7,740,644
Inventories	109,221	91,515
Total current assets	16,703,927	19,976,997
Noncurrent assets:		
Equity in pooled cash and investments	6,583,343	8,080,552
Restricted assets:		
Equity in pooled cash	1,915,024	1,731,814
Equity in pooled investments	5,730,322	5,840,298
Total restricted assets	7,645,346	7,572,112
Utility plant:		
Non-depreciable	8,342,062	15,434,916
Depreciable	389,151,831	366,667,822
Less accumulated depreciation	(127,963,257)	(120,022,015)
Net utility plant	269,530,636	262,080,723
Costs recoverable from future billings	696,897	623,558
Total noncurrent assets	284,456,222	278,356,945
Total assets	301,160,149	298,333,942
Deferred outflows of resources:		
Deferred loss on refunding	669,714	860,147
Total assets and deferred outflows of resources	\$ 301,829,863	\$ 299,194,089
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable	\$ 320,288	\$ 548,048
Accrued liabilities	584,299	550,628
Deposits liability	8,649	16,650
Accrued compensated absences	391,570	383,552
Construction contracts	1,133,634	3,255,461
Current maturities of long-term debt	4,562,314	4,342,719
Accrued interest	604,882	617,846
Total current liabilities	7,605,636	9,714,904
Long-term liabilities:		
Accrued liabilities	264,347	229,704
Accrued compensated absences	324,589	283,481
Construction contracts	117,455	117,455
Long-term debt, excluding current maturities	82,590,586	85,586,579
Total long-term liabilities	83,296,977	86,217,219
Total liabilities	90,902,613	95,932,123
Net position:		
Net investment in capital assets	187,492,677	175,574,409
Restricted for debt service	1,039,387	893,268
Restricted for capital acquisition	471,019	620,596
Unrestricted	21,924,167	26,173,693
Total net position	210,927,250	203,261,966
Total liabilities and net position	\$ 301,829,863	\$ 299,194,089

See accompanying notes to financial statements.

**LINCOLN WASTEWATER SYSTEM**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

**Statements of Revenues, Expenses and Changes in Net Position**

**Years ended August 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
Operating revenues	\$ 27,029,419	\$ 25,860,215
Operating expenses:		
Plant, pumping and treatment	11,220,303	11,241,542
Operation and maintenance of wastewater lines	6,282,769	6,028,135
Sanitary engineering services	2,060,495	2,154,526
Accounting and collecting	800,837	774,832
Administrative and general	1,160,227	924,060
Total operating expenses	21,524,631	21,123,095
Operating income	5,504,788	4,737,120
Nonoperating revenues (expenses):		
Investment income	280,812	600,438
Interest expense	(2,558,753)	(2,699,875)
Net costs recoverable	(44,968)	(41,721)
Miscellaneous revenue (expense)	20,541	(20,541)
Net nonoperating expenses	(2,302,368)	(2,161,699)
Increase in net position before capital contributions	3,202,420	2,575,421
Capital contributions from:		
Developers	3,746,229	1,280,739
Tap fees	37,441	31,811
Impact Fees	679,194	556,698
Total capital contributions	4,462,864	1,869,248
Increase in net position	7,665,284	4,444,669
Total net position - beginning	203,261,966	198,817,297
Total net position - ending	\$ 210,927,250	\$ 203,261,966

See accompanying notes to financial statements.

**LINCOLN WASTEWATER SYSTEM**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

**Statements of Cash Flows**

**Years ended August 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Operating activities:</b>		
Receipts from customers and users	\$ 29,425,161	\$ 26,347,403
Payments to suppliers	(6,087,711)	(5,661,540)
Payments to employees	(7,581,876)	(7,403,354)
Net cash provided by operating activities	15,755,574	13,282,509
<b>Noncapital financing activities:</b>		
Repayment from other funds, net	69,765	104,278
Net cash provided by noncapital financing activities	69,765	104,278
<b>Capital and related financing activities:</b>		
Acquisition and construction of capital assets	(12,753,131)	(7,937,802)
Principal paid on revenue bonds	(2,710,000)	(3,245,000)
Proceeds from NDEQ loan	1,938,063	2,675,751
System funds used for bond refinancing	(822,739)	-
Interest paid on long term debt	(2,982,845)	(3,077,999)
Repayments on NDEQ loan	(1,037,284)	(808,916)
Other	20,541	(20,541)
Net cash used in capital and related financing activities	(18,347,395)	(12,414,507)
<b>Investing activities:</b>		
Purchases of investments	(18,956,047)	(17,231,183)
Proceeds from investment maturities	20,092,251	15,331,339
Interest on investments	217,877	278,191
Net cash provided by (used in) investing activities	1,354,081	(1,621,653)
Net (decrease) in cash and cash equivalents	(1,167,975)	(649,373)
Cash and cash equivalents at beginning of year	1,575,395	2,224,768
Cash and cash equivalents at end of year	\$ 407,420	\$ 1,575,395
<b>Composition of equity in pooled cash and investments (current)</b>		
Cash and cash equivalents	\$ 407,420	\$ 1,575,395
Investments	10,920,149	10,569,443
Total equity in pooled cash and investments (current)	\$ 11,327,569	\$ 12,144,838
<b>Reconciliation of net operating income to net cash provided by operating activities:</b>		
Operating income	\$ 5,504,788	\$ 4,737,120
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,983,070	7,785,109
Changes in operating assets and liabilities:		
Accounts receivable	2,403,742	481,789
Inventories	(17,706)	(31,153)
Accounts payable	(227,760)	252,796
Accrued liabilities and deposit liability	60,314	42,237
Accrued compensated absences	49,126	14,611
Total adjustments	10,250,786	8,545,389
Net cash provided by operating activities	\$ 15,755,574	\$ 13,282,509

**Supplemental disclosure of noncash transactions:**

Contributed capital improvements of \$3,746,229 and \$1,280,739 were added to utility plant in 2015 and 2014 respectively.

Accounts payable incurred for utility plant purchases were \$1,251,089 and \$3,372,916 in 2015 and 2014, respectively.

The Wastewater System issued bonds to refund debt issued in 2005. The \$12,220,000 proceeds were deposited immediately into an irrevocable trust for the defeasance of \$13,320,000 of outstanding bond principal.

See accompanying notes to financial statements.

# LINCOLN WASTEWATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2015 and 2014

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## (1) Organization and Summary of Significant Accounting Policies

### ***Organization and Nature of Operations***

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

### ***Measurement Focus and Basis of Accounting***

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

The GASB periodically updates its codification of the existing Governmental and Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

The financial statements referred to above present only the Lincoln Wastewater System, an enterprise fund of the City of Lincoln, Nebraska, and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2015 and 2014, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Operating Revenues and Expenses***

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

# LINCOLN WASTEWATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2015 and 2014

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

### ***Accounts Receivable and Unbilled Revenues***

Wastewater revenues are recorded based on the related period of customer usage. Billings for wastewater revenues are rendered on a cycle basis bi-monthly. Unbilled revenues, representing estimated consumer usage for the period between the last billing date and the end of the period, are accrued in the period of consumption. Management does not believe an allowance for doubtful accounts is necessary at August 31, 2015 or 2014.

### ***Restricted Assets***

Certain proceeds of the Systems revenue bonds and resources set aside for their repayment are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

### ***Utility Plant (Capital Assets)***

Cost of additions and replacements to utility plant are capitalized. Cost includes labor, materials, payments to contractors, equipment use, and indirect costs. Long-term construction contracts that are entered into with developers to expand the distribution system and structure are capitalized at cost over the term of construction, with the related liability classified between current and long-term based upon the anticipated expenditure appropriation or collection of directed impact fees. Interest expense, net of interest earned on unspent bond proceeds, is capitalized in connection with the construction of major assets. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Contributed assets are capitalized at their fair value at the date of contribution. The cost of property retired, together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is removed from service, except for land, on which gain or loss is recognized upon disposition. Expenditures for maintenance and repairs are charged to current expenses. Items with a cost greater than \$5,000 are capitalized. Items less than \$5,000 may be capitalized if they belong to a larger asset or if documentation is received stating that significant additions will be made to the item in the near future.

Depreciation expense is calculated using the composite and straight-line methods over the estimated useful lives of the assets. The following estimated useful lives are being used by the System:

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

# LINCOLN WASTEWATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2015 and 2014

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

### ***Deposits and Investments***

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

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

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

Fair value of the equity in the pool is the same as the value of the pool shares determined using the fair value of the pool's underlying investment portfolio, which is reported at fair value based on quoted market prices.

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

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

### ***Capital Contributions***

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

Tap fees are the charges for customers to tap into the Wastewater System and revenues are recorded at the amount received when they are received.

Impact Fees are charges levied against new construction, changes in land use, or an increase in water meter size to help generate revenue to build new infrastructure needed because of development. Impact fees collected are recognized as revenue as expenditures are incurred.

### ***Unamortized Premium on Revenue Bonds***

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

# LINCOLN WASTEWATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2015 and 2014

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

### *Inventories*

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

### *Deferred Outflow of Resources*

Deferred outflow of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The System only has one item that qualifies for reporting in this capacity. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt using straight-line method which approximates the effective interest rate method.

### *Revenue*

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

The City Council sets the rate schedule for the Lincoln Wastewater System. The billings for residential customers are based on water usage during a winter billing cycle, whereas the billings for nonresidential customers are based on water used each cycle. The following rates were in effect as of August 31, 2015 and 2014, respectively:

	<u>August 31, 2015</u>	<u>August 31, 2014</u>
<u>Water Usage</u>	\$1.859	\$1.859
<u>Service Charge</u>		
5/8 inch	\$ 1.98	\$ 1.65
3/4 inch	3.85	3.20
1 inch	6.86	5.70
1 1/2 inch	13.59	11.30
2 inch	21.77	18.10
3 inch	40.89	34.00
4 inch	68.20	56.70
6 inch	136.28	113.30
8 inch	218.06	181.30
10 inch	313.57	260.70

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

# LINCOLN WASTEWATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2015 and 2014

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

### ***Costs Recoverable from Future Billings***

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

### ***Net Position Classification***

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

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

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

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

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

# LINCOLN WASTEWATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2015 and 2014

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

### ***Compensated Absences***

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

Compensated absences of the Lincoln Wastewater System at August 31, 2015 and 2014 are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
August 31, 2015	\$667,033	432,678	383,552	716,159	391,570
August 31, 2014	\$652,422	383,048	368,437	667,033	383,552

### ***Other Post-Employment Benefits***

The Wastewater System recorded a long-term accrued liability for the annual required contribution (ARC) of approximately \$265,000 and \$230,000 as of August 31, 2015 and 2014, respectively, in connection with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The complete disclosures required by GASB 45 are included in the City of Lincoln Comprehensive Annual Financial Report (CAFR).

### ***Use of Estimates***

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

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

### ***Deposits***

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

# LINCOLN WASTEWATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2015 and 2014

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

### *Investments*

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

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

At August 31, 2015 and 2014, the Lincoln Wastewater System had the following investments and maturities:

Type	August 31, 2015				
	Carrying Value	Less than 1	Maturities in Years		
			1 - 5	6 - 10	More than 10
U.S. Government Sponsored Agency	\$5,730,322	\$ -	\$2,467,022	\$3,263,300	\$ -

  

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

# LINCOLN WASTEWATER SYSTEM

## An Enterprise Fund of the City of Lincoln, Nebraska

### Notes to Financial Statements

August 31, 2015 and 2014

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

##### Interest Rate Risk:

Interest rate risk is the risk that a change in interest rates will adversely affect the value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits current operating funds to be invested with maturities of no longer than twenty-four months. Fixed income investments in construction funds, operating funds, and other non-operating funds shall have a term appropriate to the need for funds and in accordance with debt covenants. Collateralized Investment Agreements or Repurchase Agreements are not subject to interest rate risk, as the interest rate is guaranteed by the issuer and maturities will follow the requirements of the Master Repurchase Agreement.

##### Credit Risk:

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy allows collateralized investment agreements with an initial rating at least AA- by Standard & Poor's (S & P) and Aa3 by Moody's Investors Service (Moody's) with provisions that if the provider is downgraded below AA- by S & P or Aa3 by Moody's the provider must deliver collateral of United States Government Agencies obligations at a margin of 104%, and if the provider is further downgraded below A- by S & P or A3 by Moody's, the issuer will have the right to terminate the agreement and receive all invested amounts plus accrued but unpaid interest without penalty. As of August 31, 2015 and 2014, the Lincoln Wastewater System investments in United States Government sponsored agencies not directly guaranteed by the United States government were rated AA+ by S & P and Aaa by Moody's. The provider of the collateralized investment agreement was rated AA- by S & P and Aa3 by Moody's as of August 31, 2014. The collateralized investment agreement was adequately collateralized as of August 31, 2014.

##### Concentration of Credit Risk:

The City's investment policy places various limits on the amount that may be invested in any one issuer or security type. Per the policy, allocation limits do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument. The investments mentioned below were made with funds from the bond debt reserve funds established. Concentrations greater than 5% at August 31 are shown below:

	<u>2015</u>	<u>2014</u>
U.S. Government Agency Obligations		
Federal Home Loan Bank	17.2%	11.7%
Federal Farm Credit Bank	5.4%	4.9%

# LINCOLN WASTEWATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2015 and 2014

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

The carrying amount of equity interests in pooled cash and investments at August 31, 2015 and 2014, are:

	<u>2015</u>	<u>2014</u>
Equity in pooled cash and investments	\$19,825,936	\$21,957,204

### ***Investment Income***

Investment income for the years ended August 31, 2015 and 2014, consisted of:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$209,068	\$282,305
Net change in fair value of investments	71,744	318,133
	<u>\$280,812</u>	<u>\$600,438</u>

**LINCOLN WASTEWATER SYSTEM**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

Notes to Financial Statements

August 31, 2015 and 2014

**(3) Utility Plant**

Utility plant is summarized by major classification at August 31, 2015 as follows:

Asset Class	Capital Assets			Accumulated Depreciation			Net Capital Assets		
	August 31, 2014	Increases	Decreases	August 31, 2015	August 31, 2014	Increases	Decreases	August 31, 2015	August 31, 2015
Structures and improvements	\$ 79,990,077	\$ 59,246	\$ -	\$ 80,049,323	\$ (28,836,698)	\$ (1,822,590)	\$ -	\$ (30,659,288)	\$ 49,390,035
Line equipment	160,473	44,738	-	205,211	(69,498)	(44,650)	-	(114,148)	91,063
Treatment equipment	60,733,426	5,575,629	-	66,309,055	(27,073,099)	(2,314,028)	-	(29,387,127)	36,921,928
Collection system	212,653,994	8,152,876	-	220,806,870	(55,990,370)	(3,137,125)	-	(59,127,495)	161,679,375
Lift stations/force mains	1,207,441	8,213,196	-	9,420,637	(581,273)	(76,280)	-	(657,553)	8,763,084
Environmental equipment	376,508	-	-	376,508	(344,225)	(5,230)	-	(349,455)	27,053
Office furniture and equipment	498,889	7,529	(43,864)	462,554	(439,314)	(13,554)	41,828	(411,040)	51,514
Shop equipment	271,951	-	-	271,951	(217,863)	(9,627)	-	(227,490)	44,461
Communications system	511,621	17,654	-	529,275	(338,131)	(47,151)	-	(385,282)	143,993
Laboratory equipment	662,229	12,123	-	674,352	(522,078)	(32,319)	-	(554,397)	119,955
Injection system	658,907	-	-	658,907	(434,984)	(12,455)	-	(447,439)	211,468
Pond and liner	520,132	-	-	520,132	(491,197)	(14,468)	-	(505,665)	14,467
Sludge injection equipment	79,663	-	-	79,663	(60,463)	(6,034)	-	(66,497)	13,166
Transmission/work equipment	1,125,400	-	-	1,125,400	(312,393)	(51,336)	-	(363,729)	761,671
Meters	4,376,102	379,268	-	4,755,370	(2,513,983)	(232,300)	-	(2,746,283)	2,009,087
Vehicles	2,841,009	65,614	-	2,906,623	(1,796,446)	(163,923)	-	(1,960,369)	946,254
<b>Total depreciable assets</b>	<b>366,667,822</b>	<b>22,527,873</b>	<b>(43,864)</b>	<b>389,151,831</b>	<b>(120,022,015)</b>	<b>(7,983,070)</b>	<b>41,828</b>	<b>(127,963,257)</b>	<b>261,188,574</b>
Land and land rights	6,205,956	656,188	-	6,862,144	-	-	-	-	6,862,144
Construction in progress	9,228,960	11,336,664	(19,085,706)	1,479,918	-	-	-	-	1,479,918
<b>Total nondepreciable assets</b>	<b>15,434,916</b>	<b>11,992,852</b>	<b>(19,085,706)</b>	<b>8,342,062</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,342,062</b>
<b>Total capital assets</b>	<b>\$ 382,102,738</b>	<b>\$ 34,520,725</b>	<b>\$ (19,129,570)</b>	<b>\$ 397,493,893</b>	<b>\$ (120,022,015)</b>	<b>\$ (7,983,070)</b>	<b>\$ 41,828</b>	<b>\$ (127,963,257)</b>	<b>\$ 269,530,636</b>

During 2015, Lincoln Wastewater System incurred \$3,101,554 of interest cost. Interest capitalized into construction in progress during 2015 was \$338,815. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 2.05% in 2015.

**LINCOLN WASTEWATER SYSTEM**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

Notes to Financial Statements

August 31, 2015 and 2014

**(3) Utility Plant**

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

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

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

The composite depreciation rate was approximately 2.12% in 2014.

# LINCOLN WASTEWATER SYSTEM

## An Enterprise Fund of the City of Lincoln, Nebraska

### Notes to Financial Statements

August 31, 2015 and 2014

#### (4) Long-term Liabilities

Long-term debt of Lincoln Wastewater System at August 31, 2015 and 2014 is summarized below:

#### 2015

Type of Debt	August 31, 2014	Additions	Reductions	August 31, 2015	Due Within One Year
4.0% - 5.0% Wastewater Revenue Bonds, Series 2005. In April 2015, the bonds were advance refunded by the Wastewater Revenue Refunding Bonds, Series 2015.	\$13,320,000	\$ -	\$13,320,000	\$ -	\$ -
4.0% - 4.5% Wastewater Revenue Bonds, Series 2007. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2015 through 2032. Redeemable at par on or after June 15, 2017.	16,730,000	-	640,000	16,090,000	665,000
0.0% - 2.0% Nebraska Department of Environmental Quality (NDEQ) 2009 project loan payable (C317247). Principal and interest payments due semi-annually on June 15 and December 15, with final payment in 2031.	2,999,008	-	164,113	2,834,895	166,249
2.0% Nebraska Department of Environmental Quality (NDEQ) 2009 project loan payable (C317078). Principal and interest payments due semi-annually on June 15 and December 15, with final payment in 2032.	4,480,104	-	216,171	4,263,933	220,516
3.25% Nebraska Department of Environmental Quality (NDEQ) 2011 project loan payable (C317830). Principal and interest payments due semi-annually on June 15 and December 15, with final payment in 2034.	14,626,937	1,938,063	657,000	15,908,000	705,549
1.0% - 5.0% Wastewater Revenue Refunding Bonds, Series 2012. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2015 through 2028. Redeemable at par on or after June 15, 2022.	34,275,000	-	2,070,000	32,205,000	2,150,000
1.0% - 4.0% Wastewater Revenue Refunding Bonds, Series 2015. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2015 through 2030. Redeemable at par on or after June 15, 2025.	-	12,220,000	-	12,220,000	655,000
Unamortized premium on bonds	3,498,249	592,567	459,744	3,631,072	-
	<u>\$89,929,298</u>	<u>\$14,750,630</u>	<u>\$17,527,028</u>	<u>\$87,152,900</u>	<u>\$4,562,314</u>

# LINCOLN WASTEWATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2015 and 2014

## (4) Long-term Liabilities (continued)

2014

Type of Debt	August 31, 2013	Additions	Reductions	August 31, 2014	Due Within One Year
4.0% - 5.0% Wastewater Revenue Bonds, Series 2005. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2030. Redeemable at par on or after June 15, 2015.	\$13,900,000	\$ -	\$580,000	\$13,320,000	\$605,000
4.0% - 4.5% Wastewater Revenue Bonds, Series 2007. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2032. Redeemable at par on or after June 15, 2017.	17,345,000	-	615,000	16,730,000	640,000
0.0% - 2.0% Nebraska Department of Environmental Quality (NDEQ) 2009 project loan payable (C317247). Principal and interest payments due semi-annually on June 15 and December 15, with final payment in 2031.	3,161,012	-	162,004	2,999,008	164,113
2.0% Nebraska Department of Environmental Quality (NDEQ) 2009 project loan payable (C317078). Principal and interest payments due semi-annually on June 15 and December 15, with final payment in 2032.	4,692,016	-	211,912	4,480,104	216,171
3.25% Nebraska Department of Environmental Quality (NDEQ) 2011 project loan payable (C317830). Principal and interest payments due semi-annually on June 15 and December 15.	10,136,822	4,925,115	435,000	14,626,937	647,435
1.0% - 5.0% Wastewater Revenue Refunding Bonds, Series 2012. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2028. Redeemable at par on or after June 15, 2022.	36,325,000	-	2,050,000	34,275,000	2,070,000
Unamortized premium on bonds	3,750,156	-	251,907	3,498,249	-
	<u>\$89,310,006</u>	<u>\$4,925,115</u>	<u>\$4,305,823</u>	<u>\$89,929,298</u>	<u>\$4,342,719</u>

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

# LINCOLN WASTEWATER SYSTEM

## An Enterprise Fund of the City of Lincoln, Nebraska

### Notes to Financial Statements

August 31, 2015 and 2014

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#### (4) Long-term Liabilities (continued)

Maturities and sinking fund requirements on long-term debt at August 31, 2015, are shown below:

Due years ending August 31	Bonds		Loans		Total
	Principal	Interest	Principal	Interest	
2016	\$ 3,470,000	\$ 2,219,023	\$ 1,092,314	\$ 471,189	\$ 7,252,526
2017	3,650,000	2,017,876	1,111,635	451,867	7,231,378
2018	3,705,000	1,942,150	1,134,602	428,902	7,210,654
2019	3,760,000	1,859,275	1,158,054	405,449	7,182,778
2020	3,845,000	1,769,076	1,182,004	381,498	7,177,578
2021 - 2025	21,195,000	6,741,035	6,287,466	1,530,050	35,753,551
2026 - 2030	18,335,000	2,446,586	6,967,347	850,170	28,599,103
2031 - 2034	2,555,000	168,872	4,073,406	169,639	6,966,917
Total	\$60,515,000	\$19,163,893	\$23,006,828	\$4,688,764	\$107,374,485

In April 2015, the Lincoln Wastewater System issued \$12,220,000 in Sanitary Sewer Refunding Bonds at an average interest rate of 3.06% to refund \$13,320,000 of Wastewater Revenue Bonds, Series 2005, with interest rates ranging from 1.0% to 4.0%. The City completed the advance refunding to reduce its total debt service payments over the next 15 years by \$2,376,871 for an economic gain (difference between the present values of the old and new debt service payments) of \$1,304,075. The refunding resulted in a deferred gain on refunding of \$131,673 which will be amortized over the remaining life of the new bonds. The \$12,220,000 proceeds were deposited immediately into an irrevocable trust for the defeasance of \$13,320,000 of outstanding revenue bond principal.

Lincoln Wastewater System has entered into a loan agreement with NDEQ consisting of three separate contracts. Under Contract 317247, the Lincoln Wastewater System has borrowed \$4,808,792 to fund certain sewer system extension and sewer repairs. The terms of the project loan payable are reflected in the summary of long-term debt. The Lincoln Wastewater System has also borrowed \$5,000,000 under Contract 317078 to fund certain projects at the Theresa Street and Northeast Wastewater Treatment Facilities. The interest rate throughout the term of the loan is 2.0%. The terms of the project loan payable are reflected in the summary of long-term debt. The Lincoln Wastewater System has also borrowed \$17,000,000 under Contract 317830 to fund certain wastewater solids handling, trunk sewer, and selected facility replacement improvements. The interest rate throughout the term of the loan is 3.25%. The terms of the project loan payable are reflected in the summary of long-term debt. All contracts are final as of year ended August 31, 2015.

# LINCOLN WASTEWATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2015 and 2014

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## (4) Long-term Liabilities (continued)

The City has pledged future revenues derived from the operation of the Lincoln Wastewater System, net of operating and maintenance expenses, to repay all outstanding wastewater revenue bonds. Proceeds from the bonds and loans provided financing for improvements to the sanitary sewer system. The bonds and loans are payable solely from the net earnings of the Wastewater System and are payable through 2034. The total principal and interest remaining to be paid on the bonds and loans is \$107,374,485 with annual payments expected to require 47% of net revenues. Principal and interest paid for the current year and net system revenues were \$6,861,802 and \$14,485,305, respectively.

Construction contract payables of the Lincoln Wastewater System at August 31, 2015 and 2014 are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
August 31, 2015	\$3,372,916	1,133,634	3,255,461	1,251,089	1,133,634
August 31, 2014	\$1,646,686	3,255,462	1,529,232	3,372,916	3,255,461

## (5) Commitments and Contingencies

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$2,200,000 at August 31, 2015.

## (6) Related Party Transactions

The City billed the Wastewater System approximately \$586,000 and \$482,000 for administrative services during 2015 and 2014, respectively. The Wastewater System also makes payments to Lincoln Electric System (LES), an enterprise fund of the City of Lincoln, for electricity used at the System's operating locations. Payments to LES totaled approximately \$1,040,000 and \$991,000 during 2015 and 2014, respectively. Approximately \$73,000 and \$75,000 are included in accounts payable for amounts owed to LES at August 31, 2015 and 2014.

A special revenue fund of the City collects and holds impact fees until they are distributed in accordance with City ordinance. The Lincoln Wastewater System was due impact fees of \$471,019 and \$620,596 as of August 31, 2015 and 2014, respectively.

The City of Lincoln general fund borrowed monies from the pooled cash and investment account. The Wastewater System's allocated share of the borrowing was \$0 and \$69,765 as of August 31, 2015 and 2014, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the statements of net position.

# LINCOLN WASTEWATER SYSTEM

## An Enterprise Fund of the City of Lincoln, Nebraska

### Notes to Financial Statements

August 31, 2015 and 2014

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#### **(7) Risk Management**

Lincoln Wastewater System participates in the City's self-insurance program administered by the City's Risk Management Division (the Division). The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On behalf of the City, the Division purchases insurance and administers funds for its self-insured program. The Division maintains a workers' compensation fund and a self-insured loss fund. The Division provides first dollar coverage for all liability and workers' compensation exposure with insurance acting as an umbrella for excess coverage. The maximum exposure would be the deductible amounts for property and auto physical damage, as well as losses not covered by insurance. Lincoln Wastewater System had no claims or judgments exceeding the policy limits during each of the last three prior years. Budgeted premium amounts charged to Lincoln Wastewater System are placed in the appropriate fund maintained by the Division. Premium expense was approximately \$371,000 and \$420,000 in 2015 and 2014, respectively.

#### **(8) Pension Plan**

Employees of Lincoln Wastewater System are participants in the City of Lincoln Employees' Retirement Plan. Plan participation is required if the employee has completed five years of continuous service and attained the age of 40. An employee may voluntarily enter the plan upon attaining age 19 and after completing six months of service. The plan is a defined contribution plan requiring employees to contribute to the plan depending on employee class and date of hire. Lincoln Wastewater System contributes between \$1.29 and \$2.00 for every \$1.00 contributed by employees. Plan participants vest in the City's contributions in year three of participation at 20% up to 100% vested in year seven. Contributions made by the System were approximately \$522,000 and \$525,000 for 2015 and 2014, respectively. Contributions made by the plan members were approximately \$304,000 and \$298,000 for 2015 and 2014, respectively.

SUPPLEMENTARY  
INFORMATION

**LINCOLN WASTEWATER SYSTEM**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

Summary of Long-Term Debt

August 31, 2015

Due years ending August 31	Series 2007		NDEQ Loan (C317247) 2009		NDEQ Loan (C317078) 2009		NDEQ Loan (C317830) 2011		Series 2012		Series 2015		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2016	\$ 665,000	\$ 693,688	\$ 166,249	\$ 36,245	\$ 220,516	\$ 84,182	\$ 705,549	\$ 350,762	\$ 2,150,000	\$ 1,134,850	\$ 655,000	\$ 390,485	\$ 4,562,314	\$ 2,690,212	\$ 7,252,526
2017	695,000	667,088	168,413	34,081	224,948	79,749	718,274	338,037	2,235,000	1,027,350	720,000	323,438	4,761,635	2,469,743	7,231,378
2018	720,000	639,288	170,606	31,889	229,470	75,228	734,526	321,785	2,250,000	993,825	735,000	309,037	4,839,602	2,371,052	7,210,654
2019	750,000	610,488	172,826	29,668	234,082	70,615	751,146	305,166	2,265,000	954,450	745,000	294,337	4,918,054	2,264,724	7,182,778
2020	780,000	580,488	175,076	27,418	238,787	65,910	768,141	288,170	2,305,000	909,150	760,000	279,438	5,027,004	2,150,574	7,177,578
2021-2025	4,435,000	2,381,648	910,164	102,308	1,267,890	255,599	4,109,412	1,172,143	12,705,000	3,220,800	4,055,000	1,138,587	27,482,466	8,271,085	35,753,551
2026-2030	5,490,000	1,313,958	970,966	41,508	1,400,539	122,949	4,595,842	685,713	8,295,000	649,800	4,550,000	482,828	25,302,347	3,296,756	28,599,103
2031-2034	2,555,000	168,872	100,595	653	447,701	8,980	3,525,110	160,006	-	-	-	-	6,628,406	338,511	6,966,917
	\$ 16,090,000	\$ 7,055,518	\$ 2,834,895	\$ 303,770	\$ 4,263,933	\$ 763,212	\$ 15,908,000	\$ 3,621,782	\$ 32,205,000	\$ 8,890,225	\$ 12,220,000	\$ 3,218,150	\$ 83,521,828	\$ 23,852,657	\$ 107,374,485

**LINCOLN WASTEWATER SYSTEM**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

Schedule 2

**Debt Coverage Ratio**

**Last ten fiscal years**

Fiscal Year Ending	Gross Revenue	Direct Operating Expenses	Net Available Balance	Debt Service Requirement on Revenue Bonds				Debt Service Requirement for all Debt			
				Principal	Interest	Total	Coverage	Principal	Interest	Total	Coverage
2006	19,827,194	11,125,819	8,701,375	2,065,000	3,044,805	5,109,805	1.70	2,065,000	3,044,805	5,109,805	1.70
2007	21,158,743	11,462,964	9,695,779	2,005,000	3,082,787	5,087,787	1.91	2,005,000	3,082,787	5,087,787	1.91
2008	22,347,867	11,393,624	10,954,243	2,415,000	4,030,454	6,445,454	1.70	2,415,000	4,030,454	6,445,454	1.70
2009	22,643,270	11,771,291	10,871,979	2,620,000	3,820,044	6,440,044	1.69	2,620,000	3,820,044	6,440,044	1.69
2010	22,472,096	11,664,594	10,807,502	2,695,000	3,731,444	6,426,444	1.68	2,695,000	3,731,444	6,426,444	1.68
2011	23,546,370	12,543,964	11,002,406	2,785,000	3,607,044	6,392,044	1.72	2,865,000	3,647,609	6,512,609	1.69
2012	24,763,975	12,378,673	12,385,302	2,880,000	3,504,194	6,384,194	1.94	3,137,858	3,655,156	6,793,014	1.82
2013	24,988,276	12,522,160	12,466,116	3,120,000	2,785,825	5,905,825	2.11	3,487,906	3,089,698	6,577,604	1.90
2014	27,049,162	13,337,986	13,711,176	3,245,000	2,638,600	5,883,600	2.33	4,053,916	3,077,999	7,131,915	1.92
2015	28,026,866	13,541,561	14,485,305	2,710,000	2,544,000	5,254,000	2.76	3,747,284	3,114,518	6,861,802	2.11

**Lincoln Wastewater System**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

Schedule 3

**Operating Expenses**

**Years ended August 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
Plant, pumping and treatment:		
Theresa Street Treatment Plant:		
Supervision and management	\$ 247,235	\$ 201,630
Administrative and support staff	69,294	53,310
Training and education	27,427	24,762
Data management	267,145	228,985
General operations	1,351,288	1,507,590
Treatment and process control	758,499	797,896
Solids processing	1,206,839	1,075,845
Structures maintenance	262,629	242,602
Process equipment maintenance	515,952	677,155
Control system maintenance	252,699	206,362
Electrical maintenance	99,823	111,704
Grounds maintenance	57,270	42,083
Depreciation of structure and improvement	1,396,834	1,418,988
Depreciation of treatment equipment	1,678,567	1,602,345
Depreciation of shop and lab equipment	1,923	335
Depreciation of office/communications equipment	45,295	44,709
<b>Total Theresa Street Treatment Plant</b>	<b>\$ 8,238,719</b>	<b>\$ 8,236,301</b>
Northeast Treatment Plant:		
Supervision and management	\$ 78,617	\$ 80,756
Administrative and support staff	20,874	13,096
Training and education	9,781	7,443
Data management	69,484	69,459
General operations	530,909	548,180
Treatment and process control	182,758	158,631
Solids processing	277,887	264,791
Structures maintenance	75,042	67,450
Process equipment maintenance	180,404	262,944
Control system maintenance	89,354	83,203
Electrical maintenance	51,490	44,860
Grounds maintenance	55,668	56,455
Depreciation of structures and improvements	432,146	432,248
Depreciation of treatment system	609,260	613,587
Depreciation of injection system	43,126	44,035
Depreciation of shop and laboratory equipment	6,642	7,022
Depreciation of office/communications equipment	795	648
<b>Total Northeast Treatment Plant</b>	<b>\$ 2,714,237</b>	<b>\$ 2,754,808</b>

**LINCOLN WASTEWATER SYSTEM**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

Schedule 3, Cont.

**Operating Expenses, Continued**

	<b>2015</b>	<b>2014</b>
<b>Liftstations:</b>		
General operations	\$ 86,128	\$ 88,308
Structures maintenance	46,477	32,503
Process equipment maintenance	32,487	45,707
Control system maintenance	14,708	15,397
Electrical maintenance	4,323	5,973
Grounds maintenance	1,831	1,372
Depreciation of liftstations	81,393	61,173
<b>Total liftstations</b>	<b>267,347</b>	<b>250,433</b>
<b>Total plant, pumping and treatment</b>	<b>\$ 11,220,303</b>	<b>\$ 11,241,542</b>
<b>Operation and maintenance of wastewater lines:</b>		
Supervision and management	\$ 332,217	\$ 298,799
Administrative and support staff	53,490	46,776
Training and education	51,956	56,135
Data management	97,575	87,717
General operations	283,610	324,554
Structures maintenance	12,189	24,015
Main repair/maintenance	146,233	215,695
Manhole repair/rehabilitation	143,781	80,935
Customer service	478,514	474,783
Cleaning maintenance	973,363	846,396
Field operations	260,457	248,686
Depreciation of structures and improvements	-	757
Depreciation of treatment equipment	103,519	85,275
Depreciation of meters	227,533	214,216
Depreciation of shop and lab equipment	4,682	4,894
Depreciation of collection system	3,113,650	3,018,502
<b>Total operation and maintenance of wastewater lines</b>	<b>\$ 6,282,769</b>	<b>\$ 6,028,135</b>
<b>Sanitary engineering services:</b>		
Supervision and management	\$ 361,204	\$ 496,305
Administrative and support staff	62,066	69,658
Training and education	7,722	16,897
Data management	265,307	251,529
General operations	79,736	82,374
Laboratory operations	673,109	651,994
Field operations	554,285	529,620
Depreciation of structures and improvements	16,083	16,083
Depreciation of treatment equipment	4,388	1,712
Depreciation of office/communications equipment	2,666	2,666
Depreciation of shop and laboratory equipment	33,929	35,688
<b>Total sanitary engineering services</b>	<b>\$ 2,060,495</b>	<b>\$ 2,154,526</b>

**LINCOLN WASTEWATER SYSTEM**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

Schedule 3, Cont.

**Operating Expenses, Continued**

	<b>2015</b>	<b>2014</b>
<b>Accounting and collecting:</b>		
Supervision and management	\$ 197,900	\$ 196,825
Administrative and support staff	6,076	2,226
Meter reading	122,500	114,442
Billing and accounting	260,677	250,493
Collections	103,221	104,446
Customer services and billing	70,785	66,037
Customer contracts and orders	34,911	35,027
Depreciation of general plant	4,767	4,766
Depreciation of office/communications equipment	-	570
<b>Total accounting and collecting</b>	<b>\$ 800,837</b>	<b>\$ 774,832</b>
<b>Administrative and general:</b>		
Supervision and management	\$ 995,388	\$ 750,635
Administrative and support staff	122,682	130,859
Delivery service	30,208	29,447
Depreciation of office/communications equipment	11,949	13,119
<b>Total administrative and general</b>	<b>\$ 1,160,227</b>	<b>\$ 924,060</b>

**LINCOLN WASTEWATER SYSTEM**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

Schedule 4

Utility Plant in Service

August 31, 2015 and 2014

Asset Class	Capital Assets			Accumulated Depreciation				Net Capital Assets	
	August 31, 2014	Increases	Decreases	August 31, 2015	August 31, 2014	Increases	Decreases	August 31, 2015	August 31, 2015
Theresa Street Plant:									
Structures and improvements	\$ 60,657,601	\$ 59,246	\$ -	\$ 60,716,847	\$ (19,922,648)	\$ (1,387,003)	\$ -	\$ (21,309,651)	\$ 39,407,196
Line equipment	160,473	44,738	-	205,211	(69,498)	(44,650)	-	(114,148)	91,063
Treatment equipment	39,460,702	5,560,509	-	45,021,211	(21,632,047)	(1,749,376)	-	(23,381,423)	21,639,788
Collection system	212,653,994	8,152,876	-	220,806,870	(55,990,370)	(3,137,125)	-	(59,127,495)	161,679,375
Lift stations/force mains	1,207,441	8,213,196	-	9,420,637	(582,958)	(76,280)	-	(659,238)	8,761,399
Environmental equipment	376,508	-	-	376,508	(344,225)	(5,230)	-	(349,455)	27,053
Office furniture and equipment	487,476	7,529	(43,864)	451,141	(431,131)	(12,906)	41,828	(402,209)	48,932
Shop equipment	121,649	-	-	121,649	(111,721)	(2,985)	-	(114,706)	6,943
Communications system	511,621	8,827	-	520,448	(338,131)	(47,004)	-	(385,135)	135,313
Laboratory equipment	662,229	12,123	-	674,352	(522,078)	(32,319)	-	(554,397)	119,955
Meters	4,376,102	379,268	-	4,755,370	(2,513,983)	(232,300)	-	(2,746,283)	2,009,087
<b>Theresa Street depreciable assets</b>	<b>320,675,796</b>	<b>22,438,312</b>	<b>(43,864)</b>	<b>343,070,244</b>	<b>(102,458,790)</b>	<b>(6,727,178)</b>	<b>41,828</b>	<b>(109,144,140)</b>	<b>233,926,104</b>
Land and land rights	4,144,914	656,188	-	4,801,102	-	-	-	-	4,801,102
<b>Theresa Street nondepreciable assets</b>	<b>4,144,914</b>	<b>656,188</b>	<b>-</b>	<b>4,801,102</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,801,102</b>
<b>Total Theresa Street Plant</b>	<b>324,820,710</b>	<b>23,094,500</b>	<b>(43,864)</b>	<b>347,871,346</b>	<b>(102,458,790)</b>	<b>(6,727,178)</b>	<b>41,828</b>	<b>(109,144,140)</b>	<b>238,727,206</b>
Northeast Plant:									
Structures and improvements	\$ 19,332,476	\$ -	\$ -	\$ 19,332,476	\$ (8,914,050)	\$ (435,587)	\$ -	\$ (9,349,637)	\$ 9,982,839
Treatment equipment	21,272,724	15,120	-	21,287,844	(5,441,052)	(564,652)	-	(6,005,704)	15,282,140
Office furniture and equipment	11,413	-	-	11,413	(8,183)	(648)	-	(8,831)	2,582
Shop and work equipment	150,302	-	-	150,302	(106,142)	(6,642)	-	(112,784)	37,518
Communications system	-	8,827	-	8,827	-	(147)	-	(147)	8,680
Injection system	658,907	-	-	658,907	(434,984)	(12,455)	-	(447,439)	211,468
Pond and liner	520,132	-	-	520,132	(491,197)	(14,468)	-	(505,665)	14,467
Sludge injection equipment	79,663	-	-	79,663	(60,463)	(6,034)	-	(66,497)	13,166
Lift stations/force mains	-	-	-	-	1,685	-	-	1,685	1,685
Transmission/work equipment	1,125,400	-	-	1,125,400	(312,393)	(51,336)	-	(363,729)	761,671
<b>Northeast depreciable assets</b>	<b>43,151,017</b>	<b>23,947</b>	<b>-</b>	<b>43,174,964</b>	<b>(15,766,779)</b>	<b>(1,091,969)</b>	<b>-</b>	<b>(16,858,748)</b>	<b>26,316,216</b>
Land and land rights	2,061,042	-	-	2,061,042	-	-	-	-	2,061,042
<b>Northeast nondepreciable assets</b>	<b>2,061,042</b>	<b>-</b>	<b>-</b>	<b>2,061,042</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,061,042</b>
<b>Total Northeast Plant</b>	<b>45,212,059</b>	<b>23,947</b>	<b>-</b>	<b>45,236,006</b>	<b>(15,766,779)</b>	<b>(1,091,969)</b>	<b>-</b>	<b>(16,858,748)</b>	<b>28,377,258</b>
Vehicles and work equipment (all locations)	2,841,009	65,614	-	2,906,623	(1,796,446)	(163,923)	-	(1,960,369)	946,254
Utility plant in service	\$ 372,873,778	\$ 23,184,061	\$ (43,864)	\$ 396,013,975	\$ (120,022,015)	\$ (7,983,070)	\$ 41,828	\$ (127,963,257)	\$ 268,050,718
Construction in progress	9,228,960	11,336,664	(19,085,706)	1,479,918	-	-	-	-	1,479,918
<b>Total capital assets</b>	<b>\$ 382,102,738</b>	<b>\$ 34,520,725</b>	<b>\$ (19,129,570)</b>	<b>\$ 397,493,893</b>	<b>\$ (120,022,015)</b>	<b>\$ (7,983,070)</b>	<b>\$ 41,828</b>	<b>\$ (127,963,257)</b>	<b>\$ 269,530,636</b>

**LINCOLN WASTEWATER SYSTEM**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

**GENERAL STATISTICS**

**Year Ended August 31, 2015**

(Unaudited)

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Altitude of Lincoln, Nebraska.....	1,167 Feet
Area of Lincoln, Nebraska .....	93.32 Square Miles
Population.....	272,996 Estimate
Total Miles of Wastewater Mains & Collector Lines in Use:	
Miles in use September 1, 2014 .....	1,032.7
Estimated Added During Year .....	11.2
Estimated Removed During Year .....	—
Total as of August 31, 2015 .....	1,043.9 Miles
Number of Wastewater Lift (Pumping) Stations: .....	15
Number of Stormwater Pumping Stations: .....	4
Plant Capacity:	
Theresa Street Treatment Facility .....	27.4 million gallons per day
Northeast Treatment Facility .....	10.0 million gallons per day
Average Daily Flow:	
Theresa Street Treatment Facility .....	26.3 million gallons per day
Northeast Treatment Facility .....	2.7 million gallons per day
Total Number of Active Residential Wastewater Customers	
End of Fiscal Year.....	77,360
Total Number of Active Non-Residential Wastewater Customers	
End of Fiscal Year.....	4,344
Total Debt of Lincoln Wastewater System as of August 31, 2015 .....	\$83,521,828

**LINCOLN WASTEWATER SYSTEM**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

**TOP TEN CUSTOMERS**

Year Ended August 31, 2015

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	352,699	\$738,143
2. State of Nebraska	291,174	572,630
3. Archer-Daniels Midland Company	175,940	353,954
4. University of Nebraska Foundation	146,111	291,338
5. Lincoln Industries	108,822	220,364
6. Bryan Health	104,686	214,901
7. Lincoln Housing Authority	87,948	214,184
8. Lincoln Public Schools	83,691	204,127
9. City of Lincoln	68,165	159,601
10. Zoetis	62,730	128,635
<b>Top Ten User Totals</b>	<b>1,481,966</b>	<b>\$3,097,877</b>

**Lincoln Wastewater System**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

## Summary of Insurance Coverage

August 31, 2015

(Unaudited)

Type of policy	Insurance coverage	Policy limits	Self-insured retention deductible	Self-insurance deductible	Insurance carrier	Policy number
Automobile Fleet Liability	Self-Insured Excess Coverage Excess Coverage	0 - 250,000 250,000 - 1,000,000 1,000,000 - 6,000,000	250,000		States	SEL3017307
Automobile Fleet Physical Damage**	Self-Insured	Actual cash value	2,500	2,500	None	
Building and Contents (includes Boiler & Machinery)	Blanket policy - buildings and contents	Replacement cost	50,000	2,500	FM Global	FN215
Money and Securities	Inside/outside premises	50,000	500	0	Fidelity & Deposit	CCP003059514
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FN215
Equipment Floater (NON-LIC)	Non-licensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FN215
Equipment Floater (Sanitary)	Inspection scheduled equipment	Replacement cost	50,000	2,500	FM Global	FN215
General Liability ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017307
Public Employee Blanket Bond	Employees blanket bond coverage	2,000,000	25,000	10,000	Fidelity & Deposit	CCP 003 059514
Public Officials Liability***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017307
Workers' Compensation Excess	Statutory	Statutory	800,000	0	Midwest Employers Casualty (MECC)	EWC007744

\*\* Self-insured for both comp &amp; collision.

\*\*\* Public Entity Policy

**LINCOLN WASTEWATER SYSTEM**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

Summary of Insurance Coverage

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

**AUTOMOBILE INSURANCE**

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

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

**PROPERTY INSURANCE**

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

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

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

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

**GENERAL LIABILITY**

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

**PUBLIC EMPLOYEES BLANKET BOND**

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

**PUBLIC OFFICIALS LIABILITY (Claims-made)**

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

**WORKERS' COMPENSATION**

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



RSM US LLP

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance With Government Auditing Standards**

**Independent Auditor's Report**

To the Honorable Mayor and Members of the City Council  
Lincoln Wastewater System and Lincoln Water System,  
Enterprise Funds of City of Lincoln, Nebraska  
Lincoln, Nebraska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lincoln Wastewater System and the Lincoln Water System, Enterprise Funds of City of Lincoln, Nebraska (collectively the Systems), as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the Systems' basic financial statements, and have issued our report thereon dated December 1, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Systems' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Systems' internal control. Accordingly, we do not express an opinion on the effectiveness of the Systems' internal control.

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

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

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**Compliance and Other Matters**

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

**Purpose of this Report**

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

*RSM US LLP*

Kansas City, Missouri  
December 1, 2015