

LINCOLN WASTEWATER SYSTEM

Fiscal Year Ended August 31, 2006

Financial Statements & Schedules



ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS/UTILITIES

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WASTEWATER SYSTEM

Karl Fredrickson Director of Public Works/Utilities

Lincoln Wastewater System

August 31, 2006 and 2005

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Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying basic financial statements of Lincoln Wastewater System as of and for the years ended August 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of Lincoln Wastewater 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 of the City of Lincoln, Nebraska Wastewater System are intended to present the financial position, the changes in financial position and cash flows of only that portion of the City of Lincoln, Nebraska, that is attributable to the transactions of the Lincoln Wastewater System. They do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Wastewater System as of August 31, 2006 and 2005, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2006 on our consideration of Lincoln Wastewater System's internal control over financial reporting and 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 considered in assessing the results of our audit.

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The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on Lincoln Wastewater System's basic 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. Such information, except for that portion marked "Unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

November 3, 2006

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, 2006 and 2005. Please read this information in conjunction with the accompanying basic financial statements and notes to the financial statements.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The System's Net Assets

The System's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The System's net assets increased by \$6,843,874 (4.06%) in 2006 over 2005 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, 2006, 2005, and 2004.

Table 1

Condensed Balance Sheets

	August 31		Variance	
	2006 Actual	2005 Actual	Dollars	Percent
Current assets	\$ 7,561,293	\$ 17,089,238	(\$9,527,945)	-55.75%
Capital assets	226,078,594	194,746,808	31,331,786	16.09%
Long-term investments	17,530,822	33,212,990	(15,682,168)	-47.22%
Deferred charges	647,175	676,330	(29,155)	-4.31%
Total assets	251,817,884	245,725,366	6,092,518	2.48%
Current liabilities	8,650,708	7,302,991	1,347,717	18.45%
Long-term liabilities	67,910,595	70,009,668	(2,099,073)	-3.00%
Total liabilities	76,561,303	77,312,659	(751,356)	-0.97%
Net assets				
Invested in capital assets, net of related debt	160,423,939	143,065,437	17,358,502	12.13%
Restricted for debt service	2,210,193	1,937,602	272,591	14.07%
Restricted for capital acquisition	471,616	259,888	211,728	81.47%
Unrestricted	12,150,833	23,149,780	(10,998,947)	-47.51%
Total net assets	175,256,581	168,412,707	6,843,874	4.06%
Total liabilities and net assets	\$251,817,884	\$245,725,366	\$6,092,518	2.48%

Financial Highlights – Fiscal Year 2006

- Total assets at year-end were \$251,817,884 and exceeded total liabilities by \$175,256,581, which results in an improved positive net assets position.
- Current assets decreased by \$9,527,945 (-55.75%) primarily due to an increase in construction activity.
- Capital assets increased by \$31,331,786 (16.09%) from \$194,746,808 as of the end of the Fiscal Year 2005 to \$226,078,594 as of the end of Fiscal Year 2006. Major project additions included:
 - Northeast Treatment Plant – approximately \$5,234,000
 - Transmission Mains – approximately \$14,767,000
 - Theresa Street Treatment Plant – approximately \$11,039,000
- Long-term investments decreased by \$15,682,168 (-47.22%) because of completion and payment of construction projects. Bond dollars are being used for said costs.

- There was an increase of \$1,347,717 (18.45%) in current liabilities primarily because a number of construction projects were in the process of construction at the end of the fiscal year.
- Long-term liabilities decreased by \$2,099,073 (-3.00%) from that of the previous fiscal year because of principal payments in accordance with debt service schedules.

Table 2

Condensed Balance Sheets

	August 31		Variance	
	2005 Actual	2004 Actual	Dollars	Percent
Current assets	\$ 17,089,238	\$ 14,571,808	\$ 2,517,430	17.28%
Capital assets	194,746,808	160,554,482	34,192,326	21.30%
Long-term investments	33,212,990	48,347,362	(15,134,372)	-31.30%
Deferred charges	676,330	594,824	81,506	13.70%
Total assets	245,725,366	224,068,476	21,656,890	9.67%
Current liabilities	7,302,991	8,292,584	(989,593)	-11.93%
Long-term liabilities	70,009,668	53,793,301	16,216,367	30.15%
Total liabilities	77,312,659	62,085,885	15,226,774	24.53%
Net assets				
Invested in capital assets, net of related debt	143,065,437	137,800,614	5,264,823	3.82%
Restricted for debt service	1,937,602	531,526	1,406,076	264.54%
Restricted for capital acquisition	259,888	337,721	(77,833)	-23.05%
Unrestricted	23,149,780	23,312,730	(162,950)	-0.70%
Total net assets	168,412,707	161,982,591	6,430,116	3.97%
Total liabilities and net assets	\$245,725,366	\$224,068,476	\$21,656,890	9.67%

Financial Highlights – Fiscal Year 2005

- Total assets at year-end were \$245,725,366 and exceeded total liabilities by \$168,412,707, which results in an improved positive net assets position.
- Current assets increased by \$2,517,430 (17.28%) due to a portion of the \$48,000,000 in bond revenue being utilized on construction projects resulting in additional construction activity.
- Capital assets increased by \$34,192,326 (21.30%) from \$160,554,482 as of the end of the Fiscal Year 2004 to \$194,746,808 as of the end of Fiscal Year 2005. Major project additions included:
 - Theresa Street Treatment Plant – approximately \$9,807,000
 - Northeast Treatment Plant – approximately \$8,959,000
 - Trunk Sewer Improvements – approximately \$14,584,000

- Long-term investments decreased by \$15,134,372 (-31.30%) because of completion and payment of construction projects. Bond dollars are being used for said costs.
- Deferred charges of unamortized bond issue costs increased in the amount of \$81,506 (13.70%) occurred because of the issuance of a \$18,000,000 sanitary sewer bond in July of 2005.
- There was a decrease of \$989,593 (-11.93%) in current liabilities primarily because the number of construction projects were completed and paid for this fiscal year.
- Long-term liabilities increased by \$16,216,367 (30.15%) from that of the previous fiscal year because of debt service requirements on the revenue bonds issued in July of 2005.

Table 3

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

	August 31		Variance	
	2006 Actual	2005 Actual	Dollars	Percent
Operating revenues	\$17,997,650	\$16,985,552	\$1,012,098	5.96%
Operating expenses				
Plant, pumping and treatment	9,097,117	8,476,191	620,926	7.33%
Operation and maintenance of wastewater line	4,375,757	3,707,699	668,058	18.02%
Sanitary engineering services	1,911,698	1,782,635	129,063	7.24%
Accounting and collecting	493,263	481,143	12,120	2.52%
Administrative and general	1,088,819	981,905	106,914	10.89%
Total operating expenses	16,966,654	15,429,573	1,537,081	9.96%
Operating income	1,030,996	1,555,979	(524,983)	-33.74%
Net nonoperating revenues	710,777	509,759	201,018	39.43%
Capital contributions	5,102,101	4,364,378	737,723	16.90%
Change in net assets	\$6,843,874	\$6,430,116	\$413,758	6.43%

Financial Highlights – Fiscal Year 2006

- Operating revenues increased \$1,012,098 (5.96%) compared to 2005. This increase was primarily due to an increase of 9.00% user fees implemented with the billings starting in February 2006 and because of increased water usage this fiscal year. Sanitary sewer bills for residential customers are based on water usage during a two-month period during the winter and remain the same over the balance of the following ten-month period. Non-residential customers are billed for sanitary sewer based on their monthly water usage.

- Operating expenses increased \$1,537,081 (9.96%) compared to 2005, due to plant, pumping and treatment; operating and maintenance of wastewater lines, and sanitary engineering services expenses being higher. There was a 5.42% increase in Theresa Street Treatment Plant costs mostly attributed to an increase of processed equipment maintenance costs and maintenance of structures. There was a 13.25% increase in Northeast Treatment Plant costs mostly attributed to maintenance of structures and process equipment.

Table 4

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

	August 31		Variance	
	2005 Actual	2004 Actual	Dollars	Percent
Operating revenues	\$16,985,552	\$16,011,984	\$973,568	6.08%
Operating expenses				
Plant, pumping and treatment	8,476,191	7,897,842	578,349	7.32%
Operation and maintenance of wastewater line	3,707,699	3,450,082	257,617	7.47%
Sanitary engineering services	1,782,635	1,641,068	141,567	8.63%
Accounting and collecting	481,143	542,441	(61,298)	-11.30%
Administrative and general	981,905	942,813	39,092	4.15%
Total operating expenses	15,429,573	14,474,246	955,327	6.60%
Operating income	1,555,979	1,537,738	18,241	1.19%
Net nonoperating revenues	509,759	2,072,640	(1,562,881)	-75.41%
Capital contributions	4,364,378	4,501,573	(137,195)	-3.05%
Change in net assets	\$6,430,116	\$8,111,951	(\$1,681,835)	-20.73%

Financial Highlights – Fiscal Year 2005

- Operating revenues increased \$973,568 (6.08%) compared to 2004. This increase was primarily due to an increase of 7.00% user fees implemented with the billings starting in February 2004 and because of increased water usage this fiscal year. Sanitary sewer bills for residential customers are based on water usage during a two-month period during the winter and remain the same over the balance of the following ten-month period. Non-residential customers are billed for sanitary sewer based on their monthly water usage.
- Operating expenses increased \$955,327 (6.60%) compared to 2004, due to plant, pumping and treatment; operating and maintenance of wastewater lines, and sanitary engineering services expenses being higher. There was a 7.39% increase in Theresa Street Treatment Plant costs mostly attributed to an increase of solids processing costs and maintenance of structures. There was a 9.01% increase in Northeast Treatment Plant costs mostly attributed to solids processing costs and maintenance of structures and process equipment.

Debt Activity

In July 2005, the Lincoln Wastewater System issued \$18,000,000 of additional bonds to be used on construction costs.

System Credit and Bond Ratings

The outstanding revenue bonds of the System are currently rated by Standard & Poor's and Moody's. This rating takes into account the amount of unrestricted net assets maintained by the System, to which the revenue bonds' obligation of the System is pledged. Currently, the credit rating received from Standard & Poor's Rating Services is 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 \$12,600,000 at August 31, 2006.

Lincoln Wastewater System has commitments to fund Lincoln Water System's purchase of automated meter reading system equipment. Under the agreement, Lincoln Wastewater System will fund approximately \$400,000 per year for an additional one year.

Forward-Looking Information

The approved Capital Improvement Program for Fiscal Year 2006/07 - 2011/12 identifies the need for \$78,234,000 to fund capital improvements for the Wastewater System. Approximately \$67,487,000 of that total is projected to be funded by revenue bonds. Future user fee increases will also be necessary to make the needed improvements possible.

Contact Information

This financial report is intended to provide users a general overview of the System's financial performance for 2006 and 2005. If you have questions about this report or need additional financial information, please contact the Business Office of the Public Works & Utilities Department at 555 South 10th Street, Lincoln, NE 68508.

LINCOLN WASTEWATER SYSTEM

Balance Sheets

August 31, 2006 and 2005

Assets	2006	2005
Current assets:		
Equity in pooled cash and investments	\$ 2,304,158	10,286,544
Receivables:		
Accounts receivable	1,557,579	1,827,714
Unbilled revenues	1,863,030	1,738,716
Due from other funds	1,213,253	2,834,928
Impact fees	471,616	259,888
Total receivables	5,105,478	6,661,246
Inventories	151,657	141,448
Total current assets	7,561,293	17,089,238
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and investments	11,493,867	27,997,015
Investments	6,036,955	5,215,975
Total restricted assets	17,530,822	33,212,990
Utility plant	290,320,140	255,835,535
Less accumulated depreciation	64,241,546	61,088,727
Net utility plant	226,078,594	194,746,808
Unamortized bond issue costs	647,175	676,330
Total noncurrent assets	244,256,591	228,636,128
Total assets	\$ 251,817,884	245,725,366
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 320,756	252,795
Accrued liabilities	336,829	456,985
Deposits liability	10,000	7,250
Accrued compensated absences	277,917	254,424
Construction contracts	5,056,926	3,709,474
Current maturities of long-term debt	2,005,000	2,065,000
Accrued interest	643,280	557,063
Total current liabilities	8,650,708	7,302,991
Long-term liabilities:		
Long-term debt, excluding current maturities	67,755,231	69,853,810
Accrued compensated absences	155,364	155,858
Total long-term liabilities	67,910,595	70,009,668
Total liabilities	76,561,303	77,312,659
Net assets:		
Invested in capital assets, net of related debt	160,423,939	143,065,437
Restricted for debt service	2,210,193	1,937,602
Restricted for capital acquisition	471,616	259,888
Unrestricted	12,150,833	23,149,780
Total net assets	175,256,581	168,412,707
Total liabilities and net assets	\$ 251,817,884	245,725,366

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets

Years ended August 31, 2006 and 2005

	2006	2005
Operating revenues	\$ 17,997,650	16,985,552
Operating expenses:		
Plant, pumping and treatment	9,097,117	8,476,191
Operation and maintenance of wastewater lines	4,375,757	3,707,699
Sanitary engineering services	1,911,698	1,782,635
Accounting and collecting	493,263	481,143
Administrative and general	1,088,819	981,905
Total operating expenses	16,966,654	15,429,573
Operating income	1,030,996	1,555,979
Nonoperating revenues (expenses):		
Investment income	1,307,815	890,964
Interest expense	(567,884)	(1,006,277)
Amortization of bond costs	(29,154)	(25,228)
Federal grant revenue	-	650,300
Net nonoperating revenues (expenses)	710,777	509,759
Increase in net assets before contributions	1,741,773	2,065,738
Capital contributions from:		
Developers	4,580,372	3,992,211
Impact fees	521,729	372,167
Total capital contributions	5,102,101	4,364,378
Increase in net assets	6,843,874	6,430,116
Total net assets - beginning	168,412,707	161,982,591
Total net assets - ending	\$ 175,256,581	168,412,707

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2006 and 2005

	2006	2005
Operating activities:		
Receipts from customers and users	\$ 17,934,493	17,063,368
Payments to suppliers	(4,586,924)	(4,576,505)
Payments to employees	(6,578,300)	(6,081,704)
Net cash provided by operating activities	6,769,269	6,405,159
Noncapital financing activities:		
Federal grant revenue	-	650,300
Repayment from (advance) to other funds	1,621,675	(2,834,928)
Net cash provided by (used in) noncapital financing activities	1,621,675	(2,184,628)
Capital and related financing activities:		
Acquisition and construction of capital assets	(30,723,068)	(36,195,294)
Proceeds from sale of long-term debt	-	18,215,479
Principal paid on long-term debt	(2,065,000)	(1,500,000)
Interest paid on revenue bonds and project loan	(575,246)	(1,032,957)
Net cash used in capital and related financing activities	(33,363,314)	(20,512,772)
Investing activities:		
Purchases of investments	(2,216,414)	(5,234,636)
Proceeds from investment maturities	17,930,426	19,982,260
Interest on investments	1,275,972	1,277,712
Net cash provided by investing activities	16,989,984	16,025,336
Decrease in cash and cash equivalents	(7,982,386)	(266,905)
Cash and cash equivalents at beginning of year	10,286,544	10,553,449
Cash and cash equivalents at end of year	\$ 2,304,158	\$ 10,286,544
Reconciliation of net operating revenues to net cash provided by operating activities:		
Operating income	\$ 1,030,996	\$ 1,555,979
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,840,835	4,946,618
Changes in operating assets and liabilities:		
Accounts receivable	(65,907)	84,816
Inventories	(10,209)	(34,223)
Accounts payable	67,961	(226,837)
Accrued liabilities and deposit liability	(117,406)	39,259
Accrued compensated absences	22,999	39,547
Total adjustments	5,738,273	4,849,180
Net cash provided by operating activities	\$ 6,769,269	6,405,159

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$4,580,372 and \$3,992,211 were added to utility plant in 2006 and 2005, respectively.

Accounts payable incurred for utility plant purchases were \$5,056,926 and \$3,709,474 in 2006 and 2005, respectively.

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

(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. 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, as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins that do not conflict with or contradict GASB pronouncements.

The financial statements referred to above present only the Lincoln Wastewater System and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2006 and 2005, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Operating Revenues and Expenses

As an enterprise fund, the Lincoln 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 fund'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.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

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. Interest expense, net of interest earned on unspent bond proceeds, is capitalized in connection with the construction of major assets. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Contributed assets are capitalized at their fair value at the date of contribution. The cost of property retired, together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is removed from service, except for land, on which gain or loss is recognized upon disposition. Expenditures for maintenance and repairs are charged to current expenses.

Depreciation expense is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation expense recognized on contributed assets is charged to operations in accordance with similar utility assets.

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

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

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 quarterly 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 balance sheets.

Fair value of the equity in the pool is the same as the value of the pool shares determined using the fair value of the pool's underlying investment portfolio.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

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

U.S. government and government agency securities are carried at fair value as determined by quoted market values. Collateralized investment agreements are carried at contract value.

Capital Contributions

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

Unamortized Premium on Revenue Bonds

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

Inventories

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

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 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 rates were \$1.325 and \$1.205 per hundred cubic feet of water as of August 31, 2006 and 2005, respectively. The service charge rates are \$1.31 per month for a single-family dwelling unit and \$.78 for a multi-family dwelling unit as of August 31, 2006 and 2005.

Bond Issuance Costs

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

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

Net Assets Classification

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

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

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

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

Compensated Absences

Employees earn vacation days at varying rates dependent on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation which is in no case longer than 35 days. Employees earn sick leave at the rate of approximately one day per month. Upon retirement or death, an employee or their beneficiary is reimbursed for one-fourth or up to one-half 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, 2006 and 2005 are summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
August 31, 2006	\$410,282	277,423	254,424	433,281	277,917
August 31, 2005	370,735	295,283	255,736	410,282	254,424

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 financial statement presentation. These reclassifications had no effect on the change in net assets.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

(2) Deposits, Investments, and Investment Return

Deposits

State statutes require banks either to give bond or to pledge government securities to the City Treasurer in the amount of the City's deposits. The System has been allocated a portion of the City's pooled cash and investments. The City's cash deposits, including certificates of deposit, are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits or certificates of deposit in excess of the \$100,000 FDIC limits, are covered by collateral held in a Federal Reserve pledge account or by an agent for the City and thus no custodial risk exists. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Investments

The City may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to 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. None of the underlying securities for the Lincoln Wastewater System's investments at August 31, 2006 and 2005 are subject to custodial credit risk, as they are held in an account in the Lincoln Wastewater System's name, and by an agent who is not the counterparty to the investment transactions.

At August 31, 2006 and 2005, the Lincoln Wastewater System had the following investments and maturities:

Type	August 31, 2006				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$1,013,117	1,013,117	-	-	-
U.S. Agency obligations	3,793,857	-	-	3,793,857	-
Collateralized Investment Agreement	<u>1,229,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,229,981</u>
	<u>\$6,036,955</u>	<u>1,013,117</u>	<u>-</u>	<u>3,793,857</u>	<u>1,229,981</u>

Type	August 31, 2005				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$1,359,962	358,050	1,001,912	-	-
U.S. Agency obligations	<u>3,856,013</u>	<u>-</u>	<u>-</u>	<u>3,856,013</u>	<u>-</u>
	<u>\$5,215,975</u>	<u>358,050</u>	<u>1,001,912</u>	<u>3,856,013</u>	<u>-</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

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

Interest Rate Risk:

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits current operating funds to be invested with maturities of no longer than twenty-four months. Investments in construction funds, operating funds, and other non-operating funds are limited to ten year maturities. Collateralized Investment Agreements are not subject to interest rate risk, as the interest rate is guaranteed by the issuer.

Credit Risk:

Credit Risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy allows Investment Agreements with a rating at least Aa3 by Moody's Investor Service and AA- by Standards & Poor's. As of August 31, 2006 and 2005, the Lincoln Wastewater System investments in U.S. Agencies obligations not directly guaranteed by the U.S. government were rated Aaa by Moody's Investors Service and AAA by Standard and Poor's, respectively. The collateralized investment agreement was rated Aa2 by Moody's Investors Service and AA- by Standard & Poor's as of August 31, 2006.

Concentration of Credit Risk:

The City's Investment Policy places various limits on the amount that may be invested in any one issuer. Per the Policy, allocations limits do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument. As of August 31, 2006 and 2005, the Lincoln Wastewater System investments in U.S. Agencies obligations constituted 19% and 12% respectively, of its total funds available for investing. The collateralized investment agreement constituted 6% of its total funds available for investing as of August 31, 2006. The above mentioned investments were made with funds from the bond debt reserve funds established.

The carrying amount of equity interests in pooled cash and investments at August 31, 2006 and 2005 are:

	<u>2006</u>	<u>2005</u>
Equity in pooled cash and investments	\$13,798,025	38,283,559

Investment Income

Investment income for the years ended August 31, 2006 and 2005 consisted of:

	<u>2006</u>	<u>2005</u>
Interest and dividend income	\$1,229,753	1,242,351
Increase (decrease) in fair value of investments	78,062	(351,387)
	<u>\$1,307,815</u>	<u>890,964</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

(3) Utility Plant

Utility plant is summarized by major classification at August 31, 2006 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2005	Increases	Decreases	August 31, 2006	August 31, 2005	Increases	Decreases	August 31, 2006	August 31, 2006
Structures and improvements	\$ 54,243,731	317,940	(2,592,344)	51,969,327	(17,207,488)	(1,378,737)	2,592,344	(15,993,881)	35,975,446
Line equipment	10,159	-	-	10,159	(6,325)	(612)	-	(6,937)	3,222
Treatment equipment	27,970,003	17,023,132	(16,570)	44,976,565	(8,124,205)	(1,774,139)	16,570	(9,881,774)	35,094,791
Transmission mains	132,421,042	14,298,114	-	146,719,156	(32,178,243)	(2,181,160)	-	(34,359,403)	112,359,753
Environmental equipment	262,610	-	(6,859)	255,751	(100,216)	(40,080)	6,859	(133,437)	122,314
Office furniture and equipment	397,394	-	-	397,394	(181,723)	(23,113)	-	(204,836)	192,558
Shop equipment	265,170	33,522	-	298,692	(97,719)	(28,678)	-	(126,397)	172,295
Communications system	54,621	-	-	54,621	(51,158)	(2,712)	-	(53,870)	751
Laboratory equipment	473,946	25,535	(24,713)	474,768	(295,517)	(57,258)	24,713	(328,062)	146,706
Injection system	658,907	-	-	658,907	(308,148)	(14,721)	-	(322,869)	336,038
Pond and liner	520,132	-	-	520,132	(360,988)	(14,468)	-	(375,456)	144,676
Sludge injection equipment	43,906	-	-	43,906	(31,230)	(4,091)	-	(35,321)	8,585
Transmission/work equipment	236,322	-	-	236,322	(151,245)	(4,726)	-	(155,971)	80,351
Meters	3,210,591	400,000	-	3,610,591	(695,034)	(180,530)	-	(875,564)	2,735,027
Vehicles	2,149,617	140,757	(53,123)	2,237,251	(1,299,488)	(135,810)	47,530	(1,387,768)	849,483
Total depreciable assets	222,918,151	32,239,000	(2,693,609)	252,463,542	(61,088,727)	(5,840,835)	2,688,016	(64,241,546)	188,221,996
Land and land rights	2,778,024	83,545	-	2,861,569	-	-	-	-	2,861,569
Construction in progress	30,139,360	31,955,541	(27,099,872)	34,995,029	-	-	-	-	34,995,029
Total nondepreciable assets	32,917,384	32,039,086	(27,099,872)	37,856,598	-	-	-	-	37,856,598
Total capital assets	\$ 255,835,535	64,278,086	(29,793,481)	290,320,140	(61,088,727)	(5,840,835)	2,688,016	(64,241,546)	226,078,594

During 2006, Lincoln Wastewater System incurred \$3,036,138 of interest cost. Interest capitalized into construction in progress during 2006 was \$2,468,254. 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 2.31% in 2006.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

(3) Utility Plant

Utility plant is summarized by major classification at August 31, 2005 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2004	Increases	Decreases	August 31, 2005	August 31, 2004	Increases	Decreases	August 31, 2005	August 31, 2005
Structures and improvements	\$ 49,837,322	6,549,868	(2,143,459)	54,243,731	(18,021,360)	(1,329,587)	2,143,459	(17,207,488)	37,036,243
Line equipment	26,677	-	(16,518)	10,159	(22,231)	(612)	16,518	(6,325)	3,834
Treatment equipment	20,797,554	7,625,509	(453,060)	27,970,003	(7,172,981)	(1,404,284)	453,060	(8,124,205)	19,845,798
Transmission mains	106,429,665	26,050,936	(59,559)	132,421,042	(30,548,881)	(1,688,921)	59,559	(32,178,243)	100,242,799
Environmental equipment	324,839	14,318	(76,547)	262,610	(133,670)	(43,093)	76,547	(100,216)	162,394
Office furniture and equipment	1,291,313	9,510	(903,429)	397,394	(1,059,293)	(25,859)	903,429	(181,723)	215,671
Shop equipment	797,226	38,886	(570,942)	265,170	(642,436)	(26,225)	570,942	(97,719)	167,451
Communications system	553,430	-	(498,809)	54,621	(545,170)	(4,797)	498,809	(51,158)	3,463
Laboratory equipment	1,256,966	117,238	(900,258)	473,946	(1,126,017)	(69,758)	900,258	(295,517)	178,429
Injection system	843,723	6,788	(191,604)	658,907	(486,162)	(13,590)	191,604	(308,148)	350,759
Pond and liner	520,428	-	(296)	520,132	(346,817)	(14,467)	296	(360,988)	159,144
Sludge injection equipment	339,637	-	(295,731)	43,906	(322,570)	(4,391)	295,731	(31,230)	12,676
Transmission/work equipment	247,198	-	(10,876)	236,322	(157,395)	(4,726)	10,876	(151,245)	85,077
Meters	2,810,591	400,000	-	3,210,591	(534,504)	(160,530)	-	(695,034)	2,515,557
Vehicles	2,224,293	-	(74,676)	2,149,617	(1,218,386)	(155,778)	74,676	(1,299,488)	850,129
Total depreciable assets	188,300,862	40,813,053	(6,195,764)	222,918,151	(62,337,873)	(4,946,618)	6,195,764	(61,088,727)	161,829,424
Land and land rights	2,280,164	497,860	-	2,778,024	-	-	-	-	2,778,024
Construction in progress	32,311,329	34,642,375	(36,814,344)	30,139,360	-	-	-	-	30,139,360
Total nondepreciable assets	34,591,493	35,140,235	(36,814,344)	32,917,384	-	-	-	-	32,917,384
Total capital assets	\$ 222,892,355	75,953,288	(43,010,108)	255,835,535	(62,337,873)	(4,946,618)	6,195,764	(61,088,727)	194,746,808

During 2005, Lincoln Wastewater System incurred \$2,376,839 of interest cost. Interest capitalized into construction in progress during 2005 was \$1,370,562. 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 2.22% in 2005.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

(4) Long-term Debt

Long-term debt of Lincoln Wastewater System at August 31, 2006 and 2005 is summarized below:

Type of Debt	August 31, 2005	Additions	Reductions	August 31, 2006	Due Within One Year
2.0%-5.0% Wastewater Revenue & Refunding Bonds, Series 2004, due in annual principal installments on June 15, increasing from \$1,545,000 in 2007 to the final payment of \$3,450,000 in 2028.	\$51,750,000	–	1,520,000	50,230,000	1,545,000
4.0%-5.0% Wastewater Revenue Bonds Series 2005, due in annual principal installments on June 15, increasing from \$460,000 in 2007 to the final payment of \$1,130,000 in 2030.	\$18,000,000	–	545,000	17,455,000	460,000
Unamortized premium on bonds	<u>2,168,810</u>	<u>–</u>	<u>93,579</u>	<u>2,075,231</u>	<u>–</u>
	<u>\$71,918,810</u>	<u>–</u>	<u>2,158,579</u>	<u>69,760,231</u>	<u>2,005,000</u>

Type of Debt	August 31, 2004	Additions	Reductions	August 31, 2005	Due Within One Year
2.0%-5.0% Wastewater Revenue & Refunding Bonds, Series 2004, due in annual principal installments on June 15, increasing from \$1,520,000 in 2006 to the final payment of \$3,450,000 in 2028.	\$53,250,000	–	1,500,000	51,750,000	1,520,000
4.0%-5.0% Wastewater Revenue Bonds Series 2005, due in annual principal installments on June 15, increasing from \$545,000 in 2006 to the final payment of \$1,130,000 in 2030.	\$ –	18,000,000	–	18,000,000	545,000
Unamortized premium on bonds	<u>1,928,302</u>	<u>322,213</u>	<u>81,705</u>	<u>2,168,810</u>	<u>–</u>
	<u>\$55,178,302</u>	<u>18,322,213</u>	<u>1,581,705</u>	<u>71,918,810</u>	<u>2,065,000</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

(4) Long-term Debt (continued)

Maturities and sinking fund requirements on long-term debt at August 31, 2006, are shown below.

Years ending August 31	Principal	Interest	Total
2007	2,005,000	3,082,787	5,087,787
2008	2,055,000	3,024,457	5,079,457
2009	2,110,000	2,965,956	5,075,956
2010	2,165,000	2,897,756	5,062,756
2011	2,235,000	2,794,557	5,029,557
2012-2016	12,390,000	12,516,781	24,906,781
2017-2021	15,020,000	9,321,817	24,341,817
2022-2026	18,725,000	5,372,250	24,097,250
2027-2030	10,980,000	996,650	11,976,650
Total	\$67,685,000	42,973,011	110,658,011

(5) Commitments and Contingencies

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$12,600,000 at August 31, 2006.

Lincoln Wastewater System has commitments to fund Lincoln Water System's purchase of automated meter reading system equipment. Under the agreement, Lincoln Wastewater System will fund approximately \$400,000 per year, for an additional one year.

The Lincoln Wastewater System has entered into various agreements with developers to be reimbursed for eligible infrastructure construction. After construction is substantially complete, the developer will be reimbursed by the System on a quarterly basis from impact fee dollars collected within that development area. These agreements project construction costs and impact fee revenue based on the final plat at the time of acceptance of the agreement. As of August 31, 2006, the System's commitment to these developers is estimated to be \$1,300,000.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

(6) Disclosure About the Fair Value of Financial Instruments

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

- *Cash, accounts receivable and accounts payable* - The carrying amount approximates fair value because of the short maturity of these instruments.
- *Long-term debt* - The estimated fair value of the System's long-term debt is approximately \$72,900,000 as of August 31, 2006.
- *Investments* - The fair values of investments are based on quoted market prices for those investments as shown in Note 2.

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

(7) Related Party Transactions

Lincoln Wastewater participates in an automated meter reading system equipment purchasing arrangement with Lincoln Water System. Under terms of this arrangement Lincoln Water System purchases automated meter reading system equipment on behalf of Lincoln Wastewater System and bills Lincoln Wastewater System for approximately 40% of the costs of the equipment. Amounts paid to Lincoln Water System for this equipment amounted to \$400,000 for each of the years ended August 31, 2006 and 2005.

The City billed the Wastewater System approximately \$470,000 and \$393,000 for administrative services during 2006 and 2005, respectively.

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 \$471,616 and \$259,888 as of August 31, 2006 and 2005, respectively.

During 2006, the City of Lincoln general fund borrowed moneys from the pooled cash and investment account. The Wastewater System's allocated share of the borrowing was \$1,213,253 and \$2,834,928 as of August 31, 2006 and 2005, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the balance sheet.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

(8) 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 or excess coverage. The maximum exposure would be the deductible amounts for property and auto physical damage, as well as losses not covered by insurance. Lincoln 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 \$347,000 and \$347,000 in 2006 and 2005, respectively.

(9) 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 3% of earnings on the first \$4,800 and 6% on the balance of earnings. Lincoln Wastewater System contributed \$2 for every \$1 contributed by the employees. Plan participants vest in the City's contributions in year three of participation at 20% up to 100% vested in year seven. All past service costs and vested benefits are fully paid. Contributions made by the System were approximately \$487,000 and \$463,000 for 2006 and 2005, respectively. Contributions made by the plan members were approximately \$222,000 and \$210,000 for 2006 and 2005, respectively.

LINCOLN WASTEWATER SYSTEM

Schedule 1

Summary of Long-Term Debt

August 31, 2006

Due years ending August 31	Series 1977		Series 2003		Series 2005		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2007	\$ -	1,305	1,545,000	2,312,919	460,000	768,563	2,005,000	3,082,787	5,087,787
2008	-	-	1,580,000	2,274,294	475,000	750,163	2,055,000	3,024,457	5,079,457
2009	-	-	1,620,000	2,234,794	490,000	731,162	2,110,000	2,965,956	5,075,956
2010	-	-	1,660,000	2,186,194	505,000	711,563	2,165,000	2,897,757	5,062,757
2011	-	-	1,710,000	2,103,194	525,000	691,363	2,235,000	2,794,557	5,029,557
2012-2016	-	-	9,480,000	9,445,219	2,910,000	3,071,563	12,390,000	12,516,782	24,906,782
2017-2021	-	-	11,505,000	6,946,844	3,515,000	2,374,975	15,020,000	9,321,819	24,341,819
2022-2026	-	-	14,385,000	3,832,138	4,340,000	1,540,113	18,725,000	5,372,251	24,097,251
2027-2030	-	-	6,745,000	509,750	4,235,000	486,900	10,980,000	996,650	11,976,650
	\$ -	1,305	50,230,000	31,845,346	17,455,000	11,126,365	67,685,000	42,973,016	110,658,016

Operating Expenses

Years ended August 31, 2006 and 2005

	2006	2005
Plant, pumping and treatment:		
Theresa Street Treatment Plant:		
Supervision and management	\$ 296,481	295,455
Administrative and support staff	47,419	45,730
Training and education	51,585	36,084
Data management	122,919	119,938
General operations	903,351	767,188
Treatment and process control	564,637	529,268
Solids processing	1,094,452	1,115,986
Structures maintenance	189,742	257,789
Process equipment maintenance	567,307	533,923
Control system maintenance	127,297	135,901
Electrical maintenance	55,374	42,297
Grounds maintenance	45,317	48,321
Depreciation of structure and improvement	940,286	876,884
Depreciation of treatment equipment	1,315,260	1,199,862
Depreciation of meters	180,530	160,530
Depreciation of office/communications equipment	3,047	5,007
Total Theresa Street Treatment Plant	\$ 6,505,004	6,170,163
Northeast Treatment Plant:		
Supervision and management	\$ 94,368	90,238
Administrative and support staff	14,059	13,592
Training and education	17,959	18,618
Data management	41,478	56,676
General operations	382,062	308,023
Treatment and process control	176,043	172,961
Solids processing	313,044	276,502
Structures maintenance	61,596	92,871
Process equipment maintenance	166,573	164,575
Control system maintenance	70,411	45,402
Electrical maintenance	25,062	33,857
Grounds maintenance	107,775	127,590
Depreciation of structures and improvements	417,655	432,741
Depreciation of treatment system	390,967	173,895
Depreciation of injection system	38,006	37,175
Depreciation of shop and laboratory equipment	8,709	8,818
Depreciation of office/communications equipment	839	839
Total Northeast Treatment Plant	\$ 2,326,606	2,054,373

Operating Expenses, Continued

	2006	2005
Liftstations:		
Data management	\$ 957	263
General operations	25,869	23,660
Structures maintenance	10,808	11,167
Process equipment maintenance	72,895	78,468
Control system maintenance	39,311	23,007
Electrical maintenance	3,992	4,865
Grounds maintenance	2,766	1,735
Depreciation of liftstations	108,909	108,490
Total liftstations	265,507	251,655
Total plant, pumping and treatment	\$ 9,097,117	8,476,191
Operation and maintenance of wastewater lines:		
Supervision and management	\$ 223,737	235,901
Administrative and support staff	39,559	39,687
Training and education	33,885	31,390
Data management	96,241	116,640
General operations	346,991	311,720
Structures maintenance	9,098	2,399
Main repair/maintenance	279,484	168,808
Manhole repair/rehabilitation	84,397	93,328
Customer service	283,256	298,503
Cleaning maintenance	581,646	553,839
Field operations	231,341	225,052
Depreciation of structures and improvements	908	908
Depreciation of treatment equipment	63,677	23,425
Depreciation of shop and lab equipment	19,516	15,898
Depreciation of transmission mains	2,082,021	1,590,201
Total operation and maintenance of wastewater lines	\$ 4,375,757	3,707,699
Sanitary engineering services:		
Supervision and management	\$ 366,784	334,819
Administrative and support staff	45,555	36,187
Training and education	10,407	10,882
Data management	255,148	244,713
Laboratory operations	670,187	624,174
Field operations	446,569	396,601
Depreciation of structures and improvements	14,449	14,449
Depreciation of treatment equipment	516	516
Depreciation of office/communications equipment	4,627	7,131
Depreciation of shop and laboratory equipment	97,456	113,163
Total sanitary engineering services	\$ 1,911,698	1,782,635

Operating Expenses, Continued

	2006	2005
Accounting and collecting:		
Supervision and management	\$ 132,517	106,171
Administrative and support staff	524	555
Meter reading	100,636	111,211
Billing and accounting	127,540	132,793
Collections	82,203	79,956
Customer services and billing	28,212	28,889
Customer contracts and orders	21,631	21,568
Total accounting and collecting	\$ 493,263	481,143
Administrative and general:		
Supervision and management	\$ 980,835	846,177
Administrative and support staff	52,689	78,370
Delivery service	37,648	36,449
Depreciation of office and communication equipment	17,647	20,909
Total administrative and general	\$ 1,088,819	981,905

LINCOLN WASTEWATER SYSTEM

Schedule 3

Utility Plant in Service

August 31, 2006

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2005	Increases	Decreases	August 31, 2006	August 31, 2005	Increases	Decreases	August 31, 2006	August 31, 2006
Theresa Street Plant:									
Structures and improvements	\$ 37,926,823	255,286	(1,528,419)	36,653,690	(10,242,969)	(957,641)	1,528,419	(9,672,191)	26,981,499
Line equipment	10,159	-	-	10,159	(6,325)	(612)	-	(6,937)	3,222
Treatment equipment	24,130,559	170,915	(7,770)	24,293,704	(7,587,576)	(1,386,614)	7,770	(8,966,420)	15,327,284
Transmission mains	132,421,042	14,298,114	-	146,719,156	(32,179,928)	(2,181,160)	-	(34,361,088)	112,358,068
Environmental equipment	262,610	-	(6,859)	255,751	(100,216)	(40,080)	6,859	(133,437)	122,314
Office furniture and equipment	385,981	-	-	385,981	(179,580)	(22,274)	-	(201,854)	184,127
Shop equipment	114,868	33,522	-	148,390	(63,663)	(19,969)	-	(83,632)	64,758
Communications system	54,621	-	-	54,621	(51,158)	(2,712)	-	(53,870)	751
Laboratory equipment	473,946	25,535	(24,713)	474,768	(295,517)	(57,258)	24,713	(328,062)	146,706
Meters	3,210,591	400,000	-	3,610,591	(695,034)	(180,530)	-	(875,564)	2,735,027
Theresa Street depreciable assets	198,991,200	15,183,372	(1,567,761)	212,606,811	(51,401,966)	(4,848,850)	1,567,761	(54,683,055)	157,923,756
Land and land rights	723,649	83,545	-	807,194	-	-	-	-	807,194
Theresa Street nondepreciable assets	723,649	83,545	-	807,194	-	-	-	-	807,194
Total Theresa Street Plant	199,714,849	15,266,917	(1,567,761)	213,414,005	(51,401,966)	(4,848,850)	1,567,761	(54,683,055)	158,730,950
Northeast Plant:									
Structures and improvements	16,316,908	62,654	(1,063,925)	15,315,637	(6,964,519)	(421,096)	1,063,925	(6,321,690)	8,993,947
Treatment equipment	3,839,444	16,852,217	(8,800)	20,682,861	(536,629)	(387,525)	8,800	(915,354)	19,767,507
Office furniture and equipment	11,413	-	-	11,413	(2,143)	(839)	-	(2,982)	8,431
Shop and work equipment	150,302	-	-	150,302	(34,056)	(8,709)	-	(42,765)	107,537
Laboratory equipment	-	-	-	-	-	-	-	-	-
Injection system	658,907	-	-	658,907	(308,148)	(14,721)	-	(322,869)	336,038
Pond and liner	520,132	-	-	520,132	(360,988)	(14,468)	-	(375,456)	144,676
Sludge injection equipment	43,906	-	-	43,906	(31,230)	(4,091)	-	(35,321)	8,585
Transmission mains	-	-	-	-	1,685	0	-	1,685	1,685
Transmission/work equipment	236,322	-	-	236,322	(151,245)	(4,726)	-	(155,971)	80,351
Northeast depreciable assets	21,777,334	16,914,871	(1,072,725)	37,619,480	(8,387,273)	(856,175)	1,072,725	(8,170,723)	29,448,757
Land and land rights	2,054,375	-	-	2,054,375	-	-	-	-	2,054,375
Northeast nondepreciable assets	2,054,375	-	-	2,054,375	-	-	-	-	2,054,375
Total Northeast Plant	23,831,709	16,914,871	(1,072,725)	39,673,855	(8,387,273)	(856,175)	1,072,725	(8,170,723)	31,503,132
Vehicles and work equipment (all locations)	2,149,617	140,757	(53,123)	2,237,251	(1,299,488)	(135,810)	47,530	(1,387,768)	849,483
Utility plant in service	\$ 225,696,175	32,322,545	(2,693,609)	255,325,111	(61,088,727)	(5,840,835)	2,688,016	(64,241,546)	191,083,565
Construction in progress	30,139,360	31,955,541	(27,099,872)	34,995,029	-	-	-	-	34,995,029
Total capital assets	\$ 255,835,535	64,278,086	(29,793,481)	290,320,140	(61,088,727)	(5,840,835)	2,688,016	(64,241,546)	226,078,594

LINCOLN WASTEWATER SYSTEM**GENERAL STATISTICS****Year Ended August 31, 2006**

(Unaudited)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	85.76 Square Miles
Population	241,700 Estimate
Total Miles of Wastewater Mains & Collector Lines In Use:	
Miles in use September 1, 2005	960.4
Estimated Added During Year	17.5
Estimated Removed During Year	0.0
Total as of August 31, 2006	977.9 Miles
Number of Wastewater Lift (Pumping) Stations:	14
Number of Stormwater Pumping Stations:	4
Plant Capacity:	
Theresa Street Treatment Plant	27.4 million gallons per day
Northeast Treatment Plant	10.0 million gallons per day
Average Daily Flow:	
Theresa Street Treatment Plant	19.23 million gallons per day
Northeast Treatment Plant	4.22 million gallons per day
Total Number of Active Wastewater Customers	
End of Fiscal Year	75,573
Debt of Lincoln Wastewater System as of August 31, 2006	\$67,685,000

LINCOLN WASTEWATER SYSTEM**TOP TEN CUSTOMERS****Year Ended August 31, 2006**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	333,407	\$458,231
2. State of Nebraska	254,721	338,514
3. Archer-Daniels Midland Company	155,378	215,944
4. BryanLGH Medical Center	105,784	140,044
5. Lincoln Public Schools	105,696	148,901
6. Kawasaki	92,847	127,870
7. Lincoln Housing Authority	91,986	143,429
8. Pfizer Animal Health	85,762	121,264
9. ConAgra Refrigerator Foods	77,887	106,141
10. Lincoln Plating	77,828	107,357
Top Ten User Totals	1,381,296	\$1,907,695



06R-155

Introduce: 8-14-06

(Substitute)
RESOLUTION NO. A- 83987

1 WHEREAS, the City Council of Lincoln, Nebraska, is authorized under Sections 17.60.020
2 and 17.60.030 of the Lincoln Municipal Code to establish wastewater charges for all customers of
3 the Lincoln Wastewater System.

4 WHEREAS, Both the Mayor’s Advisory Committees, Streets, Roads and Trails (SRT) and
5 the Mayor’s Infrastructure Finance Committee (MIFC) support the wastewater rate increases
6 proposed by the City’s Public Works & Utilities Department over the next 10 years, to help finance
7 the infrastructure needs identified in the City’s Capital Improvement Program. The current
8 projections acknowledge the need for approval of a 8% increase for Fiscal Year 2006-07; a 9%
9 increase for Fiscal Year 2007-08; and a 9% increase for Fiscal Year 2008-09.

10 WHEREAS, Lincoln’s wastewater infrastructure is a necessary component and is required
11 under city charter to be provided to all areas served within the city limits.

12 And WHEREAS, Lincoln’s wastewater rates have historically remained low, and even with
13 the proposed rate increases will continue this tradition of competitive rates within the region and
14 nationally.

15 NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Lincoln,
16 Nebraska:

17 Effective with the billing cycle commencing on November 15, 2006, the following schedule
18 of wastewater use charges is hereby established and adopted:

BASIC WASTEWATER USE CHARGE

- 19 (a) The basic wastewater use unit charge is hereby established as 144.0 cents.
- 20 (b) For any given residential property, the basic wastewater use charge for each billing cycle
- 21

1 shall be determined by multiplying for each such cycle the total amount of water, in hundreds of
2 cubic feet, metered for said property during a billing cycle chosen by the Director from the most
3 recent past winter, by the basic wastewater use unit charge.

4 In the case of change of occupancy of residential property, if the Director reasonably
5 determines that to compute the basic wastewater use charge for a given billing cycle upon the
6 amount of water used by such property during such winter billing cycle would be inequitable either
7 to the City or to the user, he shall use the average amount of water used by like users during such
8 winter billing cycle to compute such charge.

9 (c) For any non-residential property, the basic wastewater use charge for a given billing cycle
10 shall be determined by multiplying for each cycle the amount of water or wastewater, in hundreds
11 of cubic feet, measured for said property during such cycle, by the basic wastewater use unit charge.

12 (d) Non-residential users shall be given credit, at the same rate, for water not discharged into
13 the sanitary sewers provided such water is separately metered with the approval of the Public
14 Utilities Department and at the customer's expense.

15 (e) Where a wastewater flow meter or other wastewater measuring device is required or
16 permitted by the Director and is used to measure the volume of wastewater discharged into the
17 Lincoln Wastewater System, such wastewater use charge shall be computed thereon at the basic
18 wastewater use unit charge.

19 SERVICE CHARGE

20 Regardless of whether a wastewater meter is used, there shall be a service charge per month
21 to each property using the Lincoln Wastewater System, determined by the number and size of the
22 water meters serving such property, to-wit:

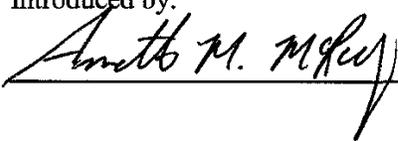
	WATER METER SIZE	SERVICE CHARGE
1		
2	5/8 inch	\$ 1.31
3	3/4 inch	1.31
4	1 inch	1.31
5	1-1/2 inch	2.62
6	2 inch	5.24
7	3 inch	11.79
8	4 inch	20.96
9	6 inch	47.17
10	8 inch	83.85
11	10 inch	131.02

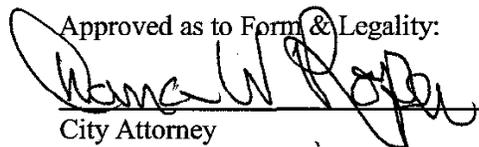
12 The minimum service charge for a multiple dwelling unit or a mobile home shall be at least
 13 \$0.78 per dwelling unit or mobile home hookup space per month. In those instances where fire
 14 protection considerations dictate that a water meter larger than 1-inch service a single-family
 15 dwelling unit located on a single lot, the monthly service charge shall be \$1.31 per dwelling unit.

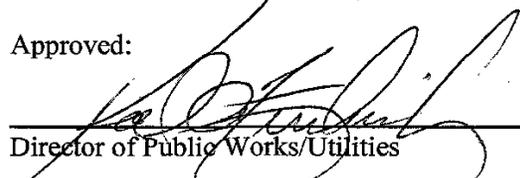
16 WASTEWATER RATES TO CUSTOMERS OUTSIDE
 17 THE CITY LIMITS

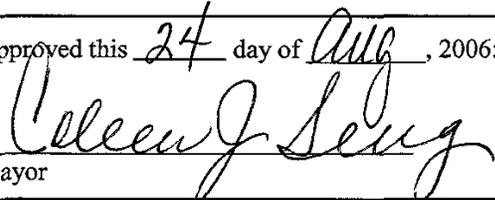
18 Customers located outside the City Limits of Lincoln and served by the Lincoln Wastewater
 19 System shall pay the same Wastewater rates charged to customers within the City Limits of Lincoln
 20 for service furnished them by the Lincoln Wastewater System.

21 BE IT FURTHER RESOLVED that Resolution No. A-83458, adopted by the City Council
 on August 1, 2005 is hereby superseded.

Introduced by:


Approved as to Form & Legality:

 City Attorney

Approved:

 Director of Public Works/Utilities

Approved this 24 day of Aug, 2006:

 Mayor

ADOPTED

AUG 21 2006

BY CITY COUNCIL

Lincoln Wastewater System

Summary of Insurance Coverage

August 31, 2006

(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 - 5,000,000	250,000		Genesis	YXB300909C
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	FM212
Money and Securities	Inside/outside premises	50,000	500	0	Fidelity & Deposit	CCP003595
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FM212
Equipment Floater (NON-LIC)	Non-licensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM212
Equipment Floater (Sanitary)	Inspection scheduled equipment	Replacement cost	50,000	2,500	FM Global	FM212
General Liability ***	\$1,000,000 occurrence/\$5,000,000 aggregate	5,000,000	250,000	0	Genesis	YXB300909C
Public Employee Blanket Bond	Employees blanket bond coverage	1,000,000	25,000	0	Fidelity & Deposit	CCP 003 05 95
Public Officials Liability***	\$1,000,000 occurrence	5,000,000	250,000	0	Genesis	YXB300909C
Workers' Compensation Excess	Policy has \$25,000,000 limit	25,000,000	500,000	0	Safety National	SP-2A04-NE

** Self-insured for both comp & collision.

LINCOLN WASTEWATER SYSTEM

Summary of Insurance Coverage

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

AUTOMOBILE INSURANCE

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

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

PROPERTY INSURANCE

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

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

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

Inland Marine Floaters: Provides physical damage coverage for specifically scheduled property. Current floaters insured include: data processing equipment, 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.



Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the financial statements of Lincoln Wastewater System as of and for the year ended August 31, 2006, and have issued our report thereon dated November 3, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lincoln Wastewater System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lincoln Wastewater System's financial statements are free of 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*.

We noted certain matters that we reported to the Lincoln Wastewater System's management in a separate letter dated November 3, 2006.

This report is intended solely for the information and use of the governing body and management and is not intended to be and should not be used by anyone other than these specified parties.

November 3, 2006

1221 N Street, Suite 600 Lincoln, Nebraska 68508-4030 402 473-7600 Fax 402 473-7698

1120 South 101st Street, Suite 410 Omaha, Nebraska 68124-1088 402 392-1040 Fax 402 392-1772