

# LINCOLN WASTEWATER SYSTEM

## Financial Statements & Schedules

Fiscal Year Ended August 31, 2007



Theresa Street Treatment Plant

**ANNUAL FINANCIAL REPORT**

**DEPARTMENT OF PUBLIC WORKS/UTILITIES**

**CITY OFFICIALS**

Chris Beutler ..... Mayor

**COUNCIL MEMBERS**

Dan Marvin ..... Chair

Robin Eschliman ..... Vice-Chair

Jon Camp  
Jonathan Cook  
Ken Svoboda  
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**WASTEWATER SYSTEM**

Karl Fredrickson ..... Director of Public Works/Utilities

# Lincoln Wastewater System

August 31, 2007 and 2006

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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, 2007 and 2006, 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, 2007 and 2006, 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, 2007 and 2006, 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 28, 2007 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 read in conjunction with this report in considering the results of our audit.

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 28, 2007

## **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, 2007 and 2006. 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 \$5,616,750 (3.20%) in 2007 over 2006 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, 2007, 2006, and 2005.

**Table 1**

### Condensed Balance Sheets

	August 31		Variance	
	2007	2006	Dollars	Percent
Current assets	\$ 10,416,112	\$ 7,561,293	\$ 2,854,819	37.76%
Capital assets	239,055,048	226,078,594	12,976,454	5.74%
Long-term investments	24,687,591	17,530,822	7,156,769	40.82%
Deferred charges	860,136	647,175	212,961	32.91%
<b>Total assets</b>	<b>275,018,887</b>	<b>251,817,884</b>	<b>23,201,003</b>	<b>9.21%</b>
Current liabilities	8,263,459	8,650,708	(387,249)	-4.48%
Long-term liabilities	85,882,097	67,910,595	17,971,502	26.46%
<b>Total liabilities</b>	<b>94,145,556</b>	<b>76,561,303</b>	<b>17,584,253</b>	<b>22.97%</b>
Net assets				
Invested in capital assets, net of related debt	173,291,909	160,423,939	12,867,970	8.02%
Restricted for debt service	410,983	2,210,193	(1,799,210)	-81.41%
Restricted for capital acquisition	687,874	471,616	216,258	45.85%
Unrestricted	6,482,565	12,150,833	(5,668,268)	-46.65%
<b>Total net assets</b>	<b>180,873,331</b>	<b>175,256,581</b>	<b>5,616,750</b>	<b>3.20%</b>
<b>Total liabilities and net assets</b>	<b>\$275,018,887</b>	<b>\$251,817,884</b>	<b>\$23,201,003</b>	<b>9.21%</b>

### Financial Highlights – Fiscal Year 2007

- Total assets at year-end were \$275,018,887 and exceeded total liabilities by \$180,873,331, which results in an improved positive net assets position.
- Current assets increased by \$2,854,819 (37.76%) primarily due to operating profits being retained as working capital.
- Capital assets increased by \$12,976,454 (5.74%) from \$226,078,594 as of the end of the Fiscal Year 2006 to \$239,055,048 as of the end of Fiscal Year 2007. Major project additions included:
  - Trunk Sewer Mains – approximately \$7,937,000
  - Theresa Street Treatment Plant – approximately \$5,724,000
- Long-term investments increased by \$7,156,769 (40.82%) because of the issuance of revenue bonds in April 2007.

- There was a decrease of \$387,249 (-4.48%) in current liabilities primarily because a number of construction projects were completed and paid for this fiscal year.
- Long-term liabilities increased by \$17,971,502 (26.46%) from that of the previous fiscal year because of debt service requirements on the revenue bonds issued in April of 2007.

**Table 2**

**Condensed Balance Sheets**

	August 31		Variance	
	2006	2005	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%
<b>Total assets</b>	<b>251,817,884</b>	<b>245,725,366</b>	<b>6,092,518</b>	<b>2.48%</b>
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%
<b>Total liabilities</b>	<b>76,561,303</b>	<b>77,312,659</b>	<b>(751,356)</b>	<b>-0.97%</b>
<b>Net assets</b>				
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%
<b>Total net assets</b>	<b>175,256,581</b>	<b>168,412,707</b>	<b>6,843,874</b>	<b>4.06%</b>
<b>Total liabilities and net assets</b>	<b>\$251,817,884</b>	<b>\$245,725,366</b>	<b>\$6,092,518</b>	<b>2.48%</b>

**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
  - Trunk Sewer Improvement 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.
- Deferred charges of unamortized bond issue costs decreased in the amount of \$29,155 (-4.31%).
- 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 3**

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

	August 31		Variance	
	2007	2006	Dollars	Percent
Operating revenues	\$19,402,047	\$17,973,040	\$1,429,007	7.95%
Operating expenses				
Plant, pumping and treatment	9,432,709	9,097,117	335,592	3.69%
Operation and maintenance of wastewater line	4,544,944	4,375,757	169,187	3.87%
Sanitary engineering services	1,985,528	1,911,698	73,830	3.86%
Accounting and collecting	448,329	493,263	(44,934)	-9.11%
Administrative and general	1,143,712	1,088,819	54,893	5.04%
Total operating expenses	17,555,222	16,966,654	588,568	3.47%
Operating income	1,846,825	1,006,386	840,439	83.51%
Net nonoperating revenues	722,248	710,777	11,471	1.61%
Capital contributions	3,047,677	5,126,711	(2,079,033)	-40.55%
Change in net assets	\$ 5,616,750	\$ 6,843,874	(\$1,227,123)	-17.93%

**Financial Highlights – Fiscal Year 2007**

- Operating revenues increased \$1,429,007 (7.95%) compared to 2006. This increase was primarily due to an increase of 9.00% user fees implemented with the billings starting in February 2007 and because of increased water usage during sanitary sewer basis period 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.
- Developer capital contributions decreased approximately \$2,100,000 from 2006 to 2007 due to fewer projects being completed.

**Table 4**

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

	August 31		Variance	
	2006	2005	Dollars	Percent
Operating revenues	\$17,973,040	\$16,985,552	\$ 987,488	5.81%
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	1,006,386	1,555,979	(549,593)	-35.32%
Net nonoperating revenues	710,777	509,759	201,018	39.43%
Capital contributions	5,126,711	4,364,378	762,333	17.47%
Change in net assets	\$ 6,843,874	\$ 6,430,116	\$ 413,758	6.43%

**Financial Highlights – Fiscal Year 2006**

- Operating revenues increased \$987,488 (5.81%) compared to 2005. This increase was primarily due to an increase of 9.00% user fees implemented with the billings starting in February 2006. 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.

### ***Debt Activity***

In April 2007, the Lincoln Wastewater System issued \$20,460,000 of additional bonds to be used on construction costs.

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.

### ***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 \$10,500,000 at August 31, 2007.

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

The approved Capital Improvement Program for Fiscal Year 2007/08 - 2012/13 identifies the need for \$85,814,200 to fund capital improvements for the Wastewater System. Approximately \$75,019,000 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 2007 and 2006. 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

## Balance Sheets

August 31, 2007 and 2006

Assets	2007	2006
Current assets:		
Equity in pooled cash and investments	\$ 4,872,559	2,304,158
Receivables:		
Accounts receivable	1,373,610	1,557,579
Unbilled revenues	1,970,331	1,863,030
Due from other funds	1,418,049	1,213,253
Impact fees	687,874	471,616
Total receivables	5,449,864	5,105,478
Inventories	93,689	151,657
Total current assets	10,416,112	7,561,293
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and investments	18,283,407	11,493,867
Investments	6,404,184	6,036,955
Total restricted assets	24,687,591	17,530,822
Utility plant	309,363,282	290,320,140
Less accumulated depreciation	70,308,234	64,241,546
Net utility plant	239,055,048	226,078,594
Unamortized bond issue costs	860,136	647,175
Total noncurrent assets	264,602,775	244,256,591
Total assets	\$ 275,018,887	251,817,884
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 288,049	320,756
Accrued liabilities	372,864	336,829
Deposits liability	4,000	10,000
Accrued compensated absences	298,861	277,917
Construction contracts	3,932,978	5,056,926
Current maturities of long-term debt	2,415,000	2,005,000
Accrued interest	951,707	643,280
Total current liabilities	8,263,459	8,650,708
Long-term liabilities:		
Long-term debt, excluding current maturities	85,695,062	67,755,231
Accrued compensated absences	187,035	155,364
Total long-term liabilities	85,882,097	67,910,595
Total liabilities	94,145,556	76,561,303
Net assets:		
Invested in capital assets, net of related debt	173,291,909	160,423,939
Restricted for debt service	410,983	2,210,193
Restricted for capital acquisition	687,874	471,616
Unrestricted	6,482,565	12,150,833
Total net assets	180,873,331	175,256,581
Total liabilities and net assets	\$ 275,018,887	251,817,884

See accompanying notes to financial statements.

## LINCOLN WASTEWATER SYSTEM

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

Years ended August 31, 2007 and 2006

	2007	2006
Operating revenues	\$ 19,402,047	17,973,040
Operating expenses:		
Plant, pumping and treatment	9,432,709	9,097,117
Operation and maintenance of wastewater lines	4,544,944	4,375,757
Sanitary engineering services	1,985,528	1,911,698
Accounting and collecting	448,329	493,263
Administrative and general	1,143,712	1,088,819
Total operating expenses	17,555,222	16,966,654
Operating income	1,846,825	1,006,386
Nonoperating revenues (expenses):		
Investment income	1,256,533	1,307,815
Interest expense	(642,414)	(567,884)
Amortization of bond costs	(33,217)	(29,154)
Federal grant revenue	141,346	-
Net nonoperating revenues (expenses)	722,248	710,777
Increase in net assets before capital contributions	2,569,073	1,717,163
Capital contributions from:		
Developers	2,547,514	4,580,372
Tap fees	30,802	24,610
Impact fees	469,361	521,729
Total capital contributions	3,047,677	5,126,711
Increase in net assets	5,616,750	6,843,874
Total net assets - beginning	175,256,581	168,412,707
Total net assets - ending	\$ 180,873,331	175,256,581

See accompanying notes to financial statements.

# LINCOLN WASTEWATER SYSTEM

## Statements of Cash Flows

Years ended August 31, 2007 and 2006

	2007	2006
Operating activities:		
Receipts from customers and users	\$ 19,256,457	17,909,883
Payments to suppliers	(5,074,071)	(4,586,924)
Payments to employees	(6,274,982)	(6,578,300)
Net cash provided by operating activities	7,907,404	6,744,659
Noncapital financing activities:		
Federal grant revenue	141,346	-
Repayment from (advance) to other funds	(204,796)	1,621,675
Net cash provided by (used in) noncapital financing activities	(63,450)	1,621,675
Capital and related financing activities:		
Acquisition and construction of capital assets	(17,144,983)	(30,698,458)
Proceeds from revenue bonds	20,202,038	-
Principal paid on revenue bonds	(2,005,000)	(2,065,000)
Interest paid on revenue bonds	(427,372)	(575,246)
Net cash provided by (used in) capital and related financing activities	624,683	(33,338,704)
Investing activities:		
Purchases of investments	(10,870,376)	(2,216,414)
Proceeds from investment maturities	4,039,834	17,930,426
Interest on investments	930,306	1,275,972
Net cash provided by (used in) investing activities	(5,900,236)	16,989,984
Increase (decrease) in cash and cash equivalents	2,568,401	(7,982,386)
Cash and cash equivalents at beginning of year	2,304,158	10,286,544
Cash and cash equivalents at end of year	\$ 4,872,559	\$ 2,304,158
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 1,846,825	\$ 1,006,386
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,092,258	5,840,835
Changes in operating assets and liabilities:		
Accounts receivable	(139,590)	(65,907)
Inventories	57,968	(10,209)
Accounts payable	(32,707)	67,961
Accrued liabilities and deposit liability	30,035	(117,406)
Accrued compensated absences	52,615	22,999
Total adjustments	6,060,579	5,738,273
Net cash provided by operating activities	\$ 7,907,404	6,744,659

### Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$2,547,514 and \$4,580,372 were added to utility plant in 2007 and 2006, respectively.

Accounts payable incurred for utility plant purchases were \$3,932,978 and \$5,056,926 in 2007 and 2006, respectively.

See accompanying notes to financial statements.

# LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2007 and 2006

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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. 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, 2007 and 2006, 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, 2007 and 2006

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## ***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 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 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, 2007 and 2006

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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 \$1.44 and \$1.325 per hundred cubic feet of water as of August 31, 2007 and 2006, 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, 2007 and 2006.

### ***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, 2007 and 2006

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## ***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, 2007 and 2006 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, 2007	\$433,281	330,532	277,917	485,896	298,861
August 31, 2006	410,282	277,423	254,424	433,281	277,917

## ***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 2006 financial statements to conform to the 2007 financial statement presentation. These reclassifications had no effect on the change in net assets.

(Continued)

# LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2007 and 2006

## (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.

### *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, 2007 and 2006 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, 2007 and 2006, the Lincoln Wastewater System had the following investments and maturities:

Type	August 31, 2007				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Agency obligations	\$5,174,203	-	1,333,109	3,841,094	-
Collateralized Investment Agreement	<u>1,229,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,229,981</u>
	<u>\$6,404,184</u>	<u>-</u>	<u>1,333,109</u>	<u>3,841,094</u>	<u>1,229,981</u>

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>

(Continued)

# LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2007 and 2006

## (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, 2007 and 2006, 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. The collateralized investment agreement was rated Aaa and Aa2 by Moody's Investors Service and AA- by Standard & Poor's as of August 31, 2007 and 2006, respectively.

### 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, 2007 and 2006, the Lincoln Wastewater System investments in U.S. Agencies obligations constituted 17% and 19% respectively, and the collateralized investment agreement constituted 4% and 6% respectively, of its total funds available for investing. 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, 2007 and 2006, are:

	<u>2007</u>	<u>2006</u>
Equity in pooled cash and investments	\$23,155,966	13,798,025

### **Investment Income**

Investment income for the years ended August 31, 2007 and 2006, consisted of:

	<u>2007</u>	<u>2006</u>
Interest and dividend income	\$1,033,563	1,229,753
Net increase in fair value of investments	222,970	78,062
	<u>\$1,256,533</u>	<u>1,307,815</u>

(Continued)

# LINCOLN WASTEWATER SYSTEM

## Notes to Financial Statements

August 31, 2007 and 2006

### (3) Utility Plant

Utility plant is summarized by major classification at August 31, 2007 as follows:

Asset Class	Capital Assets			Accumulated Depreciation			Net Capital Assets		
	August 31, 2006	Increases	Decreases	August 31, 2007	August 31, 2006	Increases	Decreases	August 31, 2007	
Structures and improvements	\$ 51,969,327	817,882	-	52,787,209	(15,993,881)	(1,214,877)	-	(17,208,758)	35,578,451
Line equipment	10,159	-	-	10,159	(6,937)	(612)	-	(7,549)	2,610
Treatment equipment	44,976,565	427,127	-	45,403,692	(9,881,774)	(1,944,906)	-	(11,826,680)	33,577,012
Transmission mains	146,719,156	12,830,115	-	159,549,271	(34,359,403)	(2,413,337)	-	(36,772,740)	122,776,531
Environmental equipment	255,751	31,390	-	287,141	(133,437)	(43,314)	-	(176,751)	110,390
Office furniture and equipment	397,394	5,176	-	402,570	(204,836)	(20,832)	-	(225,668)	176,902
Shop equipment	298,692	-	(6,904)	291,788	(126,397)	(26,085)	6,903	(145,579)	146,209
Communications system	54,621	8,558	-	63,179	(53,870)	(999)	-	(54,869)	8,310
Laboratory equipment	474,768	-	-	474,768	(328,062)	(46,191)	-	(374,253)	100,515
Injection system	658,907	-	-	658,907	(322,869)	(14,721)	-	(337,590)	321,317
Pond and liner	520,132	-	-	520,132	(375,456)	(14,468)	-	(389,924)	130,208
Sludge injection equipment	43,906	-	-	43,906	(35,321)	(4,030)	-	(39,351)	4,555
Transmission/work equipment	236,322	-	-	236,322	(155,971)	(4,726)	-	(160,697)	75,625
Meters	3,610,591	400,000	-	4,010,591	(875,564)	(200,530)	-	(1,076,094)	2,934,497
Vehicles	2,237,251	128,968	(31,885)	2,334,334	(1,387,768)	(142,630)	18,667	(1,511,731)	822,603
Total depreciable assets	252,463,542	14,649,216	(38,789)	267,073,969	(64,241,546)	(6,092,258)	25,570	(70,308,234)	196,765,735
Land and land rights	2,861,569	323,228	-	3,184,797	-	-	-	-	3,184,797
Construction in progress	34,995,029	15,949,354	(11,839,867)	39,104,516	-	-	-	-	39,104,516
Total nondepreciable assets	37,856,598	16,272,582	(11,839,867)	42,289,313	-	-	-	-	42,289,313
Total capital assets	\$ 290,320,140	30,921,798	(11,878,656)	309,363,282	(64,241,546)	(6,092,258)	25,570	(70,308,234)	239,055,048

During 2007, Lincoln Wastewater System incurred \$3,297,828 of interest cost. Interest capitalized into construction in progress during 2007 was \$2,655,414. 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 2.28% in 2007.

# LINCOLN WASTEWATER SYSTEM

## Notes to Financial Statements

August 31, 2007 and 2006

### (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
<b>Total depreciable assets</b>	<b>222,918,151</b>	<b>32,239,000</b>	<b>(2,693,609)</b>	<b>252,463,542</b>	<b>(61,088,727)</b>	<b>(5,840,835)</b>	<b>2,688,016</b>	<b>(64,241,546)</b>	<b>188,221,996</b>
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
<b>Total nondepreciable assets</b>	<b>32,917,384</b>	<b>32,039,086</b>	<b>(27,099,872)</b>	<b>37,856,598</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37,856,598</b>
<b>Total capital assets</b>	<b>\$ 255,835,535</b>	<b>64,278,086</b>	<b>(29,793,481)</b>	<b>290,320,140</b>	<b>(61,088,727)</b>	<b>(5,840,835)</b>	<b>2,688,016</b>	<b>(64,241,546)</b>	<b>226,078,594</b>

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, 2007 and 2006

### (4) Long-term Debt

Long-term debt of Lincoln Wastewater System at August 31, 2007 and 2006 is summarized below:

Type of Debt	August 31, 2006	Additions	Reductions	August 31, 2007	Due Within One Year
2.0%-5.0% Wastewater Revenue & Refunding Bonds, Series 2004, due in annual principal installments on June 15, increasing from \$1,580,000 in 2008 to the final payment of \$3,450,000 in 2028.	\$50,230,000	–	1,545,000	48,685,000	1,580,000
4.0%-5.0% Wastewater Revenue Bonds Series 2005, due in annual principal installments on June 15, increasing from \$475,000 in 2008 to the final payment of \$1,130,000 in 2030.	\$17,455,000	–	460,000	16,995,000	475,000
4.0%-4.5% Wastewater Revenue Bonds Series 2007, due in annual principal installments on June 15, increasing from \$360,000 in 2008 to the final payment of \$1,145,000 in 2032.	–	20,460,000	–	20,460,000	360,000
Unamortized premium on bonds	<u>2,075,231</u>	<u>(11,784)</u>	<u>93,385</u>	<u>1,970,062</u>	<u>–</u>
	<u>\$69,760,231</u>	<u>20,448,216</u>	<u>2,098,385</u>	<u>88,110,062</u>	<u>2,415,000</u>

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><del>\$71,918,810</del></u>	<u><del>–</del></u>	<u><del>2,158,579</del></u>	<u><del>69,760,231</del></u>	<u><del>2,005,000</del></u>

(Continued)

# LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2007 and 2006

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

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.

The net revenues derived from the operations of Lincoln Wastewater System and any future extensions, additions, and improvements to the wasteworks system are pledged as security for the revenue bonds.

Maturities and sinking fund requirements on long-term debt at August 31, 2007, are shown below.

Years ending August 31	Principal	Interest	Total
2008	2,415,000	4,030,454	6,445,454
2009	2,620,000	3,820,044	6,440,044
2010	2,695,000	3,731,444	6,426,444
2011	2,785,000	3,607,044	6,392,044
2012	2,880,000	3,504,194	6,384,194
2013-2017	16,055,000	15,535,540	31,590,540
2018-2022	19,585,000	11,492,120	31,077,120
2023-2027	24,420,000	6,470,296	30,890,296
2028-2032	12,685,000	1,282,208	13,967,208
Total	\$86,140,000	53,473,344	139,613,344

## (5) Commitments and Contingencies

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$10,500,000 at August 31, 2007.

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, 2007, the System's commitment to these developers is estimated to be approximately \$4,160,000.

(Continued)



# LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2007 and 2006

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## (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 \$89,116,000 based on borrowing rates currently available as of August 31, 2007.
- *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

The City billed the Wastewater System approximately \$485,000 and \$470,000 for administrative services during 2007 and 2006, 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 \$687,874 and \$471,616 as of August 31, 2007 and 2006, respectively.

During 2007, 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 \$1,418,049 and \$1,213,253 as of August 31, 2007 and 2006, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the balance sheets.

(Continued)

# LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2007 and 2006

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## **(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 \$362,000 and \$347,000 in 2007 and 2006, 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 \$480,000 and \$487,000 for 2007 and 2006, respectively. Contributions made by the plan members were approximately \$219,000 and \$222,000 for 2007 and 2006, respectively.

**LINCOLN WASTEWATER SYSTEM**

Schedule 1

Summary of Long-Term Debt

August 31, 2007

Due years ending August 31	Series 2003		Series 2005		Series 2007		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2008	\$ 1,580,000	2,274,294	475,000	750,162	360,000	1,005,998	2,415,000	4,030,454	6,445,454
2009	1,620,000	2,234,794	490,000	731,162	510,000	854,088	2,620,000	3,820,044	6,440,044
2010	1,660,000	2,186,194	505,000	711,562	530,000	833,688	2,695,000	3,731,444	6,426,444
2011	1,710,000	2,103,194	525,000	691,362	550,000	812,488	2,785,000	3,607,044	6,392,044
2012	1,770,000	2,043,344	540,000	670,362	570,000	790,488	2,880,000	3,504,194	6,384,194
2013-2017	9,825,000	9,011,590	3,020,000	2,932,310	3,210,000	3,591,640	16,055,000	15,535,540	31,590,540
2018-2022	12,010,000	6,371,590	3,660,000	2,225,310	3,915,000	2,895,220	19,585,000	11,492,120	31,077,120
2023-2027	15,060,000	3,134,920	4,535,000	1,349,236	4,825,000	1,986,140	24,420,000	6,470,296	30,890,296
2028-2032	3,450,000	172,500	3,245,000	296,326	5,990,000	813,382	12,685,000	1,282,208	13,967,208
	\$ 48,685,000	29,532,420	16,995,000	10,357,792	20,460,000	13,583,132	86,140,000	53,473,344	139,613,344

## Operating Expenses

Years ended August 31, 2007 and 2006

	2007	2006
Plant, pumping and treatment:		
Theresa Street Treatment Plant:		
Supervision and management	\$ 320,761	296,481
Administrative and support staff	49,435	47,419
Training and education	38,342	51,585
Data management	149,565	122,919
General operations	820,042	903,351
Treatment and process control	503,157	564,637
Solids processing	1,251,892	1,094,452
Structures maintenance	195,186	189,742
Process equipment maintenance	539,935	567,307
Control system maintenance	167,361	127,297
Electrical maintenance	52,609	55,374
Grounds maintenance	42,505	45,317
Depreciation of structure and improvement	938,406	940,286
Depreciation of treatment equipment	1,318,369	1,315,260
Depreciation of meters	200,530	180,530
Depreciation of office/communications equipment	1,334	3,047
Total Theresa Street Treatment Plant	\$ 6,589,429	6,505,004
Northeast Treatment Plant:		
Supervision and management	\$ 91,696	94,368
Administrative and support staff	14,594	14,059
Training and education	16,964	17,959
Data management	61,531	41,478
General operations	405,623	382,062
Treatment and process control	182,210	176,043
Solids processing	550,720	313,044
Structures maintenance	56,765	61,596
Process equipment maintenance	175,030	166,573
Control system maintenance	54,524	70,411
Electrical maintenance	24,022	25,062
Grounds maintenance	76,451	107,775
Depreciation of structures and improvements	255,676	417,655
Depreciation of treatment system	561,074	390,967
Depreciation of injection system	37,946	38,006
Depreciation of shop and laboratory equipment	8,709	8,709
Depreciation of office/communications equipment	664	839
Total Northeast Treatment Plant	\$ 2,574,199	2,326,606

## Operating Expenses, Continued

	2007	2006
Liftstations:		
Data management	\$ 1,308	957
General operations	34,857	25,869
Structures maintenance	14,034	10,808
Process equipment maintenance	69,170	72,895
Control system maintenance	32,207	39,311
Electrical maintenance	5,521	3,992
Grounds maintenance	3,054	2,766
Depreciation of liftstations	108,930	108,909
Total liftstations	269,081	265,507
Total plant, pumping and treatment	\$ 9,432,709	9,097,117
Operation and maintenance of wastewater lines:		
Supervision and management	\$ 242,484	223,737
Administrative and support staff	41,659	39,559
Training and education	30,475	33,885
Data management	119,186	96,241
General operations	365,020	346,991
Structures maintenance	10,144	9,098
Main repair/maintenance	230,264	279,484
Manhole repair/rehabilitation	57,923	84,397
Customer service	252,725	283,256
Cleaning maintenance	581,586	581,646
Field operations	221,531	231,341
Depreciation of structures and improvements	905	908
Depreciation of treatment equipment	61,231	63,677
Depreciation of shop and lab equipment	15,634	19,516
Depreciation of transmission mains	2,314,177	2,082,021
Total operation and maintenance of wastewater lines	\$ 4,544,944	4,375,757
Sanitary engineering services:		
Supervision and management	\$ 390,132	366,784
Administrative and support staff	48,353	45,555
Training and education	8,899	10,407
Data management	269,159	255,148
Laboratory operations	718,452	670,187
Field operations	442,137	446,569
Depreciation of structures and improvements	14,449	14,449
Depreciation of treatment equipment	516	516
Depreciation of office/communications equipment	2,520	4,627
Depreciation of shop and laboratory equipment	90,911	97,456
Total sanitary engineering services	\$ 1,985,528	1,911,698

## Operating Expenses, Continued

	2007	2006
Accounting and collecting:		
Supervision and management	\$ 109,282	132,517
Administrative and support staff	716	524
Meter reading	78,811	100,636
Billing and accounting	121,942	127,540
Collections	78,789	82,203
Customer services and billing	36,324	28,212
Customer contracts and orders	22,465	21,631
<b>Total accounting and collecting</b>	<b>\$ 448,329</b>	<b>493,263</b>
Administrative and general:		
Supervision and management	\$ 1,003,159	980,835
Administrative and support staff	86,080	52,689
Delivery service	36,826	37,648
Depreciation of office and communication equipment	17,647	17,647
<b>Total administrative and general</b>	<b>\$ 1,143,712</b>	<b>1,088,819</b>

**LINCOLN WASTEWATER SYSTEM**

Schedule 3

Utility Plant in Service

August 31, 2007

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2006	Increases	Decreases	August 31, 2007	August 31, 2006	Increases	Decreases	August 31, 2007	August 31, 2007
Theresa Street Plant:									
Structures and improvements	\$ 36,653,690	735,680	-	37,389,370	(9,672,191)	(955,760)	-	(10,627,951)	26,761,419
Line equipment	10,159	-	-	10,159	(6,937)	(612)	-	(7,549)	2,610
Treatment equipment	24,293,704	11,081	-	24,304,785	(8,966,420)	(1,387,275)	-	(10,353,695)	13,951,090
Transmission mains	146,719,156	12,830,115	-	159,549,271	(34,361,088)	(2,413,337)	-	(36,774,425)	122,774,846
Environmental equipment	255,751	31,390	-	287,141	(133,437)	(43,314)	-	(176,751)	110,390
Office furniture and equipment	385,981	5,176	-	391,157	(201,854)	(20,168)	-	(222,022)	169,135
Shop equipment	148,390	-	(6,904)	141,486	(83,632)	(17,376)	6,903	(94,105)	47,381
Communications system	54,621	8,558	-	63,179	(53,870)	(999)	-	(54,869)	8,310
Laboratory equipment	474,768	-	-	474,768	(328,062)	(46,191)	-	(374,253)	100,515
Meters	3,610,591	400,000	-	4,010,591	(875,564)	(200,530)	-	(1,076,094)	2,934,497
Theresa Street depreciable assets	212,606,811	14,022,000	(6,904)	226,621,907	(54,683,055)	(5,085,562)	6,903	(59,761,714)	166,860,193
Land and land rights	807,194	323,228	-	1,130,422	-	-	-	-	1,130,422
Theresa Street nondepreciable assets	807,194	323,228	-	1,130,422	-	-	-	-	1,130,422
<b>Total Theresa Street Plant</b>	<b>213,414,005</b>	<b>14,345,228</b>	<b>(6,904)</b>	<b>227,752,329</b>	<b>(54,683,055)</b>	<b>(5,085,562)</b>	<b>6,903</b>	<b>(59,761,714)</b>	<b>167,990,615</b>
Northeast Plant:									
Structures and improvements	15,315,637	82,202	-	15,397,839	(6,321,690)	(259,117)	-	(6,580,807)	8,817,032
Treatment equipment	20,682,861	416,046	-	21,098,907	(915,354)	(557,631)	-	(1,472,985)	19,625,922
Office furniture and equipment	11,413	-	-	11,413	(2,982)	(664)	-	(3,646)	7,767
Shop and work equipment	150,302	-	-	150,302	(42,765)	(8,709)	-	(51,474)	98,828
Laboratory equipment	-	-	-	-	-	-	-	-	-
Injection system	658,907	-	-	658,907	(322,869)	(14,721)	-	(337,590)	321,317
Pond and liner	520,132	-	-	520,132	(375,456)	(14,468)	-	(389,924)	130,208
Sludge injection equipment	43,906	-	-	43,906	(35,321)	(4,030)	-	(39,351)	4,555
Transmission mains	-	-	-	-	1,685	-	-	1,685	1,685
Transmission/work equipment	236,322	-	-	236,322	(155,971)	(4,726)	-	(160,697)	75,625
Northeast depreciable assets	37,619,480	498,248	-	38,117,728	(8,170,723)	(864,066)	-	(9,034,789)	29,082,939
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
<b>Total Northeast Plant</b>	<b>39,673,855</b>	<b>498,248</b>	<b>-</b>	<b>40,172,103</b>	<b>(8,170,723)</b>	<b>(864,066)</b>	<b>-</b>	<b>(9,034,789)</b>	<b>31,137,314</b>
Vehicles and work equipment (all locations)	2,237,251	128,968	(31,885)	2,334,334	(1,387,768)	(142,630)	18,667	(1,511,731)	822,603
Utility plant in service	\$ 255,325,111	14,972,444	(38,789)	270,258,766	(64,241,546)	(6,092,258)	25,570	(70,308,234)	199,950,532
Construction in progress	34,995,029	15,949,354	(11,839,867)	39,104,516	-	-	-	-	39,104,516
<b>Total capital assets</b>	<b>\$ 290,320,140</b>	<b>30,921,798</b>	<b>(11,878,656)</b>	<b>309,363,282</b>	<b>(64,241,546)</b>	<b>(6,092,258)</b>	<b>25,570</b>	<b>(70,308,234)</b>	<b>239,055,048</b>

**LINCOLN WASTEWATER SYSTEM****GENERAL STATISTICS****Year Ended August 31, 2007**

(Unaudited)

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Altitude of Lincoln, Nebraska .....	1,167 Feet
Area of Lincoln, Nebraska .....	88.72 Square Miles
Population .....	243,900 Estimate
Total Miles of Wastewater Mains & Collector Lines In Use:	
Miles in use September 1, 2006	977.9
Estimated Added During Year	16.7
Estimated Removed During Year	0.0
Total as of August 31, 2007 .....	994.6 Miles
Number of Wastewater Lift (Pumping) Stations: .....	14
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 .....	20.70 million gallons per day
Northeast Treatment Facility .....	4.83 million gallons per day
Total Number of Active Residential Wastewater Customers	
End of Fiscal Year .....	72,295
Total Number of Active Non-Residential Wastewater Customers	
End of Fiscal Year .....	4,163
Debt of Lincoln Wastewater System as of August 31, 2007 .....	\$86,140,000



**LINCOLN WASTEWATER SYSTEM****TOP TEN CUSTOMERS****Year Ended August 31, 2007**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	385,992	\$567,100
2. State of Nebraska	242,510	351,780
3. Archer-Daniels Midland Company	162,021	246,309
4. BryanLGH Medical Center	127,544	187,401
5. Lincoln Public Schools	99,808	154,009
6. Lincoln Housing Authority	89,874	148,313
7. ConAgra Refrigerator Foods	88,929	134,372
8. Pfizer Animal Health	88,502	136,322
9. Lincoln Plating	85,315	129,397
10. Kawasaki	78,792	119,805
<b>Top Ten User Totals</b>	<b>1,449,287</b>	<b>\$2,174,808</b>

07R-153

Introduce: 8-13-07

RESOLUTION NO. A- 84485

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

4 WHEREAS, Both the Mayor's Advisory Committees, Streets, Roads and Trails (SRT)  
5 and the Mayor's Infrastructure Finance Committee (MIFC) support the wastewater rate  
6 increases proposed by the City's Public Works & Utilities Department over the next 10 years,  
7 to help finance the infrastructure needs identified in the City's Capital Improvement Program.  
8 The current projections acknowledge the need for approval of a 9% increase for Fiscal Year  
9 2007-08; a 6% increase for Fiscal Year 2008-09; and a 5% increase for Fiscal Year 2009-10.

10 WHEREAS, Lincoln's wastewater infrastructure is a necessary component and is  
11 required 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  
13 with the proposed rate increases will continue this tradition of competitive rates within the  
14 region and 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, 2007, the following  
18 schedule of wastewater use charges is hereby established and adopted:

19 BASIC WASTEWATER USE CHARGE

20 (a) The basic wastewater use unit charge is hereby established as 157.5 cents.

21 (b) For any given residential property, the basic wastewater use charge for each billing  
22 cycle shall be determined by multiplying for each such cycle the total amount of water, in

1 hundreds of cubic feet, metered for said property during a billing cycle chosen by the Director  
2 from the most recent past winter, by the basic wastewater use unit charge.

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

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

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

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

19 SERVICE CHARGE

20 Regardless of whether a wastewater meter is used, there shall be a service charge per  
21 month to each property using the Lincoln Wastewater System, determined by the number and  
22 size of the 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  
 13 least \$0.78 per dwelling unit or mobile home hookup space per month. In those instances where  
 14 fire protection considerations dictate that a water meter larger than 1-inch service a single-  
 15 family dwelling unit located on a single lot, the monthly service charge shall be \$1.31 per  
 16 dwelling unit.

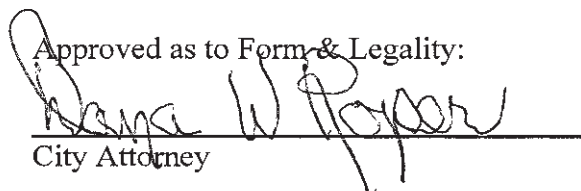
17 WASTEWATER RATES TO CUSTOMERS OUTSIDE  
 18 THE CITY LIMITS

19 Customers located outside the City Limits of Lincoln and served by the Lincoln  
 20 Wastewater System shall pay no less than the Wastewater rates charged to customers within the  
 21 City Limits of Lincoln for service furnished them by the Lincoln Wastewater System.


22 BE IT FURTHER RESOLVED that Resolution No. A-83987, adopted by the City  
 23 Council on August 21, 2006 is hereby superseded.

Introduced by: 

AYES: Camp, Emery, Eschliman,  
 Marvin, Spatz, Svoboda; NAYS:  
 Cook.

Approved as to Form & Legality:  
  
 City Attorney

**ADOPTED**  
 AUG 20 2007  
 BY CITY COUNCIL

Approved this 23 day of Aug, 2007:  
  
 Mayor

## Lincoln Wastewater System

## Summary of Insurance Coverage

August 31, 2007

(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	YXB300909D
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	FM325
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	FM325
Equipment Floater (NON-LIC)	Non-licensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM325
Equipment Floater (Sanitary)	Inspection scheduled equipment	Replacement cost	50,000	2,500	FM Global	FM325
General Liability ***	\$1,000,000 occurrence/\$5,000,000 aggregate	5,000,000	250,000	0	Genesis	YXB300909D
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	YXB300909D
Workers' Compensation Excess	Statutory	Statutory	500,000	0	Midwest Employers Casualty (MECC)	EW007744

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

## LINCOLN WASTEWATER SYSTEM

### 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.



**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, 2007, and have issued our report thereon dated November 28, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lincoln Wastewater System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lincoln Wastewater System's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Lincoln Wastewater System's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Lincoln Wastewater System's financial statements that is more than inconsequential will not be prevented or detected by the Lincoln Wastewater System's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lincoln Wastewater System's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

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*.

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

November 28, 2007

BKD, LLP