

LINCOLN WASTEWATER SYSTEM

Financial Statements & Schedules
Fiscal Year Ended August 31, 2008



ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS/UTILITIES

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WASTEWATER SYSTEM

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Lincoln Wastewater System

August 31, 2008 and 2007

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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, 2008 and 2007, 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 Lincoln 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 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, 2008 and 2007, 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, 2008 and 2007, 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 25, 2008 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.

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 25, 2008

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, 2008 and 2007. 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 \$5,463,126 (3.02%) in 2008 over 2007 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, 2008, 2007, and 2006.

Table 1

Condensed Balance Sheets

	August 31		Variance	
	2008	2007	Dollars	Percent
Current assets	\$ 8,835,762	\$ 10,416,112	(\$1,580,350)	-15.17%
Capital assets	252,199,939	239,055,048	13,144,891	5.50%
Long-term investments	18,366,151	24,687,591	(6,321,440)	-25.61%
Deferred charges	821,232	860,136	(38,904)	-4.52%
Total assets	280,223,084	275,018,887	5,204,197	1.89%
Current liabilities	9,265,605	8,263,459	1,002,146	12.13%
Long-term liabilities	84,621,022	85,882,097	(1,261,075)	-1.47%
Total liabilities	93,886,627	94,145,556	(258,929)	-0.28%
Net assets				
Invested in capital assets, net of related debt	181,510,053	173,291,909	10,835,524	6.25%
Restricted for debt service	291,870	410,983	(337,962)	-82.23%
Restricted for capital acquisition	220,690	687,874	(467,184)	-67.92%
Unrestricted	4,313,844	6,482,565	(4,567,252)	-70.45%
Total net assets	186,336,457	180,873,331	5,463,126	3.02%
Total liabilities and net assets	\$280,223,084	\$275,018,887	\$5,204,197	1.89%

Financial Highlights – Fiscal Year 2008

- Total assets at year-end were \$280,223,084 and exceeded total liabilities by \$186,336,457, which results in an improved positive net assets position.
- Current assets decreased by \$1,580,350 (-15.17%) due to completion of several construction projects.
- Capital assets increased by \$13,144,891 (5.50%) due to major project additions, which included:
Trunk Sewer Improvement Mains – approximately \$13,096,000
- Long-term investments decreased by \$6,321,440 (-25.61%) due to completion of several major construction projects.
- There was an increase of \$1,002,146 (12.13%) in current liabilities primarily because a number of new construction projects were started during the year.

Table 2**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%
Total assets	275,018,887	251,817,884	23,201,003	9.21%
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%
Total liabilities	94,145,556	76,561,303	17,584,253	22.97%
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%
Total net assets	180,873,331	175,256,581	5,616,750	3.20%
Total liabilities and net assets	\$275,018,887	\$251,817,884	\$23,201,003	9.21%

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%) due to major project additions, which 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 3

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

	August 31		Variance	
	2008	2007	Dollars	Percent
Operating revenues	\$20,621,911	\$19,402,047	\$1,219,864	6.29%
Operating expenses				
Plant, pumping and treatment	9,925,015	9,432,709	492,306	5.22%
Operation and maintenance of wastewater lines	4,735,743	4,544,944	190,799	4.20%
Sanitary engineering services	2,011,265	1,985,528	25,737	1.30%
Accounting and collecting	455,542	448,329	7,213	1.61%
Administrative and general	1,051,042	1,143,712	(92,670)	-8.10%
Total operating expenses	18,178,607	17,555,222	623,385	3.55%
Operating income	2,443,304	1,846,825	596,479	32.30%
Net nonoperating revenues	474,857	722,248	(247,391)	-34.25%
Capital contributions	2,544,965	3,047,677	(502,712)	-16.49%
Change in net assets	\$ 5,463,126	\$ 5,616,750	(\$153,624)	-2.74%

Financial Highlights – Fiscal Year 2008

- Operating revenues increased \$1,219,864 (6.29%) compared to 2007. This increase was primarily due to an increase of 9.00% user fees implemented with the billings starting in February 2008 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.

Table 4

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 lines	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.

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 \$2,700,000 at August 31, 2008.

Forward-Looking Information

The approved Capital Improvement Program for Fiscal Year 2008/09 - 2013/14 identifies the need for \$102,714,100 to fund capital improvements for the Wastewater System. Approximately \$76,260,900 of that total is projected to be funded by revenue bonds. Future user fee increases will 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 2008 and 2007. 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, 2008 and 2007

Assets	2008	2007
Current assets:		
Equity in pooled cash and investments	\$ 3,671,799	4,872,559
Receivables:		
Accounts receivable	1,692,821	1,373,610
Unbilled revenues	2,099,004	1,970,331
Due from other funds	1,050,393	1,418,049
Impact fees	220,690	687,874
Total receivables	5,062,908	5,449,864
Inventories	101,055	93,689
Total current assets	8,835,762	10,416,112
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and investments	12,011,247	18,283,407
Investments	6,354,904	6,404,184
Total restricted assets	18,366,151	24,687,591
Utility plant	329,037,545	309,363,282
Less accumulated depreciation	76,837,606	70,308,234
Net utility plant	252,199,939	239,055,048
Unamortized bond issue costs	821,232	860,136
Total noncurrent assets	271,387,322	264,602,775
Total assets	\$ 280,223,084	275,018,887
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 398,790	288,049
Accrued liabilities	399,602	372,864
Deposits liability	8,400	4,000
Accrued compensated absences	329,692	298,861
Construction contracts	4,713,274	3,932,978
Current maturities of long-term debt	2,620,000	2,415,000
Accrued interest	795,847	951,707
Total current liabilities	9,265,605	8,263,459
Long-term liabilities:		
Accrued liabilities	29,594	-
Accrued compensated absences	179,496	187,035
Construction contracts	1,429,983	-
Long-term debt, excluding current maturities	82,981,949	85,695,062
Total long-term liabilities	84,621,022	85,882,097
Total liabilities	93,886,627	94,145,556
Net assets:		
Invested in capital assets, net of related debt	181,510,053	173,291,909
Restricted for debt service	291,870	410,983
Restricted for capital acquisition	220,690	687,874
Unrestricted	4,313,844	6,482,565
Total net assets	186,336,457	180,873,331
Total liabilities and net assets	\$ 280,223,084	275,018,887

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets

Years ended August 31, 2008 and 2007

	2008	2007
Operating revenues	\$ 20,621,911	19,402,047
Operating expenses:		
Plant, pumping and treatment	9,925,015	9,432,709
Operation and maintenance of wastewater lines	4,735,743	4,544,944
Sanitary engineering services	2,011,265	1,985,528
Accounting and collecting	455,542	448,329
Administrative and general	1,051,042	1,143,712
Total operating expenses	18,178,607	17,555,222
Operating income	2,443,304	1,846,825
Nonoperating revenues (expenses):		
Investment income	1,261,703	1,256,533
Interest expense	(747,942)	(642,414)
Amortization of bond costs	(38,904)	(33,217)
Federal grant revenue	-	141,346
Net nonoperating revenues	474,857	722,248
Increase in net assets before capital contributions	2,918,161	2,569,073
Capital contributions from:		
Developers	2,080,712	2,547,514
Tap fees	32,276	30,802
Impact fees	431,977	469,361
Total capital contributions	2,544,965	3,047,677
Increase in net assets	5,463,126	5,616,750
Total net assets - beginning	180,873,331	175,256,581
Total net assets - ending	\$ 186,336,457	180,873,331

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2008 and 2007

	2008	2007
Operating activities:		
Receipts from customers and users	\$ 20,645,611	19,256,457
Payments to suppliers	(4,848,083)	(5,074,071)
Payments to employees	(6,362,542)	(6,274,982)
Net cash provided by operating activities	9,434,986	7,907,404
Noncapital financing activities:		
Federal grant revenue	-	141,346
Repayment from (advance to) other funds, net	367,656	(204,796)
Net cash provided by (used in) noncapital financing activities	367,656	(63,450)
Capital and related financing activities:		
Acquisition and construction of capital assets	(15,174,630)	(17,144,983)
Proceeds from revenue bonds	-	20,202,038
Principal paid on revenue bonds	(2,415,000)	(2,005,000)
Interest paid on revenue bonds	(996,915)	(427,372)
Net cash provided by (used in) capital and related financing activities	(18,586,545)	624,683
Investing activities:		
Purchases of investments	(9,197,238)	(10,870,376)
Proceeds from investment maturities	15,565,485	4,039,834
Interest on investments	1,214,896	930,306
Net cash provided by (used in) investing activities	7,583,143	(5,900,236)
Net increase (decrease) in cash and cash equivalents	(1,200,760)	2,568,401
Cash and cash equivalents at beginning of year	4,872,559	2,304,158
Cash and cash equivalents at end of year	\$ 3,671,799	\$ 4,872,559
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 2,443,304	\$ 1,846,825
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,784,983	6,092,258
Changes in operating assets and liabilities:		
Accounts receivable	19,300	(139,590)
Inventories	(7,366)	57,968
Accounts payable	110,741	(32,707)
Accrued liabilities and deposit liability	60,732	30,035
Accrued compensated absences	23,292	52,615
Total adjustments	6,991,682	6,060,579
Net cash provided by operating activities	\$ 9,434,986	7,907,404

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$2,080,712 and \$2,547,514 were added to utility plant in 2008 and 2007, respectively.

Accounts payable incurred for utility plant purchases were \$6,143,257 and \$3,932,978 in 2008 and 2007, respectively.

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(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, 2008 and 2007, 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, 2008 and 2007

Utility Plant (Capital Assets)

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

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

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

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.

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. 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.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

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 \$1.575 and \$1.44 per hundred cubic feet of water as of August 31, 2008 and 2007, 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, 2008 and 2007.

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, 2008 and 2007

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, 2008 and 2007 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, 2008	\$485,896	322,153	298,861	509,188	329,692
August 31, 2007	\$433,281	330,532	277,917	485,896	298,861

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

Other Post-Employment Benefits

The Wastewater System recorded a liability for the annual required contribution (ARC) of approximately \$30,000 as of August 31, 2008, as a result of implementing GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The complete disclosures required by GASB 45 are included in the City of Lincoln Comprehensive Annual Financial Report (CAFR).

Use of Estimates

Management of the Lincoln Wastewater System has made a number of estimates and assumptions relating to the reporting of 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.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(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 credit 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 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, 2008 and 2007 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, 2008 and 2007, the Lincoln Wastewater System had the following investments and maturities:

Type	August 31, 2008				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Agency obligations	\$5,124,923	1,343,860	3,781,063	-	-
Investment Agreement	<u>1,229,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,229,981</u>
	<u>\$6,354,904</u>	<u>1,343,860</u>	<u>3,781,063</u>	<u>-</u>	<u>1,229,981</u>

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	-
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>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(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 not longer than twenty-four months. Investments in construction funds, operating funds, and other nonoperating funds are limited to ten year maturities. Investment Agreements are not subject to interest rate risk, as the 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, 2008 and 2007, 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 investment agreement was rated Aaa by Moody's Investors Service and AA- by Standard & Poor's as of August 31, 2008 and 2007, 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, allocation limits do not apply to the investment of proceeds from issuance of debt. These investments shall be governed by the debt covenant included in the debt instrument. As of August 31, 2008 and 2007, the Lincoln Wastewater System investments in U.S. Agencies obligations constituted 23% and 17% respectively, and the investment agreement constituted 5% and 4% 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 deposits and investment securities at August 31, 2008 and 2007, are:

	2008	2007
Equity in pooled cash and investments	\$15,683,046	23,155,966

Investment Income

Investment income for the years ended August 31, 2008 and 2007, consisted of:

	2008	2007
Interest and dividend income	\$1,082,492	1,033,563
Net increase in fair value of investments	179,211	222,970
	<u>\$1,261,703</u>	<u>1,256,533</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(3) Utility Plant

Utility plant is summarized by major classification at August 31, 2008 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2007	Increases	Decreases	August 31, 2008	August 31, 2007	Increases	Decreases	August 31, 2008	August 31, 2008
Structures and improvements	\$ 52,787,209	22,343,347	-	75,130,556	(17,208,758)	(1,442,946)	-	(18,651,704)	56,478,852
Line equipment	10,159	-	-	10,159	(7,549)	(612)	-	(8,161)	1,998
Treatment equipment	45,403,692	10,164,423	-	55,568,115	(11,826,680)	(2,230,453)	-	(14,057,133)	41,510,982
Transmission mains	159,549,271	17,223,158	-	176,772,429	(36,772,740)	(2,571,757)	-	(39,344,497)	137,427,932
Environmental equipment	287,141	43,925	-	331,066	(176,751)	(52,728)	-	(229,479)	101,587
Office furniture and equipment	402,570	16,072	-	418,642	(225,668)	(21,395)	-	(247,063)	171,579
Shop equipment	291,788	-	-	291,788	(145,579)	(18,718)	-	(164,297)	127,491
Communications system	63,179	442,664	-	505,843	(54,869)	(20,156)	-	(75,025)	430,818
Laboratory equipment	474,768	72,701	-	547,469	(374,253)	(44,010)	-	(418,263)	129,206
Injection system	658,907	-	-	658,907	(337,590)	(14,721)	-	(352,311)	306,596
Pond and liner	520,132	-	-	520,132	(389,924)	(14,468)	-	(404,392)	115,740
Sludge injection equipment	43,906	-	-	43,906	(39,351)	(4,031)	-	(43,382)	524
Transmission/work equipment	236,322	-	-	236,322	(160,697)	(4,726)	-	(165,423)	70,899
Meters	4,010,591	-	-	4,010,591	(1,076,094)	(200,530)	-	(1,276,624)	2,733,967
Vehicles	2,334,334	211,737	(301,775)	2,244,296	(1,511,731)	(143,732)	255,611	(1,399,852)	844,444
Total depreciable assets	267,073,969	50,518,027	(301,775)	317,290,221	(70,308,234)	(6,784,983)	255,611	(76,837,606)	240,452,615
Land and land rights	3,184,797	2,269,411	-	5,454,208	-	-	-	-	5,454,208
Construction in progress	39,104,516	17,787,298	(50,598,698)	6,293,116	-	-	-	-	6,293,116
Total nondepreciable assets	42,289,313	20,056,709	(50,598,698)	11,747,324	-	-	-	-	11,747,324
Total capital assets	\$ 309,363,282	70,574,736	(50,900,473)	329,037,545	(70,308,234)	(6,784,983)	255,611	(76,837,606)	252,199,939

During 2008, Lincoln Wastewater System incurred \$3,821,482 of interest cost. Interest capitalized into construction in progress during 2008 was \$3,033,540. 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 2.14% in 2008.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(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	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, 2008 and 2007

(4) Long-term Debt

Long-term debt of Lincoln Wastewater System at August 31, 2008 and 2007 is summarized below:

Type of Debt	August 31, 2007	Additions	Reductions	August 31, 2008	Due Within One Year
2.0%-5.0% Wastewater Revenue & Refunding Bonds, Series 2003, due in annual principal installments on June 15, increasing from \$1,620,000 in 2009 to the final payment of \$3,450,000 in 2028.	\$48,685,000	—	1,580,000	47,105,000	1,620,000
4.0%-5.0% Wastewater Revenue Bonds Series 2005, due in annual principal installments on June 15, increasing from \$490,000 in 2009 to the final payment of \$1,130,000 in 2030.	16,995,000	—	475,000	16,520,000	490,000
4.0%-4.5% Wastewater Revenue Bonds Series 2007, due in annual principal installments on June 15, increasing from \$510,000 in 2009 to the final payment of \$1,305,000 in 2032.	20,460,000	—	360,000	20,100,000	510,000
Unamortized premium on bonds	<u>1,970,062</u>	<u>—</u>	<u>93,113</u>	<u>1,876,949</u>	<u>—</u>
	<u>\$88,110,062</u>	<u>—</u>	<u>2,508,113</u>	<u>85,601,949</u>	<u>2,620,000</u>

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(4) Long-term Debt (continued)

Type of Debt	August 31, 2006	Additions	Reductions	August 31, 2007	Due Within One Year
2.0%-5.0% Wastewater Revenue & Refunding Bonds, Series 2003, 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 \$1,305,000 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>

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 Wastewater System are pledged as security for the revenue bonds.

Maturities and sinking fund requirements on long-term debt at August 31, 2008, are shown below.

Years ending August 31	Principal	Interest	Total
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	2,980,000	3,388,018	6,368,018
2014-2018	16,670,000	14,795,890	31,465,890
2019-2023	20,450,000	10,571,374	31,021,374
2024-2028	25,540,000	5,326,062	30,866,062
2029-2032	7,105,000	698,820	7,803,820
Total	\$83,725,000	49,442,890	133,167,890

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(5) Commitments and Contingencies

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$2,700,000 at August 31, 2008.

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 based upon the anticipated expenditure appropriation or collection of directed impact fees. As of August 31, 2008, the System's commitment to these developers is estimated to be approximately \$1,723,000.

(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 \$81,141,000 based on borrowing rates currently available as of August 31, 2008.
- *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 \$358,000 and \$485,000 for administrative services during 2008 and 2007, respectively. The Wastewater System also makes payments to Lincoln Electric System (LES), an enterprise fund of the City of Lincoln, for electricity used at the System's operating locations. Payments to LES totaled approximately \$760,000 and \$710,000 during 2008 and 2007, respectively. At August 31, 2008, \$52,122 is included in accounts payable for amounts owed to LES.

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 \$220,690 and \$687,874 as of August 31, 2008 and 2007, respectively.

The City of Lincoln general fund borrowed monies from the pooled cash and investment account. The Wastewater System's allocated share of the borrowing was \$1,050,393 and \$1,418,049 as of August 31, 2008 and 2007, 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, 2008 and 2007

(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 \$399,000 and \$362,000 in 2008 and 2007, 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 \$436,000 and \$480,000 for 2008 and 2007, respectively. Contributions made by the plan members were approximately \$227,000 and \$219,000 for 2008 and 2007, respectively.

SUPPLEMENTARY
INFORMATION

LINCOLN WASTEWATER SYSTEM

Schedule 1

Summary of Long-Term Debt

August 31, 2008

Due years ending August 31	Series 2003		Series 2005		Series 2007		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
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	1,825,000	1,976,968	560,000	643,362	595,000	767,688	2,980,000	3,388,018	6,368,018
2014-2018	10,200,000	8,538,590	3,135,000	2,794,060	3,335,000	3,463,240	16,670,000	14,795,890	31,465,890
2019-2023	12,555,000	5,771,090	3,815,000	2,065,872	4,080,000	2,734,412	20,450,000	10,571,374	31,021,374
2024-2028	15,765,000	2,403,952	4,740,000	1,149,588	5,035,000	1,772,522	25,540,000	5,326,062	30,866,062
2029-2033	-	-	2,210,000	150,300	4,895,000	548,520	7,105,000	698,820	7,803,820
	\$ 47,105,000	27,258,126	16,520,000	9,607,630	20,100,000	12,577,134	83,725,000	49,442,890	133,167,890

Operating Expenses

Years ended August 31, 2008 and 2007

	2008	2007
Plant, pumping and treatment:		
Theresa Street Treatment Plant:		
Supervision and management	\$ 347,846	320,761
Administrative and support staff	55,544	49,435
Training and education	37,090	38,342
Data management	153,651	149,565
General operations	916,763	820,042
Treatment and process control	562,804	503,157
Solids processing	1,058,825	1,251,892
Structures maintenance	247,465	195,186
Process equipment maintenance	419,322	539,935
Control system maintenance	191,605	167,361
Electrical maintenance	72,540	52,609
Grounds maintenance	44,505	42,505
Depreciation of structure and improvement	1,159,821	938,406
Depreciation of treatment equipment	1,593,138	1,318,369
Depreciation of meters	200,530	200,530
Depreciation of office/communications equipment	20,491	1,334
Total Theresa Street Treatment Plant	\$ 7,081,940	6,589,429
Northeast Treatment Plant:		
Supervision and management	\$ 101,235	91,696
Administrative and support staff	15,319	14,594
Training and education	13,604	16,964
Data management	56,749	61,531
General operations	420,960	405,623
Treatment and process control	190,449	182,210
Solids processing	411,488	550,720
Structures maintenance	61,605	56,765
Process equipment maintenance	174,236	175,030
Control system maintenance	84,519	54,524
Electrical maintenance	46,182	24,022
Grounds maintenance	73,935	76,451
Depreciation of structures and improvements	260,831	255,676
Depreciation of treatment system	571,982	561,074
Depreciation of injection system	37,946	37,946
Depreciation of shop and laboratory equipment	8,709	8,709
Depreciation of office/communications equipment	649	664
Total Northeast Treatment Plant	\$ 2,530,398	2,574,199

LINCOLN WASTEWATER SYSTEM

Operating Expenses, Continued

	2008	2007
Liftstations:		
Data management	\$ 2,566	1,308
General operations	38,994	34,857
Structures maintenance	13,045	14,034
Process equipment maintenance	96,148	69,170
Control system maintenance	27,087	32,207
Electrical maintenance	4,731	5,521
Grounds maintenance	1,949	3,054
Depreciation of liftstations	128,157	108,930
Total liftstations	312,677	269,081
Total plant, pumping and treatment	\$ 9,925,015	9,432,709
Operation and maintenance of wastewater lines:		
Supervision and management	\$ 266,020	242,484
Administrative and support staff	42,473	41,659
Training and education	44,136	30,475
Data management	166,472	119,186
General operations	349,974	365,020
Structures maintenance	11,950	10,144
Main repair/maintenance	196,051	230,264
Manhole repair/rehabilitation	49,382	57,923
Customer service	306,473	252,725
Cleaning maintenance	575,179	581,586
Field operations	203,991	221,531
Depreciation of structures and improvements	908	905
Depreciation of treatment equipment	61,097	61,231
Depreciation of shop and lab equipment	8,268	15,634
Depreciation of transmission mains	2,453,369	2,314,177
Total operation and maintenance of wastewater lines	\$ 4,735,743	4,544,944
Sanitary engineering services:		
Supervision and management	\$ 406,466	390,132
Administrative and support staff	55,681	48,353
Training and education	15,396	8,899
Data management	189,223	269,159
Laboratory operations	741,745	718,452
Field operations	485,047	442,137
Depreciation of structures and improvements	15,947	14,449
Depreciation of treatment equipment	516	516
Depreciation of office/communications equipment	3,099	2,520
Depreciation of shop and laboratory equipment	98,145	90,911
Total sanitary engineering services	\$ 2,011,265	1,985,528

LINCOLN WASTEWATER SYSTEM

Operating Expenses, Continued

	2008	2007
Accounting and collecting:		
Supervision and management	\$ 125,985	109,282
Administrative and support staff	871	716
Meter reading	76,423	78,811
Billing and accounting	111,863	121,942
Collections	69,459	78,789
Customer services and billing	48,201	36,324
Customer contracts and orders	22,740	22,465
Total accounting and collecting	\$ 455,542	448,329
Administrative and general:		
Supervision and management	\$ 913,817	1,003,159
Administrative and support staff	82,844	86,080
Delivery service	36,733	36,826
Depreciation of office and communication equipment	17,648	17,647
Total administrative and general	\$ 1,051,042	1,143,712

LINCOLN WASTEWATER SYSTEM

Schedule 3

Utility Plant in Service

August 31, 2008

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2007	Increases	Decreases	August 31, 2008	August 31, 2007	Increases	Decreases	August 31, 2008	August 31, 2008
Theresa Street Plant:									
Structures and improvements	\$ 37,389,370	22,343,277	-	59,732,647	(10,627,951)	(1,178,673)	-	(11,806,624)	47,926,023
Line equipment	10,159	-	-	10,159	(7,549)	(612)	-	(8,161)	1,998
Treatment equipment	24,304,785	10,126,612	-	34,431,397	(10,353,695)	(1,661,912)	-	(12,015,607)	22,415,790
Transmission mains	159,549,271	17,223,158	-	176,772,429	(36,774,425)	(2,571,757)	-	(39,346,182)	137,426,247
Environmental equipment	287,141	43,925	-	331,066	(176,751)	(52,728)	-	(229,479)	101,587
Office furniture and equipment	391,157	16,072	-	407,229	(222,022)	(20,747)	-	(242,769)	164,460
Shop equipment	141,486	-	-	141,486	(94,105)	(10,009)	-	(104,114)	37,372
Communications system	63,179	442,664	-	505,843	(54,869)	(20,156)	-	(75,025)	430,818
Laboratory equipment	474,768	72,701	-	547,469	(374,253)	(44,010)	-	(418,263)	129,206
Meters	4,010,591	-	-	4,010,591	(1,076,094)	(200,530)	-	(1,276,624)	2,733,967
Theresa Street depreciable assets	226,621,907	50,268,409	-	276,890,316	(59,761,714)	(5,761,134)	-	(65,522,848)	211,367,468
Land and land rights	1,130,422	2,269,411	-	3,399,833	-	-	-	-	3,399,833
Theresa Street nondepreciable assets	1,130,422	2,269,411	-	3,399,833	-	-	-	-	3,399,833
Total Theresa Street Plant	227,752,329	52,537,820	-	280,290,149	(59,761,714)	(5,761,134)	-	(65,522,848)	214,767,301
Northeast Plant:									
Structures and improvements	15,397,839	70	-	15,397,909	(6,580,807)	(264,273)	-	(6,845,080)	8,552,829
Treatment equipment	21,098,907	37,811	-	21,136,718	(1,472,985)	(568,541)	-	(2,041,526)	19,095,192
Office furniture and equipment	11,413	-	-	11,413	(3,646)	(648)	-	(4,294)	7,119
Shop and work equipment	150,302	-	-	150,302	(51,474)	(8,709)	-	(60,183)	90,119
Laboratory equipment	-	-	-	-	-	-	-	-	-
Injection system	658,907	-	-	658,907	(337,590)	(14,721)	-	(352,311)	306,596
Pond and liner	520,132	-	-	520,132	(389,924)	(14,468)	-	(404,392)	115,740
Sludge injection equipment	43,906	-	-	43,906	(39,351)	(4,031)	-	(43,382)	524
Transmission mains	-	-	-	-	1,685	-	-	1,685	1,685
Transmission/work equipment	236,322	-	-	236,322	(160,697)	(4,726)	-	(165,423)	70,899
Northeast depreciable assets	38,117,728	37,881	-	38,155,609	(9,034,789)	(880,117)	-	(9,914,906)	28,240,703
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	40,172,103	37,881	-	40,209,984	(9,034,789)	(880,117)	-	(9,914,906)	30,295,078
Vehicles and work equipment (all locations)	2,334,334	211,737	(301,775)	2,244,296	(1,511,731)	(143,732)	255,611	(1,399,852)	844,444
Utility plant in service	\$ 270,258,766	52,787,438	(301,775)	322,744,429	(70,308,234)	(6,784,983)	255,611	(76,837,606)	245,906,823
Construction in progress	39,104,516	17,787,298	(50,598,698)	6,293,116	-	-	-	-	6,293,116
Total capital assets	\$ 309,363,282	70,574,736	(50,900,473)	329,037,545	(70,308,234)	(6,784,983)	255,611	(76,837,606)	252,199,939

LINCOLN WASTEWATER SYSTEM**GENERAL STATISTICS****Year Ended August 31, 2008**

(Unaudited)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	88.72 Square Miles
Population	248,700 Estimate
Total Miles of Wastewater Mains & Collector Lines In Use:	
Miles in use September 1, 2007	994.6
Estimated Added During Year	11.3
Estimated Removed During Year	0.0
Total as of August 31, 2008.....	1,005.9 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.....	19.36 million gallons per day
Northeast Treatment Facility	4.91 million gallons per day
Total Number of Active Residential Wastewater Customers	
End of Fiscal Year	72,988
Total Number of Active Non-Residential Wastewater Customers	
End of Fiscal Year	4,186
Debt of Lincoln Wastewater System as of August 31, 2008.....	\$83,725,000

LINCOLN WASTEWATER SYSTEM**TOP TEN CUSTOMERS****Year Ended August 31, 2008**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	320,894	\$517,296
2. State of Nebraska	236,548	373,840
3. Archer-Daniels Midland Company	148,925	247,390
4. BryanLGH Medical Center	125,066	199,828
5. Lincoln Public Schools	97,593	162,972
6. Lincoln Housing Authority	92,463	165,164
7. Lincoln Plating	86,250	142,887
8. Pfizer Animal Health	85,263	143,276
9. University of Nebraska Foundation	82,193	135,422
10. Veyance Technologies, Inc.	79,913	132,268
Top Ten User Totals	1,355,108	\$2,220,343



08R-192

Introduce: 8-18-08

RESOLUTION NO. A- 84990

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 4% increase for Fiscal Year
9 2008-09; a 6% increase for Fiscal Year 2009-10; and a 5% increase for Fiscal Year 2010-11.

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, 2008, the following
18 schedule 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 ~~164.0~~^{162.0} cents.
- 20
- 21 (b) For any given residential property, the basic wastewater use charge for each billing

1 cycle shall be determined by multiplying for each such cycle the total amount of water, in
2 hundreds of cubic feet, metered for said property during a billing cycle chosen by the Director
3 from the most 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
7 either to the City or to the user, he shall use the average amount of water used by like users
8 during such winter billing cycle to compute such charge.

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

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

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

20 SERVICE CHARGE

21 Regardless of whether a wastewater meter is used, there shall be a service charge per
22 month to each property using the Lincoln Wastewater System, determined by the number and
23 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.

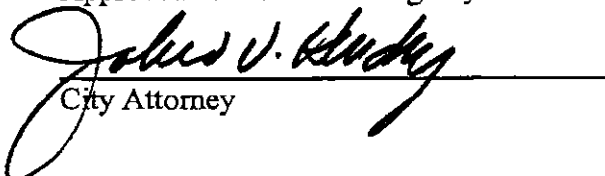
17 WASTEWATER RATES TO CUSTOMERS OUTSIDE
18 THE CITY LIMITS

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.

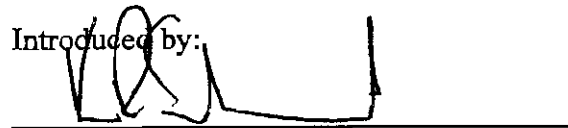
22 BE IT FURTHER RESOLVED that Resolution No. A-84485, adopted by the City
23 Council on August 23, 2007 is hereby superseded.

See further Council Proceedings on
next page.

Approved as to Form & Legality:


City Attorney

Introduced by:



AYES: CAMP, ESCHLIMAN, SPATZ,
SVOBODA;
NAYS; COOK, EMERY, MARVIN.

Approved this 2nd day of Sept., 2008:


Mayor

08R-192

08/25/08 Council Proceedings:

ESCHLIMAN

Moved to amend Bill No. 08R-192 by reducing the rate by 1%.

Seconded by Camp & carried by the following vote: AYES: Camp, Cook, Eshliman, Marvin; NAYS: Emery, Spatz, Svoboda.

Lincoln Wastewater System

Summary of Insurance Coverage

August 31, 2008

(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		States	SEL30117301 & SEL30117401
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	FM539
Money and Securities	Inside/outside premises	50,000	500	0	Fidelity & Deposit	CCP0030595
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FM539
Equipment Floater (NON-LIC)	Non-licensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM539
Equipment Floater (Sanitary)	Inspection scheduled equipment	Replacement cost	50,000	2,500	FM Global	FM539
General Liability ***	\$1,000,000 occurrence/\$5,000,000 aggregate	5,000,000	250,000	0	States	SEL30117301 & SEL30117401
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	States	SEL30117301 & SEL30117401
Workers' Compensation Excess	Statutory	Statutory	500,000	0	Midwest Employers Casualty (MECC)	EWC007744

** 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, 2008, and have issued our report thereon dated November 25, 2008. 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 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 Lincoln Wastewater System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 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 Lincoln Wastewater System's financial statements that is more than inconsequential will not be prevented or detected by 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 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 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 Lincoln Wastewater System's management in a separate letter dated November 25, 2008.

This report is intended solely for the information and use of the governing body, 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.

BKD, LLP

November 25, 2008