

LINCOLN WASTEWATER SYSTEM

Financial
Statements
& Schedules
Fiscal Year Ended
August 31, 2009



Theresa Street Methane Fired Generator

ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS/UTILITIES

CITY OFFICIALS

Chris Beutler Mayor

COUNCIL MEMBERS

Doug Emery Chair

John Spatz Vice-Chair

- Jon Camp
- Eugene Carroll
- Jonathan Cook
- Adam Hornung
- Jayne Snyder

WASTEWATER SYSTEM

Greg MacLean Director of Public Works/Utilities

Lincoln Wastewater System

August 31, 2009 and 2008

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis	3
Financial Statements	
Balance Sheets	9
Statements of Revenues, Expenses and Changes in Net Assets	10
Statements of Cash Flows	11
Notes to Financial Statements	12
Supplementary Information	
Summary of Long-Term Debt	27
Debt Coverage Ratio (unaudited)	28
Operating Expenses	29
Utility Plant in Service	32
General Statistics (unaudited)	33
Top Ten Customers (unaudited)	34
Wastewater Use Charges (unaudited)	35
Summary of Insurance Coverage (unaudited)	41
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 <i>Government Auditing Standards</i>	43

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, 2009 and 2008, 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, 2009 and 2008, 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, 2009 and 2008, 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 30, 2009 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.

November 30, 2009

BKA, LLP

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, 2009 and 2008. 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 \$1,219,251 (0.65%) in 2009 over 2008 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, 2009, 2008, and 2007.

Table 1

Condensed Balance Sheets

	August 31		Variance	
	2009	2008	Dollars	Percent
Current assets	\$ 8,509,370	\$ 8,835,762	(\$326,392)	-3.69%
Capital assets	252,718,286	252,199,939	518,347	0.21%
Long-term investments	14,490,420	18,366,151	(3,875,731)	-21.10%
Deferred charges	782,328	821,232	(38,904)	-4.74%
Total assets	276,500,404	280,223,084	(3,722,680)	-1.33%
Current liabilities	5,765,924	9,265,605	(3,499,681)	-37.77%
Long-term liabilities	83,178,772	84,621,022	(1,442,250)	-1.70%
Total liabilities	88,944,696	93,886,627	(4,941,931)	-5.26%
Net assets				
Invested in capital assets, net of related debt	181,153,293	179,559,321	1,593,972	0.89%
Restricted for debt service	356,741	1,421,370	(1,064,629)	-74.90%
Restricted for capital acquisition	621,524	220,690	400,831	181.63%
Unrestricted	5,424,150	5,135,076	289,074	5.63%
Total net assets	187,555,708	186,336,457	1,219,251	0.65%
Total liabilities and net assets	\$276,500,404	\$280,223,084	(\$3,722,680)	-1.33%

Financial Highlights – Fiscal Year 2009

- Total assets at year-end were \$276,500,404 and exceeded total liabilities by \$187,555,708. Of this amount \$5,424,150 (unrestricted) is available to meet the ongoing obligations of the System.
- Current assets decreased by \$326,392 (-3.69%) due to completion of several construction projects.
- Capital assets increased by \$518,347 (0.21%). Major project additions were:
Theresa Street Plant Improvement – approximately \$980,000
Trunk Sewer Improvement Mains – approximately \$4,273,000
- Long-term investments decreased by \$3,875,731 (-21.10%) due to completion of several major construction projects.
- There was an decrease of \$3,499,681 (-37.77%) in current liabilities primarily because a number of new construction projects were completed during the year.

Table 2**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	179,559,321	171,571,062	7,988,259	4.66%
Restricted for debt service	1,421,370	1,396,215	25,155	1.80%
Restricted for capital acquisition	220,690	687,874	(467,184)	-67.92%
Unrestricted	5,135,076	7,218,180	(2,083,104)	-28.86%
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. Of this amount \$5,135,076 (unrestricted) is available to meet the ongoing obligations of the System.
- 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 3

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

	August 31		Variance	
	2009	2008	Dollars	Percent
Operating revenues	\$21,142,579	\$20,621,911	\$ 520,668	2.52%
Operating expenses				
Plant, pumping and treatment	10,801,562	9,925,015	876,547	8.33%
Operation and maintenance of wastewater lines	4,936,337	4,735,743	200,594	4.24%
Sanitary engineering services	2,090,344	2,011,265	79,079	3.93%
Accounting and collecting	498,284	455,542	42,742	9.38%
Administrative and general	1,033,553	1,051,042	(17,489)	-1.66%
Total operating expenses	19,360,080	18,178,607	1,181,473	6.50%
Operating income	1,782,499	2,443,304	(660,805)	-27.05%
Net nonoperating revenues (expenses)	(2,620,982)	474,857	(3,095,839)	-651.95%
Capital contributions	2,057,734	2,544,965	(487,231)	-19.14%
Change in net assets	\$ 1,219,251	\$ 5,463,126	(\$4,243,875)	-77.68%

Financial Highlights – Fiscal Year 2009

- Operating revenues increased by \$520,668 (2.52%) compared to 2008. This increase was primarily due to a 3% user fee increase implemented with the billings starting in February 2009. 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.
- Net non-operating revenues (expenses) decreased \$3,095,839 (-651.95%) primarily due to a significant decrease in average capital investment resulting in less capitalized interest in 2009 as compared to 2008.

Table 4

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.

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 \$2,300,000 at August 31, 2009.

Forward-Looking Information

The approved Capital Improvement Program for Fiscal Year 2009/10 - 2014/15 identifies the need for \$66,803,000 to fund capital improvements for the Wastewater System. Approximately \$42,068,600 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 2009 and 2008. 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, 2009 and 2008

Assets	2009	2008
Current assets:		
Equity in pooled cash and investments	\$ 3,283,735	3,671,799
Receivables:		
Accounts receivable	1,760,530	1,692,821
Unbilled revenues	2,109,234	2,099,004
Due from other funds	654,229	1,050,393
Impact fees	621,524	220,690
Total receivables	5,145,517	5,062,908
Inventories	80,118	101,055
Total current assets	8,509,370	8,835,762
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and investments	8,002,807	12,011,247
Investments	6,487,613	6,354,904
Total restricted assets	14,490,420	18,366,151
Utility plant	336,378,035	329,037,545
Less accumulated depreciation	83,659,749	76,837,606
Net utility plant	252,718,286	252,199,939
Unamortized bond issue costs	782,328	821,232
Total noncurrent assets	267,991,034	271,387,322
Total assets	\$ 276,500,404	280,223,084
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 380,187	398,790
Accrued liabilities	396,029	399,602
Deposits liability	6,075	8,400
Accrued compensated absences	330,462	329,692
Construction contracts	1,180,787	4,713,274
Current maturities of long-term debt	2,695,000	2,620,000
Accrued interest	777,384	795,847
Total current liabilities	5,765,924	9,265,605
Long-term liabilities:		
Accrued liabilities	28,742	29,594
Accrued compensated absences	184,339	179,496
Construction contracts	2,771,854	1,429,983
Long-term debt, excluding current maturities	80,193,837	82,981,949
Total long-term liabilities	83,178,772	84,621,022
Total liabilities	88,944,696	93,886,627
Net assets:		
Invested in capital assets, net of related debt	181,153,293	179,559,321
Restricted for debt service	356,741	1,421,370
Restricted for capital acquisition	621,524	220,690
Unrestricted	5,424,150	5,135,076
Total net assets	187,555,708	186,336,457
Total liabilities and net assets	\$ 276,500,404	280,223,084

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets

Years ended August 31, 2009 and 2008

	2009	2008
Operating revenues	\$ 21,142,579	20,621,911
Operating expenses:		
Plant, pumping and treatment	10,801,562	9,925,015
Operation and maintenance of wastewater lines	4,936,337	4,735,743
Sanitary engineering services	2,090,344	2,011,265
Accounting and collecting	498,284	455,542
Administrative and general	1,033,553	1,051,042
Total operating expenses	19,360,080	18,178,607
Operating income	1,782,499	2,443,304
Nonoperating revenues (expenses):		
Investment income	998,912	1,261,703
Interest expense	(3,580,990)	(747,942)
Amortization of bond costs	(38,904)	(38,904)
Net nonoperating revenues (expenses)	(2,620,982)	474,857
Increase (decrease) in net assets before capital contributions	(838,483)	2,918,161
Capital contributions from:		
Developers	1,555,955	2,080,712
Tap fees	23,261	32,276
Impact fees	478,518	431,977
Total capital contributions	2,057,734	2,544,965
Increase in net assets	1,219,251	5,463,126
Total net assets - beginning	186,336,457	180,873,331
Total net assets - ending	\$ 187,555,708	186,336,457

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2009 and 2008

	2009	2008
Operating activities:		
Receipts from customers and users	\$ 20,661,481	20,645,611
Payments to suppliers	(5,187,358)	(4,848,083)
Payments to employees	(6,580,411)	(6,362,542)
Net cash provided by operating activities	8,893,712	9,434,986
Noncapital financing activities:		
Repayment from other funds, net	396,164	367,656
Net cash provided by noncapital financing activities	396,164	367,656
Capital and related financing activities:		
Acquisition and construction of capital assets	(8,240,018)	(15,174,630)
Principal paid on revenue bonds	(2,620,000)	(2,415,000)
Interest paid on revenue bonds	(3,692,565)	(996,915)
Net cash used in capital and related financing activities	(14,552,583)	(18,586,545)
Investing activities:		
Purchases of investments	(3,288,340)	(9,197,238)
Proceeds from investment maturities	7,380,050	15,565,485
Interest on investments	782,933	1,214,896
Net cash provided by investing activities	4,874,643	7,583,143
Net decrease in cash and cash equivalents	(388,064)	(1,200,760)
Cash and cash equivalents at beginning of year	3,671,799	4,872,559
Cash and cash equivalents at end of year	\$ 3,283,735	\$ 3,671,799
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 1,782,499	\$ 2,443,304
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,588,789	6,784,983
Changes in operating assets and liabilities:		
Accounts receivable	(478,773)	19,300
Inventories	20,937	(7,366)
Accounts payable	(18,603)	110,741
Accrued liabilities and deposit liability	(6,750)	60,732
Accrued compensated absences	5,613	23,292
Total adjustments	7,111,213	6,991,682
Net cash provided by operating activities	\$ 8,893,712	9,434,986

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$1,555,955 and \$2,080,712 were added to utility plant in 2009 and 2008, respectively.

Accounts payable incurred for utility plant purchases were \$3,952,641 and \$6,143,257 in 2009 and 2008, respectively.

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2009 and 2008

(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, 2009 and 2008, 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, 2009 and 2008

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

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, 2009 and 2008

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

Deposits and Investments

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

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

The System participates in a cash management pool, managed by the City. The pool consists of bank deposits and investments. The System's interest in this pool is shown as equity in pooled cash and investments in the 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. agency obligations are carried at fair value as determined based upon quoted market price. 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

The 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, 2009 and 2008

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

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 \$1.62 and \$1.575 per hundred cubic feet of water as of August 31, 2009 and 2008, 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, 2009 and 2008.

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, 2009 and 2008

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

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, 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, death, or reduction in force, an employee or their beneficiary is reimbursed for 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, 2009 and 2008 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, 2009	\$509,188	335,305	329,692	514,801	330,462
August 31, 2008	\$485,896	322,153	298,861	509,188	329,692

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2009 and 2008

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

Other Post-Employment Benefits

The Wastewater System recorded a liability for the annual required contribution (ARC) of approximately \$29,000 and \$30,000 as of August 31, 2009 and 2008, respectively, in connection with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The complete disclosures required by GASB 45 are included in the City of Lincoln Comprehensive Annual Financial Report (CAFR).

Use of Estimates

Management of the Lincoln Wastewater System has made a number of estimates and assumptions relating to the reporting of 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 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on the change in net assets.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2009 and 2008

(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. One or more of the financial institutions holding the City's cash accounts are participating in the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program. Under the program, through June 30, 2010, all noninterest-bearing transaction accounts at these institutions are fully guaranteed by the FDIC for the entire amount in the account. For interest-bearing cash accounts, the City's cash deposits, including certificates of deposit, are insured up to \$250,000 by the FDIC. Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits, are covered by collateral held in a Federal Reserve pledge account or by an agent for the City and thus no custodial risk exists. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Investments

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. Lincoln Wastewater System's investments in U.S. Agency obligations at August 31, 2009 and 2008, are held in a book entry system in an account designated as a customer account at the Depository Trust Company and the custodian's internal records identifies the City as owner. Securities pledged as collateral for Lincoln Wastewater System's investments in collateralized investment agreements are held by outside counterparties and the custodian's internal records identifies the City as owner.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2009 and 2008

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

At August 31, 2009 and 2008, the Lincoln Wastewater System had the following investments and maturities:

Type	August 31, 2009				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Agency obligations	\$5,257,632	-	5,257,632	-	-
Collateralized Investment Agreement	<u>1,229,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,229,981</u>
	<u>\$6,487,613</u>	<u>-</u>	<u>5,257,632</u>	<u>-</u>	<u>1,229,981</u>

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	-	-
Collateralized 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>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2009 and 2008

(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. Fixed income 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 collateralized investment agreements with an initial rating at least AA- by Standard & Poor's (S & P) and Aa3 by Moody's Investor Service (Moody's) with provisions that if the provider is downgraded below AA- by S & P or Aa3 by Moody's the provider must deliver collateral of United States government agencies obligations at a margin of 104%, and if the provider is further downgraded below A- by S & P or A3 by Moody's, the issuer will have the right to terminate the agreement and receive all invested amounts plus accrued but unpaid interest without penalty. As of August 31, 2009 and 2008, the Lincoln Wastewater System investments in United States agencies obligations not directly guaranteed by the United States government were rated AAA by S & P and Aaa by Moody's. The provider of the collateralized investment agreement was rated AA- by S & P and Aaa by Moody's as of August 31, 2009 and 2008.

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 debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument. As of August 31, 2009 and 2008, the Lincoln Wastewater System's investments in U.S. Agencies obligations constituted 29% and 23% respectively, and the collateralized investment agreement constituted 7% and 5% 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, 2009 and 2008, are:

	<u>2009</u>	<u>2008</u>
Equity in pooled cash and investments	\$11,286,542	15,683,046

Investment Income

Investment income for the years ended August 31, 2009 and 2008, consisted of:

	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$730,913	1,082,492
Net increase in fair value of investments	267,999	179,211
	<u>\$998,912</u>	<u>1,261,703</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2009 and 2008

(3) Utility Plant

Utility plant is summarized by major classification at August 31, 2009 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2008	Increases	Decreases	August 31, 2009	August 31, 2008	Increases	Decreases	August 31, 2009	August 31, 2009
Structures and improvements	\$ 75,130,556	409,908	(348,398)	75,192,066	(18,651,704)	(1,710,526)	348,398	(20,013,832)	55,178,234
Line equipment	10,159	-	-	10,159	(8,161)	(481)	-	(8,642)	1,517
Treatment equipment	55,568,115	49,023	(292,795)	55,324,343	(14,057,133)	(2,545,137)	292,795	(16,309,475)	39,014,868
Transmission mains	176,772,429	9,265,867	-	186,038,296	(39,344,497)	(2,752,517)	-	(42,097,014)	143,941,282
Environmental equipment	331,066	8,082	-	339,148	(229,479)	(49,229)	-	(278,708)	60,440
Office furniture and equipment	418,642	11,392	(24,924)	405,110	(247,063)	(24,588)	24,924	(246,727)	158,383
Shop equipment	291,788	15,180	-	306,968	(164,297)	(17,336)	-	(181,633)	125,335
Communications system	505,843	-	(13,060)	492,783	(75,025)	(45,978)	13,060	(107,943)	384,840
Laboratory equipment	547,469	15,593	(55,707)	507,355	(418,263)	(41,769)	55,707	(404,325)	103,030
Injection system	658,907	-	-	658,907	(352,311)	(14,722)	-	(367,033)	291,874
Pond and liner	520,132	-	-	520,132	(404,392)	(14,468)	-	(418,860)	101,272
Sludge injection equipment	43,906	-	(3,602)	40,304	(43,382)	(524)	3,602	(40,304)	-
Transmission/work equipment	236,322	-	-	236,322	(165,423)	(4,726)	-	(170,149)	66,173
Meters	4,010,591	-	-	4,010,591	(1,276,624)	(200,530)	-	(1,477,154)	2,533,437
Vehicles	2,244,296	505,269	(28,160)	2,721,405	(1,399,852)	(166,258)	28,160	(1,537,950)	1,183,455
Total depreciable assets	317,290,221	10,280,314	(766,646)	326,803,889	(76,837,606)	(7,588,789)	766,646	(83,659,749)	243,144,140
Land and land rights	5,454,208	320,641	-	5,774,849	-	-	-	-	5,774,849
Construction in progress	6,293,116	5,967,222	(8,461,041)	3,799,297	-	-	-	-	3,799,297
Total nondepreciable assets	11,747,324	6,287,863	(8,461,041)	9,574,146	-	-	-	-	9,574,146
Total capital assets	\$ 329,037,545	16,568,177	(9,227,687)	336,378,035	(76,837,606)	(7,588,789)	766,646	(83,659,749)	252,718,286

During 2009, Lincoln Wastewater System incurred \$3,708,468 of interest cost. Interest capitalized into construction in progress during 2009 was \$127,478. 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 2.32% in 2009.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2009 and 2008

(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, 2009 and 2008

(4) Long-term Debt

Long-term debt of Lincoln Wastewater System at August 31, 2009 and 2008 is summarized below:

Type of Debt	August 31, 2008	Additions	Reductions	August 31, 2009	Due Within One Year
2.0% - 5.0% Wastewater Revenue & Refunding Bonds, Series 2003, due in annual principal installments on June 15, increasing from \$1,660,000 in 2010 to the final payment of \$3,450,000 in 2028.	\$47,105,000	—	1,620,000	45,485,000	1,660,000
4.0% - 5.0% Wastewater Revenue Bonds Series 2005, due in annual principal installments on June 15, increasing from \$505,000 in 2010 to the final payment of \$1,130,000 in 2030.	16,520,000	—	490,000	16,030,000	505,000
4.0% - 4.5% Wastewater Revenue Bonds Series 2007, due in annual principal installments on June 15, increasing from \$530,000 in 2010 to the final payment of \$1,305,000 in 2032.	20,100,000	—	510,000	19,590,000	530,000
Unamortized premium on bonds	1,876,949	—	93,112	1,783,837	—
	<u>\$85,601,949</u>	<u>—</u>	<u>2,713,112</u>	<u>82,888,837</u>	<u>2,695,000</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2009 and 2008

(4) Long-term Debt (continued)

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>

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.

Maturities and sinking fund requirements on long-term debt at August 31, 2009, are shown below.

Years ending August 31	Principal	Interest	Total
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	3,085,000	3,263,218	6,348,218
2015-2019	17,325,000	14,013,552	31,338,552
2020-2024	21,365,000	9,603,692	30,968,692
2025-2029	23,110,000	4,127,900	27,237,900
2030-2032	4,880,000	383,784	5,263,784
Total	\$81,105,000	45,622,846	126,727,846

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2009 and 2008

(4) Long-term Debt (continued)

The City has pledged future revenues derived from the operation of the Lincoln Wastewater System, net of operating and maintenance expenses, to repay all outstanding wastewater revenue bonds. Proceeds from the bonds provided financing for improvements to the sanitary sewer system, as well as refunding a \$4.5 million loan to the City from the Nebraska Department of Environmental Quality. The bonds are payable solely from the net earnings of the Wastewater System and are payable through 2032. The total principal and interest remaining to be paid on the bonds is \$126,727,846, with annual payments expected to require 59.2 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$6,440,044 and \$10,871,979, respectively.

(5) Commitments and Contingencies

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$2,300,000 at August 31, 2009.

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, 2009, the System's commitment to these developers is estimated to be approximately \$20,100,000 over the next 10 - 15 years.

(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 \$92,571,000 based on borrowing rates currently available as of August 31, 2009.
- *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.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2009 and 2008

(7) Related Party Transactions

The City billed the Wastewater System approximately \$343,000 and \$358,000 for administrative services during 2009 and 2008, 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 \$806,000 and \$760,000 during 2009 and 2008, respectively. At August 31, 2009, approximately \$61,000 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 \$621,524 and \$220,690 as of August 31, 2009 and 2008, 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 \$654,229 and \$1,050,393 as of August 31, 2009 and 2008, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the balance sheets.

(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 \$419,000 and \$399,000 in 2009 and 2008, 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 \$521,000 and \$479,000 for 2009 and 2008, respectively. Contributions made by the plan members were approximately \$271,000 and \$264,000 for 2009 and 2008, respectively.

SUPPLEMENTARY
INFORMATION

LINCOLN WASTEWATER SYSTEM

Schedule 1

Summary of Long-Term Debt

August 31, 2009

Due years ending August 31	Series 2003		Series 2005		Series 2007		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
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	1,890,000	1,903,968	580,000	615,362	615,000	743,888	3,085,000	3,263,218	6,348,218
2015-2019	10,600,000	8,028,590	3,255,000	2,655,122	3,470,000	3,329,840	17,325,000	14,013,552	31,338,552
2020-2024	13,135,000	5,143,340	3,980,000	1,897,772	4,250,000	2,562,580	21,365,000	9,603,692	30,968,692
2025-2029	12,895,000	1,637,734	4,955,000	940,714	5,260,000	1,549,452	23,110,000	4,127,900	27,237,900
2030-2032	-	-	1,130,000	50,850	3,750,000	332,934	4,880,000	383,784	5,263,784
	\$ 45,485,000	25,023,332	16,030,000	8,876,468	19,590,000	11,723,046	81,105,000	45,622,846	126,727,846

LINCOLN WASTEWATER SYSTEM

Schedule 2

Debt Coverage Ratio

Last ten fiscal years

(Unaudited)

Fiscal Year Ending	Gross Revenue	Direct Operating Expenses	Net Available Balance	Debt Service Requirement			
				Principal	Interest	Total	Coverage
2000	16,741,692	7,707,242	9,034,450	912,500	411,097	1,323,597	6.83
2001	16,663,975	8,087,688	8,576,287	952,500	364,972	1,317,472	6.51
2002	15,731,749	8,632,287	7,099,462	992,500	316,847	1,309,347	5.42
2003	15,607,743	9,086,469	6,521,274	1,032,500	266,722	1,299,222	5.02
2004	18,092,619	10,042,919	8,049,700	1,750,000	2,135,009	3,885,009	2.07
2005	18,248,683	10,482,955	7,765,728	1,500,000	2,404,824	3,904,824	1.99
2006	19,827,194	11,125,819	8,701,375	2,065,000	3,044,805	5,109,805	1.70
2007	21,158,743	11,462,964	9,695,779	2,005,000	3,082,787	5,087,787	1.91
2008	22,347,867	11,393,624	10,954,243	2,415,000	4,030,454	6,445,454	1.70
2009	22,643,270	11,771,291	10,871,979	2,620,000	3,820,044	6,440,044	1.69

Operating Expenses

Years ended August 31, 2009 and 2008

	2009	2008
Plant, pumping and treatment:		
Theresa Street Treatment Plant:		
Supervision and management	\$ 345,412	347,846
Administrative and support staff	54,853	55,544
Training and education	33,564	37,090
Data management	163,454	153,651
General operations	874,731	916,763
Treatment and process control	584,196	562,804
Solids processing	1,042,024	1,058,825
Structures maintenance	270,493	247,465
Process equipment maintenance	530,728	419,322
Control system maintenance	148,313	191,605
Electrical maintenance	118,199	72,540
Grounds maintenance	57,513	44,505
Depreciation of structure and improvement	1,427,436	1,159,821
Depreciation of treatment equipment	1,907,436	1,593,138
Depreciation of meters	200,530	200,530
Depreciation of office/communications equipment	46,313	20,491
Total Theresa Street Treatment Plant	\$ 7,805,195	7,081,940
Northeast Treatment Plant:		
Supervision and management	\$ 91,572	101,235
Administrative and support staff	15,811	15,319
Training and education	10,760	13,604
Data management	49,419	56,749
General operations	486,559	420,960
Treatment and process control	199,124	190,449
Solids processing	482,658	411,488
Structures maintenance	77,825	61,605
Process equipment maintenance	145,651	174,236
Control system maintenance	82,583	84,519
Electrical maintenance	54,432	46,182
Grounds maintenance	60,455	73,935
Depreciation of structures and improvements	260,659	260,831
Depreciation of treatment system	572,273	571,982
Depreciation of injection system	34,439	37,946
Depreciation of shop and laboratory equipment	8,432	8,709
Depreciation of office/communications equipment	648	649
Total Northeast Treatment Plant	\$ 2,633,300	2,530,398

Operating Expenses, Continued

	2009	2008
Liftstations:		
Data management	\$ 214	2,566
General operations	53,184	38,994
Structures maintenance	26,491	13,045
Process equipment maintenance	81,772	96,148
Control system maintenance	41,086	27,087
Electrical maintenance	16,434	4,731
Grounds maintenance	2,357	1,949
Depreciation of liftstations	141,529	128,157
Total liftstations	363,067	312,677
Total plant, pumping and treatment	\$ 10,801,562	9,925,015
Operation and maintenance of wastewater lines:		
Supervision and management	\$ 279,387	266,020
Administrative and support staff	45,160	42,473
Training and education	34,255	44,136
Data management	187,678	166,472
General operations	336,986	349,974
Structures maintenance	13,257	11,950
Main repair/maintenance	102,400	196,051
Manhole repair/rehabilitation	51,174	49,382
Customer service	270,018	306,473
Cleaning maintenance	651,441	575,179
Field operations	277,724	203,991
Depreciation of structures and improvements	908	908
Depreciation of treatment equipment	61,061	61,097
Depreciation of shop and lab equipment	4,131	8,268
Depreciation of transmission mains	2,620,757	2,453,369
Total operation and maintenance of wastewater lines	\$ 4,936,337	4,735,743
Sanitary engineering services:		
Supervision and management	\$ 424,491	406,466
Administrative and support staff	55,922	55,681
Training and education	10,331	15,396
Data management	235,537	189,223
Laboratory operations	745,404	741,745
Field operations	502,036	485,047
Depreciation of structures and improvements	16,083	15,947
Depreciation of treatment equipment	516	516
Depreciation of office/communications equipment	4,584	3,099
Depreciation of shop and laboratory equipment	95,440	98,145
Total sanitary engineering services	\$ 2,090,344	2,011,265

Operating Expenses, Continued

	2009	2008
Accounting and collecting:		
Supervision and management	\$ 128,781	125,985
Administrative and support staff	1,528	871
Meter reading	75,411	76,423
Billing and accounting	144,888	111,863
Collections	71,903	69,459
Customer services and billing	51,074	48,201
Customer contracts and orders	22,990	22,740
Depreciation of office/communications equipment	1,709	-
Total accounting and collecting	\$ 498,284	455,542
Administrative and general:		
Supervision and management	\$ 872,465	913,817
Administrative and support staff	108,216	82,844
Delivery service	35,225	36,733
Depreciation of office and communication equipment	17,647	17,648
Total administrative and general	\$ 1,033,553	1,051,042

LINCOLN WASTEWATER SYSTEM

Schedule 4

Utility Plant in Service

August 31, 2009

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2008	Increases	Decreases	August 31, 2009	August 31, 2008	Increases	Decreases	August 31, 2009	August 31, 2009
Theresa Street Plant:									
Structures and improvements	\$ 59,732,647	409,908	(348,398)	59,794,157	(11,806,624)	(1,446,425)	348,398	(12,904,651)	46,889,506
Line equipment	10,159	-	-	10,159	(8,161)	(481)	-	(8,642)	1,517
Treatment equipment	34,431,397	19,522	(286,900)	34,164,019	(12,015,607)	(1,976,305)	286,900	(13,705,012)	20,459,007
Transmission mains	176,772,429	9,265,867	-	186,038,296	(39,346,182)	(2,752,517)	-	(42,098,699)	143,939,597
Environmental equipment	331,066	8,082	-	339,148	(229,479)	(49,229)	-	(278,708)	60,440
Office furniture and equipment	407,229	11,392	(24,924)	393,697	(242,769)	(23,940)	24,924	(241,785)	151,912
Shop equipment	141,486	15,180	-	156,666	(104,114)	(8,905)	-	(113,019)	43,647
Communications system	505,843	-	(13,060)	492,783	(75,025)	(45,978)	13,060	(107,943)	384,840
Laboratory equipment	547,469	15,593	(55,707)	507,355	(418,263)	(41,769)	55,707	(404,325)	103,030
Meters	4,010,591	-	-	4,010,591	(1,276,624)	(200,530)	-	(1,477,154)	2,533,437
Theresa Street depreciable assets	276,890,316	9,745,544	(728,989)	285,906,871	(65,522,848)	(6,546,079)	728,989	(71,339,938)	214,566,933
Land and land rights	3,399,833	320,641	-	3,720,474	-	-	-	-	3,720,474
Theresa Street nondepreciable assets	3,399,833	320,641	-	3,720,474	-	-	-	-	3,720,474
Total Theresa Street Plant	280,290,149	10,066,185	(728,989)	289,627,345	(65,522,848)	(6,546,079)	728,989	(71,339,938)	218,287,407
Northeast Plant:									
Structures and improvements	15,397,909	-	-	15,397,909	(6,845,080)	(264,101)	-	(7,109,181)	8,288,728
Treatment equipment	21,136,718	29,501	(5,895)	21,160,324	(2,041,526)	(568,832)	5,895	(2,604,463)	18,555,861
Office furniture and equipment	11,413	-	-	11,413	(4,294)	(648)	-	(4,942)	6,471
Shop and work equipment	150,302	-	-	150,302	(60,183)	(8,431)	-	(68,614)	81,688
Laboratory equipment	-	-	-	-	-	-	-	-	-
Injection system	658,907	-	-	658,907	(352,311)	(14,722)	-	(367,033)	291,874
Pond and liner	520,132	-	-	520,132	(404,392)	(14,468)	-	(418,860)	101,272
Sludge injection equipment	43,906	-	(3,602)	40,304	(43,382)	(524)	3,602	(40,304)	-
Transmission mains	-	-	-	-	1,685	-	-	1,685	1,685
Transmission/work equipment	236,322	-	-	236,322	(165,423)	(4,726)	-	(170,149)	66,173
Northeast depreciable assets	38,155,609	29,501	(9,497)	38,175,613	(9,914,906)	(876,452)	9,497	(10,781,861)	27,393,752
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	40,209,984	29,501	(9,497)	40,229,988	(9,914,906)	(876,452)	9,497	(10,781,861)	29,448,127
Vehicles and work equipment (all locations)	2,244,296	505,269	(28,160)	2,721,405	(1,399,852)	(166,258)	28,160	(1,537,950)	1,183,455
Utility plant in service	\$ 322,744,429	10,600,955	(766,646)	332,578,738	(76,837,606)	(7,588,789)	766,646	(83,659,749)	248,918,989
Construction in progress	6,293,116	5,967,222	(8,461,041)	3,799,297	-	-	-	-	3,799,297
Total capital assets	\$ 329,037,545	16,568,177	(9,227,687)	336,378,035	(76,837,606)	(7,588,789)	766,646	(83,659,749)	252,718,286

LINCOLN WASTEWATER SYSTEM

GENERAL STATISTICS

Year Ended August 31, 2009

(Unaudited)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	90.48 Square Miles
Population	255,260 Estimate
Total Miles of Wastewater Mains & Collector Lines In Use:	
Miles in use September 1, 2008	1,005.9
Estimated Added During Year	3.8
Estimated Removed During Year	0.0
Total as of August 31, 2009	1,009.7 Miles
Number of Wastewater Lift (Pumping) Stations:	15
Number of Stormwater Pumping Stations:	4
Plant Capacity:	
Theresa Street Treatment Facility	27.4 million gallons per day
Northeast Treatment Facility	10.0 million gallons per day
Average Daily Flow:	
Theresa Street Treatment Facility	19.55 million gallons per day
Northeast Treatment Facility	5.12 million gallons per day
Total Number of Active Residential Wastewater Customers	
End of Fiscal Year	73,409
Total Number of Active Non-Residential Wastewater Customers	
End of Fiscal Year	4,204
Debt of Lincoln Wastewater System as of August 31, 2009	\$81,105,000

LINCOLN WASTEWATER SYSTEM**TOP TEN CUSTOMERS****Year Ended August 31, 2009**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	286,634	\$486,060
2. State of Nebraska	224,054	371,061
3. Archer-Daniels Midland Company	129,410	224,475
4. BryanLGH Medical Center	115,100	192,993
5. University of Nebraska Foundation	107,053	184,568
6. Lincoln Housing Authority	92,630	172,943
7. Lincoln Public Schools	87,176	154,852
8. Lincoln Plating	84,417	146,898
9. Pfizer Animal Health	79,231	138,924
10. Veyance Technologies, Inc.	55,961	97,444
Top Ten User Totals	1,261,666	\$2,170,218



09R-138

Introduce: 8-03-09

RESOLUTION NO. A- 85488

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, the wastewater rate increases are based upon financial projections which
5 demonstrate the necessity for the increase to support the construction of needed facility
6 improvements, debt service, and the operation and maintenance of the system to provide
7 community-wide wastewater service.

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

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

13 NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Lincoln,
14 Nebraska:

15 Effective with the "H" billing cycle commencing in November 2009, the following
16 schedule of wastewater use charges is hereby established and adopted:

BASIC WASTEWATER USE CHARGE

17
18 (a) The basic wastewater use unit charge is hereby established as 168.5 cents.

19 (b) For any given residential property, the basic wastewater use charge for each billing
20 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	\$ 1.36
3	3/4 inch	1.36
4	1 inch	1.36
5	1-1/2 inch	2.72
6	2 inch	5.45
7	3 inch	12.26
8	4 inch	21.80
9	6 inch	49.06
10	8 inch	87.20
11	10 inch	136.26

12 The minimum service charge for a multiple dwelling unit or a mobile home shall be at
 13 least \$0.81 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 \$1.36 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-84990, adopted by the City
 23 Council on August 25, 2008 is hereby superseded.

See further Council Proceedings on
next page.

Introduced by:

AYES: Camp, Carroll, Cook,
 Emery, Hornung, Snyder, Spatz;
 NAYS: None.

Approved as to Form & Legality:

City Attorney

ADOPTED
 AUG 24 2009

BY CITY COUNCIL

Approved this 27th day of Aug., 2009:

Mayor

09R-138

8/3/09 Council Proceedings:

COOK Moved to have Public Hearing of Bill No. 09R-138 on 8/10/09 with the Budget Hearing and to have action on 8/24/09.

 Seconded by Carroll & carried by the following vote: AYES: Carroll, Cook, Emery, Hornung, Snyder, Spatz; NAYS: None; ABSENT: Camp.

<h1 style="margin: 0;">CITY OF LINCOLN</h1> <p style="margin: 10px 0;">Request for: <input type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution</p>	(Do Not Write in this Space)
	Bill Control No. <u>09R-138</u> Date: <u>7/24</u>
	Docketing Date <u>8/3; PH: 8-10-09</u>
	(To Be Entered by City Clerk)

DATE July 22, 2009	REQUEST MADE BY Greg MacLean	DEPARTMENT Public Works/Utilities
DESIRED DOCKET DATE: 8-3; PH 8-10-09		IF EMERGENCY, GIVE REASON (See Art. 6, Sec. 2 of Charter)
Emergency Measure Required: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		

REASONS OR JUSTIFICATION FOR PROPOSED LEGISLATION

To establish a new schedule for wastewater use charges to increase revenues for the Lincoln Wastewater System for purposes of covering a portion of the System's operational and maintenance costs including debt service, and a portion of the costs of the Capital Improvements Program for F.Y. 2009-10.

FILED

CITY CLERK'S OFFICE

2009 JUL 24 AM 9 53

CITY OF LINCOLN
NEBRASKA

REQUESTOR <input type="checkbox"/> DOES <input checked="" type="checkbox"/> DOES NOT	WISH TO REVIEW AND APPROVE THIS ORDINANCE PRIOR TO ITS INTRODUCTION		<u>7/24/09</u> DATE
--	--	--	------------------------

TO BE USED BY THE FINANCE DEPARTMENT

BUDGET REVIEW	DATE:	ACCOUNT NUMBER AND APPROPRIATE BALANCES	DATE:	FUND AVAILABILITY APPROVED	DATE:
DIRECTOR OF FINANCE SIGNATURE					

DISTRIBUTION

Return two (2) copies to City Clerk for Docket Number

City Council Introduction: August 3, 2009

Bill Number 09R-138

Public Hearing: August 10, 2009

FACT SHEET

TITLE: Proposed Resolution to increase Wastewater Use Charges

SPONSOR: Public Works/Utilities

OPPONENTS: Unknown

OTHER DEPARTMENTS AFFECTED:

STAFF RECOMMENDATION: For

APPLICANT: Public Works/Utilities

REASON FOR LEGISLATION: To establish a new schedule for wastewater use charges to increase revenues for the Lincoln Wastewater System for purposes of covering a portion of the System's operational and maintenance costs including debt service, and a portion of the costs of the Capital Improvements Program for F.Y. 2009-10. Residential wastewater use charges are based on water usage during a winter billing cycle. Non-residential wastewater use charges are based on water used during each cycle. The unit of measurement of wastewater use is 1 HCF (HCF equals 100 cubic feet, which is equivalent to 748 gallons).

DISCUSSION

The Public Works/Utilities Department recommends that the current schedule of wastewater use charges be increased as shown below. This schedule results in an increase of 4% on an average wastewater bill. For a residential customer, this is a 64¢ increase.

The Lincoln Wastewater System is proposing to implement these increases with the "H" billing cycle commencing in November 2009, and ending in January 2010.

Current Schedule

New Schedule

162.0¢/HCF

168.5¢

FACT SHEET PREPARED BY: *Inan Meiri* Business Manager of Public Works/Utilities

REVIEWED BY: *Greg Magler* Director of Public Works/Utilities

Lincoln Wastewater System

Summary of Insurance Coverage

August 31, 2009

(Unaudited)

Type of policy	Insurance coverage	Policy limits	Self-insured retention deductible	Self-insurance deductible	Insurance carrier	Policy number
Automobile Fleet Liability	Self-Insured Excess Coverage Excess Coverage	0 - 250,000 250,000 - 1,000,000 1,000,000 - 6,000,000	250,000		States	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 ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	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***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	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.

*** Public Entity Policy

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, 2009, and have issued our report thereon dated November 30, 2009. 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 30, 2009.

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.

November 30, 2009

BKD, LLP