

LINCOLN WASTEWATER SYSTEM

Financial Statements & Schedules
Fiscal Year Ended
August 31, 2011

Stevens Creek
Phase II Sanitary Sewer
Trunk Line Construction



ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS/UTILITIES

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WASTEWATER SYSTEM

Miki Esposito Interim Director of Public Works/Utilities

Lincoln Wastewater System

August 31, 2011 and 2010

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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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 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.

EKL, LLP

November 30, 2011

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, 2011 and 2010. 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 \$1,263,761 (0.665%) in 2011 over 2010 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, 2011, 2010, and 2009.

Table 1

Condensed Balance Sheets

	August 31		Change	
	2011	2010	Dollars	Percent
Current assets	\$ 8,610,594	\$ 9,966,480	(\$1,355,886)	(13.604%)
Capital assets	253,352,163	253,702,816	(350,653)	(0.138%)
Long-term investments	18,875,656	14,813,015	4,062,641	27.426%
Deferred charges	704,520	743,424	(38,904)	(5.233%)
Total assets	281,542,933	279,225,735	2,317,198	0.830%
Current liabilities	6,986,882	5,874,660	1,112,222	18.933%
Long-term liabilities	83,267,999	83,326,784	(58,785)	(0.071%)
Total liabilities	90,254,881	89,201,444	1,053,437	1.181%
Net assets				
Invested in capital assets, net of related debt	171,395,000	178,631,892	(7,236,892)	(4.051%)
Restricted for debt service	1,019,749	860,936	158,813	18.447%
Restricted for capital acquisition	686,631	522,914	163,717	31.309%
Unrestricted	18,186,672	10,008,549	8,178,123	81.711%
Total net assets	191,288,052	190,024,291	1,263,761	0.665%
Total liabilities and net assets	\$281,542,933	\$279,225,735	\$2,317,198	0.830%

Financial Highlights - Fiscal Year 2011

- Total assets at year-end were \$281,542,933 and exceeded total liabilities by \$191,288,052. Of this amount \$18,186,672 (unrestricted) is available to meet the ongoing obligations of the System.
- Current assets decreased by \$1,355,886 (-13.604%) because accounts receivable balances were lower at fiscal year end.
- Long term investments increased by \$4,062,641 (27.426%), so the System could build cash positions and maintain Wastewater's bonding capacity for future years.
- Current liabilities increased by \$1,112,222 (18.933%) primarily due to progress payments on construction projects.

Table 2
Condensed Balance Sheets

	August 31		Change	
	2010	2009	Dollars	Percent
Current assets	\$ 9,966,480	\$ 8,509,370	\$1,457,110	17.124%
Capital assets	253,702,816	252,718,286	984,530	0.390%
Long-term investments	14,813,015	14,490,420	322,595	2.226%
Deferred charges	743,424	782,328	(38,904)	(4.973%)
Total assets	279,225,735	276,500,404	2,725,331	0.986%
Current liabilities	5,874,660	5,765,924	108,736	1.886%
Long-term liabilities	83,326,784	83,178,772	148,012	0.178%
Total liabilities	89,201,444	88,944,696	256,748	0.289%
Net assets				
Invested in capital assets, net of related debt	178,631,892	181,153,293	(2,521,401)	(1.392%)
Restricted for debt service	860,936	356,741	504,195	141.334%
Restricted for capital acquisition	522,914	621,524	(98,610)	(15.866%)
Unrestricted	10,008,549	5,424,150	4,584,399	84.518%
Total net assets	190,024,291	187,555,708	2,468,583	1.316%
Total liabilities and net assets	\$279,225,735	\$276,500,404	\$2,725,331	0.986%

Financial Highlights – Fiscal Year 2010

- Total assets at year-end were \$279,225,735 and exceeded total liabilities by \$190,024,291. Of this amount \$10,008,549 (unrestricted) is available to meet the ongoing obligations of the System.
- Current assets increased by \$1,457,110 (17.124%) due to a federal grant receivable related to a construction project.

Table 3

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

	August 31		Change	
	2011	2010	Dollars	Percent
Operating revenues	\$22,973,653	\$21,703,427	\$1,270,226	5.853%
Operating expenses				
Plant, pumping and treatment	10,665,966	10,390,762	275,204	2.649%
Operation and maintenance of wastewater lines	5,387,136	4,956,071	431,065	8.698%
Sanitary engineering services	2,154,083	1,983,115	170,968	8.621%
Accounting and collecting	491,885	482,777	9,108	1.887%
Administrative and general	973,147	1,015,204	(42,057)	(4.143%)
Total operating expenses	19,672,217	18,827,929	844,288	4.484%
Operating income	3,301,436	2,875,498	425,938	14.813%
Net nonoperating expenses	(3,119,335)	(2,294,476)	(824,859)	35.950%
Capital contributions	1,081,660	1,887,561	(805,901)	(42.695%)
Change in net assets	\$ 1,263,761	\$ 2,468,583	(\$1,204,822)	(48.806%)

Financial Highlights – Fiscal Year 2011

- Operating revenues increased by \$1,270,226 (5.853%) compared to 2010. This increase was primarily due to a 5% user fee increase implemented with the billings starting in February 2011. Sanitary sewer bills for residential customers are based on water usage during a two-month period during the winter and remain the same over the balance of the following ten-month period. Non-residential customers are billed for sanitary sewer based on their monthly water usage.
- Operating expenses increased \$844,288 (4.484%) because of increased personnel and chemicals costs.
- Net non-operating expenses increased \$824,859 (35.950%) primarily due to a reduction in insurance proceeds and investment income.
- Lincoln Wastewater System reported capital contributions of \$1,081,660.

Table 4

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

	August 31		Change	
	2010	2009	Dollars	Percent
Operating revenues	\$21,703,427	\$21,142,579	\$ 560,848	2.653%
Operating expenses				
Plant, pumping and treatment	10,390,762	10,912,603	(521,841)	(4.782%)
Operation and maintenance of wastewater lines	4,956,071	4,944,981	11,090	0.224%
Sanitary engineering services	1,983,115	2,095,948	(112,833)	(5.383%)
Accounting and collecting	482,777	498,284	(15,507)	(3.112%)
Administrative and general	1,015,204	908,264	106,940	11.774%
Total operating expenses	18,827,929	19,360,080	(532,151)	(2.749%)
Operating income	2,875,498	1,782,499	1,092,999	61.318%
Net nonoperating expenses	(2,294,476)	(2,620,982)	326,506	(12.457%)
Capital contributions	1,887,561	2,057,734	(170,173)	(8.270%)
Change in net assets	\$ 2,468,583	\$ 1,219,251	\$1,249,332	102.467%

Financial Highlights – Fiscal Year 2010

- Operating revenues increased by \$560,848 (2.653%) compared to 2009. This increase was primarily due to a 4% user fee increase implemented with the billings starting in February 2010. 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 expenses decreased \$326,506 (-12.457%) primarily due to a reduction in interest income on investments and a reimbursement from insurance proceeds.

Debt Activity

In August 2009, the Lincoln Wastewater System received a loan from the Nebraska Department of Environmental Quality (NDEQ) to fund several improvements to the Wastewater's Collection & Treatment system, of which \$1,250,000 is American Recovery & Reimbursement Act (ARRA) funds. An additional \$1,250,000 of ARRA funds were received as a grant, and do not require repayment.

In February 2010, the Lincoln Wastewater System entered into another loan with the Nebraska Department of Environmental Quality (NDEQ) to fund additional improvements to the Wastewater Collection & Treatment System.

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 \$8,800,000 at August 31, 2011.

Forward-Looking Information

The approved Capital Improvement Program for Fiscal Year 2011/12 - 2016/17 identifies the need for \$61,738,000 to fund capital improvements for the Wastewater System. Approximately \$29,685,000 of that total is projected to be funded by revenue bonds. Future user fee increases will be necessary to make the needed improvements possible.

Contact Information

This financial report is intended to provide users a general overview of the System's financial performance for 2011 and 2010. 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, 2011 and 2010

Assets	2011	2010
Current assets:		
Equity in pooled cash and investments	\$ 2,401,211	3,080,393
Receivables:		
Accounts receivable	1,883,051	1,860,228
Other accounts receivable	659,878	1,580,036
Unbilled revenues	2,386,904	2,238,194
Due from other funds	527,415	581,735
Impact fees	686,631	522,914
Total receivables	6,143,879	6,783,107
Inventories	65,504	102,980
Total current assets	8,610,594	9,966,480
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and investments	12,669,491	8,396,064
Investments	6,206,165	6,416,951
Total restricted assets	18,875,656	14,813,015
Utility plant	350,736,250	344,084,851
Less accumulated depreciation	97,384,087	90,382,035
Net utility plant	253,352,163	253,702,816
Unamortized bond issue costs	704,520	743,424
Total noncurrent assets	272,932,339	269,259,255
Total assets	\$ 281,542,933	279,225,735
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 319,901	249,416
Accrued liabilities	467,281	424,898
Deposits liability	6,574	11,074
Accrued compensated absences	364,696	347,742
Construction contracts	1,996,813	1,305,063
Current maturities of long-term debt	3,075,092	2,785,000
Accrued interest	756,525	751,467
Total current liabilities	6,986,882	5,874,660
Long-term liabilities:		
Accrued liabilities	138,352	84,011
Accrued compensated absences	194,408	196,528
Construction contracts	1,796,829	2,681,630
Long-term debt, excluding current maturities	81,138,410	80,364,615
Total long-term liabilities	83,267,999	83,326,784
Total liabilities	90,254,881	89,201,444
Net assets:		
Invested in capital assets, net of related debt	171,395,000	178,631,892
Restricted for debt service	1,019,749	860,936
Restricted for capital acquisition	686,631	522,914
Unrestricted	18,186,672	10,008,549
Total net assets	191,288,052	190,024,291
Total liabilities and net assets	\$ 281,542,933	279,225,735

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets

Years ended August 31, 2011 and 2010

	2011	2010
Operating revenues	\$ 22,973,653	21,703,427
Operating expenses:		
Plant, pumping and treatment	10,665,966	10,390,762
Operation and maintenance of wastewater lines	5,387,136	4,956,071
Sanitary engineering services	2,154,083	1,983,115
Accounting and collecting	491,885	482,777
Administrative and general	973,147	1,015,204
Total operating expenses	19,672,217	18,827,929
Operating income	3,301,436	2,875,498
Nonoperating revenues (expenses):		
Investment income	158,557	455,149
Interest expense	(3,424,036)	(3,398,746)
Amortization of bond costs	(38,904)	(38,904)
Insurance proceeds	185,048	688,025
Net nonoperating expenses	(3,119,335)	(2,294,476)
Increase in net assets before capital contributions	182,101	581,022
Capital contributions from:		
Developers	667,500	324,041
Tap fees	21,611	15,516
Impact fees	392,549	298,004
Federal grant revenues	-	1,250,000
Total capital contributions	1,081,660	1,887,561
Increase in net assets	1,263,761	2,468,583
Total net assets - beginning	190,024,291	187,555,708
Total net assets - ending	\$ 191,288,052	190,024,291

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2011 and 2010

	2011	2010
Operating activities:		
Receipts from customers and users	\$ 23,554,061	19,998,342
Payments to suppliers	(5,046,854)	(5,067,426)
Payments to employees	(7,277,590)	(6,637,193)
Net cash provided by operating activities	11,229,617	8,293,723
Noncapital financing activities:		
Repayment from other funds, net	54,320	72,494
Net cash provided by noncapital financing activities	54,320	72,494
Capital and related financing activities:		
Acquisition and construction of capital assets	(5,888,992)	(7,476,253)
Principal paid on revenue bonds	(2,865,000)	(2,695,000)
Federal grant revenue	-	1,250,000
Insurance proceeds	185,048	688,025
Proceeds from NDEQ loan	4,021,999	3,048,891
Interest paid on revenue bonds	(3,512,090)	(3,517,776)
Net cash used in capital and related financing activities	(8,059,035)	(8,702,113)
Investing activities:		
Purchases of investments	(9,388,154)	(3,775,939)
Proceeds from investment maturities	5,108,370	3,401,675
Interest on investments	375,700	506,818
Net cash provided by (used in) investing activities	(3,904,084)	132,554
Net decrease in cash and cash equivalents	(679,182)	(203,342)
Cash and cash equivalents at beginning of year	3,080,393	3,283,735
Cash and cash equivalents at end of year	\$ 2,401,211	\$ 3,080,393
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 3,301,436	\$ 2,875,498
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,128,253	7,163,336
Changes in operating assets and liabilities:		
Accounts receivable	584,908	(1,710,084)
Inventories	37,476	(22,862)
Accounts payable	70,486	(130,771)
Accrued liabilities and deposit liability	92,224	89,137
Accrued compensated absences	14,834	29,469
Total adjustments	7,928,181	5,418,225
Net cash provided by operating activities	\$ 11,229,617	8,293,723

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$667,500 and \$324,041 were added to utility plant in 2011 and 2010 respectively.

Accounts payable incurred for utility plant purchases were \$3,793,642 and \$3,986,693 in 2011 and 2010, respectively.

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

(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, 2011 and 2010, 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 Lincoln Wastewater System's principal ongoing operations. The principal operating revenues of the Lincoln Wastewater System are charges to customers for sales and services. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

(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, 2011 and 2010

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

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, 2011 and 2010

(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 \$1.770 and \$1.685 per hundred cubic feet of water as of August 31, 2011 and 2010, respectively. The service charge rates are \$1.43 and \$1.36 per month for a single-family dwelling unit and \$.85 and \$.81 for a multi-family dwelling unit as of August 31, 2011 and 2010.

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, 2011 and 2010

(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 36.25 days. Employees earn sick leave at the rate of approximately one day per month. Upon retirement, death, or reduction in force, an employee or their beneficiary is reimbursed up to 65% of accumulated sick leave, which may in some cases be placed directly in a medical spending account instead of reimbursing the employee directly. The Lincoln Wastewater System accrues for vacation, sick leave and other compensated absences with similar characteristics.

Compensated absences of the Lincoln Wastewater System at August 31, 2011 and 2010 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, 2011	\$544,270	362,576	347,742	559,104	364,696
August 31, 2010	\$514,801	359,931	330,462	544,270	347,742

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

(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 \$138,000 and \$84,000 as of August 31, 2011 and 2010, 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 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

(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. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC insured institutions. For interest-bearing cash accounts, the City's cash deposits, including certificates of deposit, are insured up to \$250,000 by the FDIC. Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. 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 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 identify 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 identify the City as owner.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

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

At August 31, 2011 and 2010, the Lincoln Wastewater System had the following investments and maturities:

Type	August 31, 2011				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Government Sponsored Agency	\$4,976,184	4,976,184	-	-	-
Collateralized Investment Agreement	<u>1,229,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,229,981</u>
	<u>\$6,206,165</u>	<u>4,976,184</u>	<u>-</u>	<u>-</u>	<u>1,229,981</u>

Type	August 31, 2010				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Government Sponsored Agency	\$5,186,970	-	5,186,970	-	-
Collateralized Investment Agreement	<u>1,229,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,229,981</u>
	<u>\$6,416,951</u>	<u>-</u>	<u>5,186,970</u>	<u>-</u>	<u>1,229,981</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

(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, 2011, the Lincoln Wastewater System investments in United States Government sponsored agencies not directly guaranteed by the United States government were rated AA+ by S & P and Aaa by Moody's. On August 31, 2010, the United States Government sponsored agency investments 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 Aa1 by Moody's as of August 31, 2011 and AA- by S & P and Aaa by Moody's on August 31, 2010.

Concentration of Credit Risk:

The City's investment policy places various limits on the amount that may be invested in any one issuer or security type. Per the policy, allocations limits do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument. As of August 31, 2011 and 2010, the Lincoln Wastewater System's investments in United States Government sponsored agencies obligations constituted 23% and 28% respectively, and the collateralized investment agreement constituted 6% and 7% respectively, of its total funds available for investing. The above mentioned investments were made with funds from the bond debt reserve funds established.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

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

The carrying amount of equity in pooled cash and investments at August 31, 2011 and 2010, are:

	<u>2011</u>	<u>2010</u>
Equity in pooled cash and investments	\$15,070,702	11,476,457

Investment Income

Investment income for the years ended August 31, 2011 and 2010, consisted of:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$369,192	496,102
Net change in fair value of investments	<u>(210,635)</u>	<u>(40,953)</u>
	<u>\$158,557</u>	<u>455,149</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

(3) Utility Plant

Utility plant is summarized by major classification at August 31, 2011 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2010	Increases	Decreases	August 31, 2011	August 31, 2010	Increases	Decreases	August 31, 2011	August 31, 2011
Structures and improvements	\$ 75,359,698	25,203	-	75,384,901	(21,567,175)	(1,703,959)	-	(23,271,134)	52,113,767
Line equipment	10,159	61,395	-	71,554	(8,861)	(2,419)	-	(11,280)	60,274
Treatment equipment	56,173,685	106,472	(113,395)	56,166,762	(18,440,244)	(2,128,120)	110,152	(20,458,212)	35,708,550
Collection system	188,734,968	6,711,038	-	195,446,006	(44,536,158)	(2,730,178)	-	(47,266,336)	148,179,670
Lift stations/force mains	1,181,857	25,584	-	1,207,441	(350,660)	(59,472)	-	(410,132)	797,309
Environmental equipment	339,148	-	-	339,148	(303,021)	(17,049)	-	(320,070)	19,078
Office furniture and equipment	405,110	-	-	405,110	(270,365)	(20,298)	-	(290,663)	114,447
Shop equipment	306,968	-	-	306,968	(198,448)	(16,321)	-	(214,769)	92,199
Communications system	496,582	-	-	496,582	(154,364)	(46,421)	-	(200,785)	295,797
Laboratory equipment	537,805	-	-	537,805	(428,298)	(20,745)	-	(449,043)	88,762
Injection system	658,907	-	-	658,907	(381,528)	(13,364)	-	(394,892)	264,015
Pond and liner	520,132	-	-	520,132	(433,327)	(14,468)	-	(447,795)	72,337
Sludge injection equipment	40,304	32,159	-	72,463	(40,304)	(2,297)	-	(42,601)	29,862,000
Transmission/work equipment	507,991	486	-	508,477	(176,234)	(10,170)	-	(186,404)	322,073
Meters	4,010,591	23,833	-	4,034,424	(1,677,684)	(204,104)	-	(1,881,788)	2,152,636
Vehicles	2,455,527	44,650	(23,480)	2,476,697	(1,415,364)	(138,868)	16,049	(1,538,183)	938,514
Total depreciable assets	331,739,432	7,030,820	(136,875)	338,633,377	(90,382,035)	(7,128,253)	126,201	(97,384,087)	241,249,290
Land and land rights	5,820,833	92,507	-	5,913,340	-	-	-	-	5,913,340
Construction in progress	6,524,586	5,945,499	(6,280,552)	6,189,533	-	-	-	-	6,189,533
Total nondepreciable assets	12,345,419	6,038,006	(6,280,552)	12,102,873	-	-	-	-	12,102,873
Total capital assets	\$ 344,084,851	13,068,826	(6,417,427)	350,736,250	(90,382,035)	(7,128,253)	126,201	(97,384,087)	253,352,163

During 2011, Lincoln Wastewater System incurred \$3,559,554 of interest cost. Interest capitalized into construction in progress during 2011 was \$135,518. 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 2.11% in 2011.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

(3) Utility Plant

Utility plant is summarized by major classification at August 31, 2010 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2009	Increases	Decreases	August 31, 2010	August 31, 2009	Increases	Decreases	August 31, 2010	August 31, 2010
Structures and improvements	\$ 75,192,066	323,456	(155,824)	75,359,698	(20,013,832)	(1,709,167)	155,824	(21,567,175)	53,792,523
Line equipment	10,159	-	-	10,159	(8,642)	(219)	-	(8,861)	1,298
Treatment equipment	55,324,343	849,342	-	56,173,685	(16,309,475)	(2,130,769)	-	(18,440,244)	37,733,441
Collection system	184,861,131	3,876,638	(2,801)	188,734,968	(41,804,795)	(2,734,164)	2,801	(44,536,158)	144,198,810
Lift stations/force mains	1,177,165	4,692	-	1,181,857	(292,219)	(58,441)	-	(350,660)	831,197
Environmental equipment	339,148	-	-	339,148	(278,708)	(24,313)	-	(303,021)	36,127
Office furniture and equipment	405,110	-	-	405,110	(246,727)	(23,638)	-	(270,365)	134,745
Shop equipment	306,968	-	-	306,968	(181,633)	(16,815)	-	(198,448)	108,520
Communications system	492,783	3,799	-	496,582	(107,943)	(46,421)	-	(154,364)	342,218
Laboratory equipment	507,355	30,450	-	537,805	(404,325)	(23,973)	-	(428,298)	109,507
Injection system	658,907	-	-	658,907	(367,033)	(14,495)	-	(381,528)	277,379
Pond and liner	520,132	-	-	520,132	(418,860)	(14,467)	-	(433,327)	86,805
Sludge injection equipment	40,304	-	-	40,304	(40,304)	-	-	(40,304)	-
Transmission/work equipment	236,322	271,669	-	507,991	(170,149)	(6,085)	-	(176,234)	331,757
Meters	4,010,591	-	-	4,010,591	(1,477,154)	(200,530)	-	(1,677,684)	2,332,907
Vehicles	2,721,405	46,796	(312,674)	2,455,527	(1,537,950)	(159,839)	282,425	(1,415,364)	1,040,163
Total depreciable assets	326,803,889	5,406,842	(471,299)	331,739,432	(83,659,749)	(7,163,336)	441,050	(90,382,035)	241,357,397
Land and land rights	5,774,849	45,984	-	5,820,833	-	-	-	-	5,820,833
Construction in progress	3,799,297	7,712,835	(4,987,546)	6,524,586	-	-	-	-	6,524,586
Total nondepreciable assets	9,574,146	7,758,819	(4,987,546)	12,345,419	-	-	-	-	12,345,419
Total capital assets	\$ 336,378,035	13,165,661	(5,458,845)	344,084,851	(83,659,749)	(7,163,336)	441,050	(90,382,035)	253,702,816

During 2010, Lincoln Wastewater System incurred \$3,612,415 of interest cost. Interest capitalized into construction in progress during 2010 was \$213,669. 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 2.16% in 2010.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

(4) Long-term Liabilities

Long-term debt of Lincoln Wastewater System at August 31, 2011 and 2010 is summarized below:

2011

Type of Debt	August 31, 2010	Additions	Reductions	August 31, 2011	Due Within One Year
2.0% - 5.0% Wastewater Revenue & Refunding Bonds, Series 2003, due in annual principal installments on June 15, increasing from \$1,770,000 in 2012 to the final payment of \$3,450,000 in 2028.	\$43,825,000	–	1,710,000	42,115,000	1,770,000
4.0% - 5.0% Wastewater Revenue Bonds Series 2005, due in annual principal installments on June 15, increasing from \$540,000 in 2012 to the final payment of \$1,130,000 in 2030.	15,525,000	–	525,000	15,000,000	540,000
4.0% - 4.5% Wastewater Revenue Bonds Series 2007, due in annual principal installments on June 15, increasing from \$570,000 in 2012 to the final payment of \$1,305,000 in 2032.	19,060,000	–	550,000	18,510,000	570,000
0.0% - 2.0% Nebraska Department of Environmental Quality 2009 (NDEQ) project loan payable, due in semi-annual principal installments on June 15 and December 15 from \$157,858 total due in 2012 to the final payment of \$100,594 in 2031.	3,048,891	509,901	80,000	3,478,792	157,858
2.0% Nebraska Department of Environmental Quality 2009 (NDEQ) project loan payable, due in semi-annual principal installments on June 15 and December 15 from \$37,234 due in 2012 to the final payment of \$107,048 in 2032.	–	3,512,098	–	3,512,098	37,234
Unamortized premium on bonds	1,690,724	–	93,112	1,597,612	–
	<u>\$83,149,615</u>	<u>4,021,999</u>	<u>2,958,112</u>	<u>84,213,502</u>	<u>3,075,092</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

(4) Long-term Liabilities (continued)

Lincoln Wastewater System has entered into a loan agreement with NDEQ consisting of two separate contracts. Funding totaling \$5,000,000 is available under Contract A to fund certain sewer system extension and sewer repairs. During the year ended August 31, 2011, Lincoln Wastewater System incurred project costs totaling \$558,399 resulting in additional project loan payable of \$509,901 under Contract A. The terms of the project loan payable are reflected in the summary of long-term debt. Under Contract B, Lincoln Wastewater System has available a \$5,000,000 loan, subject to availability of State and Federal funds, to fund certain projects at the Theresa Street and Northeast Wastewater Treatment Facilities. The interest rate throughout the term of the loan is 2.0%. During the year ended August 31, 2011, Lincoln Wastewater System incurred project costs totaling \$3,546,400 resulting in the recognition of a project payable of \$3,512,098 under Contract B. The terms of the loan payable are reflected in the summary of long-term debt. The remaining available funds totaling \$1,487,902 under Contract B are not reflected on the Lincoln Wastewater System financial statements.

Lincoln Wastewater System has entered into a \$17,000,000 loan agreement with NDEQ. This funding is available to fund certain wastewater solids handling, trunk sewer, and selected facility replacement improvements. The interest rate during the period of construction is 2%. After the date of initiation of operation, the interest rate will increase to 2.25%. In addition, an administrative fee of 1% will be incurred on the loan. No project costs were incurred during the Fiscal Year ended August 31, 2011, therefore, the available loan is not reflected on the Lincoln Wastewater System financial statements.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

(4) Long-term Liabilities (continued)

2010

Type of Debt	August 31, 2009	Additions	Reductions	August 31, 2010	Due Within One Year
2.0% - 5.0% Wastewater Revenue & Refunding Bonds, Series 2003, due in annual principal installments on June 15, increasing from \$1,710,000 in 2011 to the final payment of \$3,450,000 in 2028.	\$45,485,000	—	1,660,000	43,825,000	1,710,000
4.0% - 5.0% Wastewater Revenue Bonds Series 2005, due in annual principal installments on June 15, increasing from \$525,000 in 2011 to the final payment of \$1,130,000 in 2030.	16,030,000	—	505,000	15,525,000	525,000
4.0% - 4.5% Wastewater Revenue Bonds Series 2007, due in annual principal installments on June 15, increasing from \$550,000 in 2011 to the final payment of \$1,305,000 in 2032.	19,590,000	—	530,000	19,060,000	550,000
0.0% - 2.0% Nebraska Department of Environmental Quality (NDEQ) project loan payable, due in semi-annual principal installments from \$157,858 total due in 2012 to the final payment of \$100,594 in 2031.	—	3,048,891	—	3,048,891	—
Unamortized premium on bonds	1,783,837	—	93,113	1,690,724	—
	<u>\$82,888,837</u>	<u>3,048,891</u>	<u>2,788,113</u>	<u>83,149,615</u>	<u>2,785,000</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, 2011, are shown below.

Years ending August 31	Principal	Interest	Total
2012	\$ 3,075,092	3,619,719	6,694,811
2013	3,287,115	3,499,642	6,786,757
2014	3,397,168	3,369,789	6,766,957
2015	3,522,308	3,216,550	6,738,858
2016	3,647,536	3,057,471	6,705,007
2017-2021	20,474,326	12,767,826	33,242,152
2022-2026	25,189,282	7,816,364	32,005,646
2027-2031	18,611,015	2,161,495	20,772,510
2032	1,412,048	58,167	1,470,215
Total	\$82,615,890	39,567,023	122,182,913

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

(4) Long-term Liabilities (continued)

The City has pledged future revenues derived from the operation of the Lincoln Wastewater System, net of operating and maintenance expenses, to repay all outstanding wastewater revenue bonds. Proceeds from the bonds and loan provided financing for improvements to the sanitary sewer system, as well as refunding a \$4.5 million loan to the City from the NDEQ. The bonds and loan 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 and loan is \$122,182,913 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 \$6,512,609 and \$11,002,406, respectively.

Construction contracts of the Lincoln Wastewater System at August 31, 2011 and 2010 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, 2011	\$3,986,693	1,112,012	1,305,063	3,793,642	1,996,813
August 31, 2010	\$3,952,641	1,214,839	1,180,787	3,986,693	1,305,063

(5) Commitments and Contingencies

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$8,800,000 at August 31, 2011.

Lincoln Wastewater System has entered into various agreements with developers to build infrastructure for new developments. These commitments are included in the System's current 6 year Capital Improvement Program or depending on when the commitment is due, will be included in the System's future Capital Improvement Programs. As of August 31, 2011, the System's commitment to these developers is estimated to be approximately \$19,800,000 over the next 10 - 15 years, of which some may be under current contract.

(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 \$96,296,000 based on borrowing rates currently available as of August 31, 2011.
- *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, 2011 and 2010

(7) Related Party Transactions

The City billed the Wastewater System approximately \$406,000 and \$397,000 for administrative services during 2011 and 2010, 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 \$815,000 and \$822,000 during 2011 and 2010, respectively. At August 31, 2011, approximately \$75,000 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 \$686,631 and \$522,914 as of August 31, 2011 and 2010, 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 \$527,415 and \$581,735 as of August 31, 2011 and 2010, 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 \$457,000 and \$425,000 in 2011 and 2010, 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 to the plan depending on employee class and date of hire. Lincoln Wastewater System contributes between \$1.29 and \$2.00 for every \$1.00 contributed by employees. Plan participants vest in the City's contributions in year three of participation at 20% up to 100% vested in year seven. All past service costs and vested benefits are fully paid. Contributions made by the System were approximately \$563,000 and \$523,000 for 2011 and 2010, respectively. Contributions made by the plan members were approximately \$302,000 and \$278,000 for 2011 and 2010, respectively.

SUPPLEMENTARY
INFORMATION

LINCOLN WASTEWATER SYSTEM

Summary of Long-Term Debt

August 31, 2011

Due years ending August 31	Series 2003		Series 2005		Series 2007		NDEQ Loan (C317247) 2009		NDEQ Loan (C317078) 2009		Total		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2012	\$ 1,770,000	2,043,344	540,000	670,362	570,000	790,488	157,858	44,636	37,234	70,889	3,075,092	3,619,719	6,694,811
2013	1,825,000	1,976,968	560,000	643,362	595,000	767,688	159,922	42,572	147,193	69,052	3,287,115	3,499,642	6,786,757
2014	1,890,000	1,903,968	580,000	615,362	615,000	743,888	162,004	40,490	150,164	66,081	3,397,168	3,369,789	6,766,957
2015	1,960,000	1,809,468	605,000	586,362	640,000	719,288	164,113	38,382	153,195	63,050	3,522,308	3,216,550	6,738,858
2016	2,035,000	1,711,468	625,000	556,112	665,000	693,688	166,249	36,245	156,287	59,958	3,647,536	3,057,471	6,705,007
2017-2021	11,505,000	6,946,840	3,515,000	2,374,972	3,760,000	3,046,640	864,276	148,196	830,050	251,178	20,474,326	12,767,826	33,242,152
2022-2026	14,385,000	3,832,138	4,340,000	1,540,110	4,625,000	2,189,696	922,012	90,461	917,270	163,959	25,189,282	7,816,364	33,005,646
2027-2031	6,745,000	509,750	4,235,000	486,902	5,735,000	1,068,402	882,358	28,868	1,013,657	67,573	18,611,015	2,161,495	20,772,510
2032	-	-	-	-	1,305,000	57,092	-	-	107,048	1,075	1,412,048	58,167	1,470,215
	\$ 42,115,000	20,733,944	15,000,000	7,473,544	18,510,000	10,076,870	3,478,792	469,850	3,512,098	812,815	82,615,890	39,567,023	122,182,913

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
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
2010	22,472,096	11,664,594	10,807,502	2,695,000	3,731,444	6,426,444	1.68
2011	23,546,370	12,543,964	11,002,406	2,865,000	3,647,609	6,512,609	1.69

Operating Expenses

Years ended August 31, 2011 and 2010

	2011	2010
Plant, pumping and treatment:		
Theresa Street Treatment Plant:		
Supervision and management	\$ 406,610	374,069
Administrative and support staff	60,366	55,674
Training and education	26,901	20,643
Data management	192,890	180,426
General operations	1,236,454	985,069
Treatment and process control	454,733	475,792
Solids processing	1,046,687	1,032,968
Structures maintenance	173,763	224,477
Process equipment maintenance	600,802	524,734
Control system maintenance	197,692	180,558
Electrical maintenance	137,899	78,975
Grounds maintenance	68,464	65,904
Depreciation of structure and improvement	1,422,256	1,426,319
Depreciation of treatment equipment	1,496,494	1,494,609
Depreciation of meters	200,530	200,530
Depreciation of shop and lab equipment	335	-
Depreciation of office/communications equipment	46,421	46,756
Total Theresa Street Treatment Plant	\$ 7,769,297	7,367,503
Northeast Treatment Plant:		
Supervision and management	\$ 143,126	96,069
Administrative and support staff	17,807	15,850
Training and education	8,402	7,553
Data management	57,936	49,970
General operations	441,368	484,623
Treatment and process control	158,277	199,534
Solids processing	386,793	455,068
Structures maintenance	94,483	81,080
Process equipment maintenance	196,227	213,478
Control system maintenance	91,947	76,987
Electrical maintenance	71,256	65,766
Grounds maintenance	59,307	62,276
Depreciation of structures and improvements	259,273	260,418
Depreciation of treatment system	566,199	570,734
Depreciation of injection system	40,298	35,047
Depreciation of shop and laboratory equipment	7,779	8,156
Depreciation of office/communications equipment	648	648
Total Northeast Treatment Plant	\$ 2,601,126	2,683,257

Operating Expenses, Continued

	2011	2010
Liftstations:		
General operations	\$ 71,145	72,120
Structures maintenance	22,571	20,804
Process equipment maintenance	66,014	73,682
Control system maintenance	28,572	16,787
Electrical maintenance	14,064	12,253
Grounds maintenance	2,610	2,949
Depreciation of liftstations	90,567	141,407
Total liftstations	295,543	340,002
Total plant, pumping and treatment	\$ 10,665,966	10,390,762
Operation and maintenance of wastewater lines:		
Supervision and management	\$ 402,646	265,649
Administrative and support staff	48,773	46,539
Training and education	67,588	47,089
Data management	172,492	161,181
General operations	345,128	374,984
Structures maintenance	16,152	17,398
Main repair/maintenance	211,198	186,003
Manhole repair/rehabilitation	84,889	62,240
Customer service	293,513	244,456
Cleaning maintenance	743,529	599,230
Field operations	224,587	224,745
Depreciation of structures and improvements	908	908
Depreciation of treatment equipment	63,000	60,800
Depreciation of shop and lab equipment	3,881	3,881
Depreciation of collection system	2,708,852	2,660,968
Total operation and maintenance of wastewater lines	\$ 5,387,136	4,956,071
Sanitary engineering services:		
Supervision and management	\$ 489,928	445,784
Administrative and support staff	60,647	52,830
Training and education	9,138	7,793
Data management	193,069	173,328
General operations	107,789	60,725
Laboratory operations	656,344	677,708
Field operations	574,717	491,888
Depreciation of structures and improvements	16,084	16,083
Depreciation of treatment equipment	516	516
Depreciation of office/communications equipment	3,732	3,732
Depreciation of shop and laboratory equipment	42,119	52,728
Total sanitary engineering services	\$ 2,154,083	1,983,115

Operating Expenses, Continued

	2011	2010
Accounting and collecting:		
Supervision and management	\$ 103,495	134,222
Administrative and support staff	2,782	2,596
Meter reading	76,070	73,774
Billing and accounting	146,154	120,670
Collections	78,068	75,991
Customer services and billing	54,771	50,583
Customer contracts and orders	24,692	22,663
Depreciation of general plant	3,575	-
Depreciation of office/communications equipment	2,278	2,278
Total accounting and collecting	\$ 491,885	482,777
Administrative and general:		
Supervision and management	\$ 819,699	844,139
Administrative and support staff	116,265	124,402
Delivery service	23,543	29,684
Depreciation of office/communications equipment	13,640	16,979
Total administrative and general	\$ 973,147	1,015,204

LINCOLN WASTEWATER SYSTEM

Schedule 4

Utility Plant in Service

August 31, 2011

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2010	Increases	Decreases	August 31, 2011	August 31, 2010	Increases	Decreases	August 31, 2011	August 31, 2011
Theresa Street Plant:									
Structures and improvements	\$ 59,961,789	25,203	-	59,986,992	(14,194,135)	(1,441,245)	-	(15,635,380)	44,351,612
Line equipment	10,159	61,395	-	71,554	(8,861)	(2,419)	-	(11,280)	60,274
Treatment equipment	34,988,476	106,472	(113,395)	34,981,553	(15,268,489)	(1,565,362)	110,152	(16,723,699)	18,257,854
Collection system	188,734,968	6,711,038	-	195,446,006	(44,536,158)	(2,730,178)	-	(47,266,336)	148,179,670
Lift stations/force mains	1,181,857	25,584	-	1,207,441	(352,345)	(59,472)	-	(411,817)	795,624
Environmental equipment	339,148	-	-	339,148	(303,021)	(17,049)	-	(320,070)	19,078
Office furniture and equipment	393,697	-	-	393,697	(264,775)	(19,650)	-	(284,425)	109,272
Shop equipment	156,666	-	-	156,666	(121,678)	(8,542)	-	(130,220)	26,446
Communications system	496,582	-	-	496,582	(154,364)	(46,421)	-	(200,785)	295,797
Laboratory equipment	537,805	-	-	537,805	(428,298)	(20,745)	-	(449,043)	88,762
Meters	4,010,591	23,833	-	4,034,424	(1,677,684)	(204,104)	-	(1,881,788)	2,152,636
Theresa Street depreciable assets	290,811,738	6,953,525	(113,395)	297,651,868	(77,309,808)	(6,115,187)	110,152	(83,314,843)	214,337,025
Land and land rights	3,759,791	92,507	-	3,852,298	-	-	-	-	3,852,298
Theresa Street nondepreciable assets	3,759,791	92,507	-	3,852,298	-	-	-	-	3,852,298
Total Theresa Street Plant	294,571,529	7,046,032	(113,395)	301,504,166	(77,309,808)	(6,115,187)	110,152	(83,314,843)	218,189,323
Northeast Plant:									
Structures and improvements	15,397,909	-	-	15,397,909	(7,373,040)	(262,714)	-	(7,635,754)	7,762,155
Treatment equipment	21,185,209	-	-	21,185,209	(3,171,755)	(562,758)	-	(3,734,513)	17,450,696
Office furniture and equipment	11,413	-	-	11,413	(5,590)	(648)	-	(6,238)	5,175
Shop and work equipment	150,302	-	-	150,302	(76,770)	(7,779)	-	(84,549)	65,753
Laboratory equipment	-	-	-	-	-	-	-	-	-
Injection system	658,907	-	-	658,907	(381,528)	(13,364)	-	(394,892)	264,015
Pond and liner	520,132	-	-	520,132	(433,327)	(14,468)	-	(447,795)	72,337
Sludge injection equipment	40,304	32,159	-	72,463	(40,304)	(2,297)	-	(42,601)	29,862,000
Collection system	-	-	-	-	-	-	-	-	-
Lift stations/force mains	-	-	-	-	1,685	-	-	1,685	1,685
Transmission/work equipment	507,991	486	-	508,477	(176,234)	(10,170)	-	(186,404)	322,073
Northeast depreciable assets	38,472,167	32,645	-	38,504,812	(11,656,863)	(874,198)	-	(12,531,061)	25,973,751
Land and land rights	2,061,042	-	-	2,061,042	-	-	-	-	2,061,042
Northeast nondepreciable assets	2,061,042	-	-	2,061,042	-	-	-	-	2,061,042
Total Northeast Plant	40,533,209	32,645	-	40,565,854	(11,656,863)	(874,198)	-	(12,531,061)	28,034,793
Vehicles and work equipment (all location)	2,455,527	44,650	(23,480)	2,476,697	(1,415,364)	(138,868)	16,049	(1,538,183)	938,514
Utility plant in service	\$ 337,560,265	7,123,327	(136,875)	344,546,717	(90,382,035)	(7,128,253)	126,201	(97,384,087)	247,162,630
Construction in progress	6,524,586	5,945,499	(6,280,552)	6,189,533	-	-	-	-	6,189,533
Total capital assets	\$ 344,084,851	13,068,826	(6,417,427)	350,736,250	(90,382,035)	(7,128,253)	126,201	(97,384,087)	253,352,163

LINCOLN WASTEWATER SYSTEM**GENERAL STATISTICS****Year Ended August 31, 2011**

(Unaudited)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	90.80 Square Miles
Population	262,672 Estimate
Total Miles of Wastewater Mains & Collector Lines In Use:	
Miles in use September 1, 2010	1,014.6
Estimated Added During Year	2.0
Estimated Removed During Year	0.0
Total as of August 31, 2011	1,016.6 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	24.0 million gallons per day
Northeast Treatment Facility	2.5 million gallons per day
Total Number of Active Residential Wastewater Customers	
End of Fiscal Year	74,575
Total Number of Active Non-Residential Wastewater Customers	
End of Fiscal Year	4,236
Debt of Lincoln Wastewater System as of August 31, 2011	\$82,615,890

LINCOLN WASTEWATER SYSTEM**TOP TEN CUSTOMERS****Year Ended August 31, 2011**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	322,472	\$592,518
2. State of Nebraska	277,042	495,553
3. Archer-Daniels Midland Company	164,588	309,641
4. University of Nebraska Foundation	148,753	277,591
5. BryanLGH Medical Center	110,770	202,555
6. Lincoln Plating Company	107,613	203,420
7. Lincoln Housing Authority	92,701	187,593
8. Lincoln Public Schools	88,754	170,952
9. Pfizer Animal Health	63,512	121,862
10. St. Elizabeth Community Health	49,474	88,750
Top Ten User Totals	1,425,679	\$2,650,435



11R-182

Introduce: 8-1-11

RESOLUTION NO. A- 86440

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

4 WHEREAS, 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 required
9 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 with
11 the proposed rate increases will continue this tradition of competitive rates within the region and
12 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 2011 the following schedule
16 of wastewater use charges is hereby established and adopted:

BASIC WASTEWATER USE CHARGE

- 18 (a) The basic wastewater use unit charge is hereby established as 185.9 cents.
- 19 (b) For any given residential property, the basic wastewater use charge for each billing cycle
- 20 shall be determined by multiplying for each such cycle the total amount of water, in hundreds of

1 cubic feet, metered for said property during a billing cycle chosen by the Director from the most
2 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 either
6 to the City or to the user, he shall use the average amount of water used by like users during such
7 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 use
11 unit charge.

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

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

19 SERVICE CHARGE

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

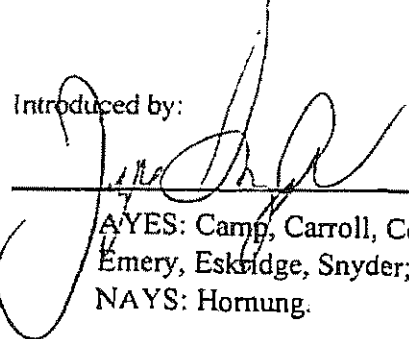
	WATER METER SIZE	SERVICE CHARGE
1		
2	5/8 inch	\$ 1.50
3	3/4 inch	1.50
4	1 inch	1.50
5	1-1/2 inch	3.00
6	2 inch	6.01
7	3 inch	13.51
8	4 inch	24.03
9	6 inch	54.09
10	8 inch	96.14
11	10 inch	150.22

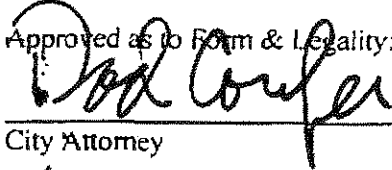
12 The minimum service charge for a multiple dwelling unit or a mobile home shall be at least
 13 \$0.89 per dwelling unit or mobile home hookup space per month. In those instances where fire
 14 protection considerations dictate that a water meter larger than 1-inch service a single-family
 15 dwelling unit located on a single lot, the monthly service charge shall be \$1.50 per dwelling unit.


16 WASTEWATER RATES TO CUSTOMERS OUTSIDE
 17 THE CITY LIMITS

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

21 BE IT FURTHER RESOLVED that Resolution No. A-85973, adopted by the City Council
 22 on August 23, 2010, is hereby superseded.

Introduced by:

 AYES: Camp, Carroll, Cook,
 Emery, Eskridge, Snyder;
 NAYS: Hornung.

Approved as to Form & Legality:

 City Attorney

Approved this 14th day of Aug, 2011:

 Mayor

ADOPTED
 AUG 08 2011
BY CITY COUNCIL

<h1 style="margin: 0;">CITY OF LINCOLN</h1> <p style="margin: 5px 0;">Request for: <input type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution</p>	(Do Not Write in this Space)
	Bill Control No. <u>11R-182</u> Date: <u>7/25</u>
	Docketing Date <u>8/11</u> ; PH: <u>8-8-11</u>
	(To Be Entered by City Clerk)

DATE July 25, 2011	REQUEST MADE BY Greg MacLean	DEPARTMENT Public Works/Utilities
DESIRED DOCKET DATE: 8-1; PH 8-8-11	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. 2011-12.

FILED
 CITY CLERK'S OFFICE
 2011 JUL 25 AM 11 03
 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	DIRECTOR'S SIGNATURE	<u>7-25-11</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 1, 2011

Bill Number 11R-182

Public Hearing: August 8, 2011

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 the System's operational and maintenance costs including debt service, and a portion of the costs of the Capital Improvements Program for F.Y. 2011-12. 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.

DISCUSSION

The Public Works/Utilities Department recommends that the current schedule of wastewater use charges be increased by 5% as shown below. This results in an 87¢ monthly increase to the average residential wastewater bill.

The Lincoln Wastewater System is proposing to implement these increases with the "H" billing cycle commencing in November 2011, and ending in January 2012.

Current Schedule

New Schedule

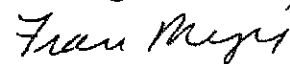
177.0¢/HCF

185.9¢

FACT SHEET PREPARED BY:

Business Manager of Public Works/Utilities

REVIEWED BY:



Director of Public Works/Utilities

Lincoln Wastewater System

Summary of Insurance Coverage

August 31, 2011

(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	SEL30117303 & 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	FM618
Money and Securities	Inside/outside premises	50,000	500	0	Fidelity & Deposit	CCP003059514
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FM618
Equipment Floater (NON-LIC)	Non-licensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM618
Equipment Floater (Sanitary)	Inspection scheduled equipment	Replacement cost	50,000	2,500	FM Global	FM618
General Liability ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL30117303 & SEL30117401
Public Employee Blanket Bond	Employees blanket bond coverage	1,000,000	25,000	10,000	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	SEL30117303 & SEL30117401
Workers' Compensation Excess	Statutory	Statutory	750,000	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, 2011, and have issued our report thereon dated November 30, 2011. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Lincoln Wastewater System's financial statements will not be prevented or detected and corrected on a timely basis.

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 deficiencies, 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*.

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.

EKL, LLP

November 30, 2011