

LINCOLN WASTEWATER SYSTEM



**Financial
Statements
& Schedules
Fiscal Year Ended
August 31, 2012**

ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS/UTILITIES

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WASTEWATER SYSTEM

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Lincoln Wastewater System

August 31, 2012 and 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on Lincoln Wastewater System's basic financial statements as a whole. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information, except for that portion marked "Unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, except for that portion marked "Unaudited", on which we express no opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

November 30, 2012

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, 2012 and 2011. 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 \$3,567,973 (1.87%) in 2012 over 2011 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, 2012, 2011, and 2010.

Table 1

Condensed Balance Sheets

	August 31		Change	
	2012	2011	Dollars	Percent
Current assets	\$ 15,815,478	\$ 8,610,594	\$7,204,884	83.67%
Capital assets	256,865,473	253,352,163	3,513,310	1.39%
Noncurrent assets	15,373,854	19,580,176	(4,206,322)	(21.48%)
Total assets	288,054,805	281,542,933	6,511,872	2.31%
Current liabilities	8,584,491	6,986,882	1,597,609	22.87%
Long-term liabilities	84,614,289	83,267,999	1,346,290	1.62%
Total liabilities	93,198,780	90,254,881	2,943,899	3.26%
Net assets				
Invested in capital assets, net of related debt	171,553,512	171,395,000	158,512	0.09%
Restricted for debt service	703,650	1,019,749	(316,099)	(31.00%)
Restricted for capital acquisition	364,711	686,631	(321,920)	(46.88%)
Unrestricted	22,234,152	18,186,672	4,047,480	22.26%
Total net assets	194,856,025	191,288,052	3,567,973	1.87%
Total liabilities and net assets	\$288,054,805	\$281,542,933	\$6,511,872	2.31%

Financial Highlights – Fiscal Year 2012

- Total assets at year end were \$288,054,805 and exceeded total liabilities by \$194,856,025. Of this amount \$22,234,152 (unrestricted) is available to meet the ongoing obligations of the System.
- Current assets increased by \$7,204,884 (83.67%) because of higher cash balances at fiscal year end.
- Noncurrent assets decreased by \$4,206,322 (21.48%) primarily due to lower investment balances.
- Current liabilities increased by \$1,597,609 (22.87%) due to progress payments on several construction projects.

Table 2**Condensed Balance Sheets**

	August 31		Change	
	2011	2010	Dollars	Percent
Current assets	\$ 8,610,594	\$ 9,966,480	(\$1,355,886)	(13.60%)
Capital assets	253,352,163	253,702,816	(350,653)	(0.14%)
Noncurrent assets	19,580,176	15,556,439	4,023,737	25.87%
Total assets	281,542,933	279,225,735	2,317,198	0.83%
Current liabilities	6,986,882	5,874,660	1,112,222	18.93%
Long-term liabilities	83,267,999	83,326,784	(58,785)	(0.07%)
Total liabilities	90,254,881	89,201,444	1,053,437	1.18%
Net assets				
Invested in capital assets, net of related debt	171,395,000	178,631,892	(7,236,892)	(4.05%)
Restricted for debt service	1,019,749	860,936	158,813	18.45%
Restricted for capital acquisition	686,631	522,914	163,717	31.31%
Unrestricted	18,186,672	10,008,549	8,178,123	81.71%
Total net assets	191,288,052	190,024,291	1,263,761	0.67%
Total liabilities and net assets	\$281,542,933	\$279,225,735	\$2,317,198	0.83%

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 (-13.60%) because accounts receivable balances were lower at fiscal year end.
- Noncurrent assets increased by \$4,023,737 (25.87%), so the System could build cash positions and maintain Wastewater's bonding capacity for future years.
- Current liabilities increased by \$1,112,222 (18.93%) primarily due to progress payments on construction projects.

Table 3

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

	August 31		Change	
	2012	2011	Dollars	Percent
Operating revenues	\$24,097,998	\$22,973,653	\$1,124,345	4.89%
Operating expenses				
Plant, pumping and treatment	10,534,367	10,665,966	(131,599)	(1.23%)
Operation and maintenance of wastewater lines	5,417,882	5,387,136	30,746	0.57%
Sanitary engineering services	2,162,132	2,154,083	8,049	0.37%
Accounting and collecting	569,185	491,885	77,300	15.72%
Administrative and general	1,009,557	973,147	36,410	3.74%
Total operating expenses	19,693,123	19,672,217	20,906	0.11%
Operating income	4,404,875	3,301,436	1,103,439	33.42%
Net nonoperating expenses	(2,983,959)	(3,119,335)	135,376	(4.34%)
Capital contributions	2,143,397	1,081,660	1,061,737	98.16%
Transfers In	3,660	–	3,660	100%
Change in net assets	\$ 3,567,973	\$ 1,263,761	\$2,304,212	182.33%

Financial Highlights – Fiscal Year 2012

- Operating revenues increased by \$1,124,345 (4.89%) compared to 2011. This increase was primarily due to a 5% user fee increase implemented with the billings starting in February 2012. 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 nonoperating expenses decreased \$135,376 (-4.34%) primarily due to Federal Grant Revenue received from U.S. Environmental Protection Agency for certain upgrades at the Theresa Street and Northeast Treatment Plants.
- Lincoln Wastewater System reported capital contributions of \$1,344,254.

Table 4

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	5.85%
Operating expenses				
Plant, pumping and treatment	10,665,966	10,390,762	275,204	2.65%
Operation and maintenance of wastewater lines	5,387,136	4,956,071	431,065	8.70%
Sanitary engineering services	2,154,083	1,983,115	170,968	8.62%
Accounting and collecting	491,885	482,777	9,108	1.89%
Administrative and general	973,147	1,015,204	(42,057)	(4.14%)
Total operating expenses	19,672,217	18,827,929	844,288	4.48%
Operating income	3,301,436	2,875,498	425,938	14.81%
Net nonoperating expenses	(3,119,335)	(2,294,476)	(824,859)	35.95%
Capital contributions	1,081,660	1,887,561	(805,901)	(42.70%)
Change in net assets	\$ 1,263,761	\$ 2,468,583	(\$1,204,822)	(48.81%)

Financial Highlights – Fiscal Year 2011

- Operating revenues increased by \$1,270,226 (5.85%) 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 (4.48%) because of increased personnel and chemicals costs.
- Net nonoperating expenses increased \$824,859 (35.95%) primarily due to a reduction in insurance proceeds and investment income.
- Lincoln Wastewater System reported capital contributions of \$1,081,660.

Debt Activity

In May 2012, the Lincoln Wastewater System issued \$38,290,000 in Sanitary Sewer Refunding Bonds at an average interest rate of 3.70% to refund \$40,345,000 with interest rates ranging from 3.75% to 5.0%. The City completed the advance refunding to reduce its total debt service payments over the next 16 years by \$10,070,963 for an economic gain (difference between the present values of the old and new debt service payments) of \$5,934,216.

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 \$1,700,000 at August 31, 2012.

Forward-Looking Information

The approved Capital Improvement Program for Fiscal Year 2012/13 - 2017/18 identifies the need for \$53,836,000 to fund capital improvements for the Wastewater System. Approximately \$22,506,000 of that total is projected to be funded by revenue bonds. Future user fee increases will be necessary to make the needed improvements possible.

In August 2012, the Lincoln City Council approved rate increases for the next two years. The first increase of 5% is effective in November 2012 and the second increase of 5% is effective in November 2013.

Contact Information

This financial report is intended to provide users a general overview of the System's financial performance for 2012 and 2011. 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, 2012 and 2011

Assets	2012	2011
Current assets:		
Equity in pooled cash and investments	\$ 9,487,297	2,401,211
Receivables:		
Accounts receivable	1,996,412	1,883,051
Unbilled revenues	2,459,540	2,386,904
Due from other governments	1,085,874	659,878
Due from other funds	347,338	527,415
Impact fees	364,711	686,631
Total receivables	6,253,875	6,143,879
Inventories	74,306	65,504
Total current assets	15,815,478	8,610,594
Noncurrent assets:		
Equity in pooled cash and investments	7,208,921	6,416,736
Restricted assets:		
Equity in pooled cash and investments	1,459,840	6,252,755
Investments	5,998,092	6,206,165
Total restricted assets	7,457,932	12,458,920
Utility plant	361,545,208	350,736,250
Less accumulated depreciation	104,679,735	97,384,087
Net utility plant	256,865,473	253,352,163
Unamortized bond issue costs	707,001	704,520
Total noncurrent assets	272,239,327	272,932,339
Total assets	\$ 288,054,805	281,542,933
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 211,842	319,901
Accrued liabilities	524,341	467,281
Deposits liability	6,500	6,574
Accrued compensated absences	354,384	364,696
Construction contracts	3,333,269	1,996,813
Current maturities of long-term debt	3,487,906	3,075,092
Accrued interest	666,249	756,525
Total current liabilities	8,584,491	6,986,882
Long-term liabilities:		
Accrued liabilities	162,000	138,352
Accrued compensated absences	211,522	194,408
Construction contracts	117,454	1,796,829
Long-term debt, excluding current maturities	84,123,313	81,138,410
Total long-term liabilities	84,614,289	83,267,999
Total liabilities	93,198,780	90,254,881
Net assets:		
Invested in capital assets, net of related debt	171,553,512	171,395,000
Restricted for debt service	703,650	1,019,749
Restricted for capital acquisition	364,711	686,631
Unrestricted	22,234,152	18,186,672
Total net assets	194,856,025	191,288,052
Total liabilities and net assets	\$ 288,054,805	281,542,933

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets

Years ended August 31, 2012 and 2011

	2012	2011
Operating revenues	\$ 24,097,998	22,973,653
Operating expenses:		
Plant, pumping and treatment	10,534,367	10,665,966
Operation and maintenance of wastewater lines	5,417,882	5,387,136
Sanitary engineering services	2,162,132	2,154,083
Accounting and collecting	569,185	491,885
Administrative and general	1,009,557	973,147
Total operating expenses	19,693,123	19,672,217
Operating income	4,404,875	3,301,436
Nonoperating revenues (expenses):		
Investment income	204,843	158,557
Interest expense	(3,285,067)	(3,424,036)
Amortization of bond costs	(39,608)	(38,904)
Insurance proceeds	135,873	185,048
Net nonoperating expenses	(2,983,959)	(3,119,335)
Increase in net assets before capital contributions	1,420,916	182,101
Capital contributions from:		
Developers	883,120	667,500
Tap fees	25,370	21,611
Impact Fees	435,764	392,549
Federal grant revenues	799,143	-
Total capital contributions	2,143,397	1,081,660
Transfers In	3,660	-
Increase in net assets	3,567,973	1,263,761
Total net assets - beginning	191,288,052	190,024,291
Total net assets - ending	\$ 194,856,025	191,288,052

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2012 and 2011

	2012	2011
Operating activities:		
Receipts from customers and users	\$ 24,893,725	23,554,061
Payments to suppliers	(5,463,418)	(5,046,854)
Payments to employees	(6,944,605)	(7,277,590)
Net cash provided by operating activities	12,485,702	11,229,617
Noncapital financing activities:		
Repayment from other funds, net	180,077	54,320
Net cash provided by noncapital financing activities	180,077	54,320
Capital and related financing activities:		
Acquisition and construction of capital assets	(9,822,765)	(5,888,992)
System funds used for bond refinancing	(560,300)	-
Principal paid on revenue bonds	(2,880,000)	(2,865,000)
Federal grant proceeds	680,526	-
Insurance proceeds	135,873	185,048
Proceeds from NDEQ loan	6,203,748	4,021,999
Interest paid on long term debt	(3,492,563)	(3,512,090)
Repayments on NDEQ loan	(257,858)	-
Net cash used in capital and related financing activities	(9,993,339)	(8,059,035)
Investing activities:		
Purchases of investments	(33,070,291)	(9,388,154)
Proceeds from investment maturities	28,776,654	5,108,370
Interest on investments	317,414	375,700
Net cash (used in) investing activities	(3,976,223)	(3,904,084)
Net decrease in cash and cash equivalents	(1,303,783)	(679,182)
Cash and cash equivalents at beginning of year	2,401,211	3,080,393
Cash and cash equivalents at end of year	\$ 1,097,428	\$ 2,401,211
Composition of equity in pooled cash and investments		
Cash and cash equivalents	\$ 1,097,428	2,401,211
Investments	8,389,869	-
Total equity in pooled cash and investments	9,487,297	2,401,211
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 4,404,875	\$ 3,301,436
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,314,450	7,128,253
Changes in operating assets and liabilities:		
Accounts receivable	795,801	584,908
Inventories	(8,802)	37,476
Accounts payable	(108,059)	70,486
Accrued liabilities and deposit liability	80,635	92,224
Accrued compensated absences	6,802	14,834
Total adjustments	8,080,827	7,928,181
Net cash provided by operating activities	\$ 12,485,702	11,229,617

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$883,120 and \$667,500 were added to utility plant in 2012 and 2011 respectively.

Accounts payable incurred for utility plant purchases were \$3,450,723 and \$3,793,642 in 2012 and 2011, respectively.

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(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, 2012 and 2011, 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, 2012 and 2011

(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, 2012 and 2011

(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, 2012 and 2011

(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 \$1.859 and \$1.770 per hundred cubic feet of water as of August 31, 2012 and 2011, respectively. The service charge rates are \$1.50 and \$1.43 per month for a single-family dwelling unit and \$.89 and \$.85 for a multi-family dwelling unit as of August 31, 2012 and 2011.

In August 2012, the Lincoln City Council approved rate increases for the next two years. The first rate increase of 5% is effective in November 2012 and the second increase, also 5%, is effective in November 2013.

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, 2012 and 2011

(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, 2012 and 2011 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, 2012	\$559,104	371,498	364,696	565,906	354,384
August 31, 2011	\$544,270	362,576	347,742	559,104	364,696

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(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 \$162,000 and \$138,000 as of August 31, 2012 and 2011, 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 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(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 Federal Reserve Bank 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, 2012 and 2011

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

At August 31, 2012 and 2011, the Lincoln Wastewater System had the following investments and maturities:

Type	August 31, 2012				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Government Sponsored Agency Collateralized Investment Agreement	\$4,768,111	-	1,387,091	3,381,020	-
	<u>1,229,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,229,981</u>
	<u>\$5,998,092</u>	<u>-</u>	<u>1,387,091</u>	<u>3,381,020</u>	<u>1,229,981</u>

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

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(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, with the exception of funds held in accordance with the bond resolution, 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, 2012 and 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. The provider of the collateralized investment agreement was rated AA- by S & P and Aa3 by Moody's as of August 31, 2012 and AA- by S & P and Aa1 by Moody's as of August 31, 2011.

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, 2012 and 2011, the Lincoln Wastewater System investments in United States Government sponsored agencies obligations constituted 20% and 23% respectively, and the collateralized investment agreement constituted 5% and 6% respectively, of its total funds available for investing. The above mentioned investments were made with funds from the bond debt reserve funds established.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

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

The carrying amount of deposits and investment securities at August 31, 2012 and 2011, are:

	<u>2012</u>	<u>2011</u>
Equity in pooled cash and investments	\$18,156,058	15,070,702

Investment Income

Investment income for the years ended August 31, 2012 and 2011, consisted of:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$282,487	369,192
Net change in fair value of investments	<u>(77,644)</u>	<u>(210,635)</u>
	<u>\$204,843</u>	<u>158,557</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(3) Utility Plant

Utility plant is summarized by major classification at August 31, 2012 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2011	Increases	Decreases	August 31, 2012	August 31, 2011	Increases	Decreases	August 31, 2012	August 31, 2012
Structures and improvements	\$ 75,384,901	4,454,488	-	79,839,389	(23,271,134)	(1,815,805)	-	(25,086,939)	54,752,450
Line equipment	71,554	3,936	-	75,490	(11,280)	(11,231)	-	(22,511)	52,979
Treatment equipment	56,166,762	2,117,391	-	58,284,153	(20,458,212)	(2,131,838)	-	(22,590,050)	35,694,103
Collection system	195,446,006	7,775,954	-	203,221,960	(47,266,336)	(2,774,841)	-	(50,041,177)	153,180,783
Lift stations/force mains	1,207,441	-	-	1,207,441	(410,132)	(58,584)	-	(468,716)	738,725
Environmental equipment	339,148	-	-	339,148	(320,070)	(11,631)	-	(331,701)	7,447
Office furniture and equipment	405,110	76,751	-	481,861	(290,663)	(33,091)	-	(323,754)	158,107
Shop equipment	306,968	-	-	306,968	(214,769)	(14,506)	-	(229,275)	77,693
Communications system	496,582	-	-	496,582	(200,785)	(45,422)	-	(246,207)	250,375
Laboratory equipment	537,805	-	-	537,805	(449,043)	(20,418)	-	(469,461)	68,344
Injection system	658,907	-	-	658,907	(394,892)	(13,364)	-	(408,256)	250,651
Pond and liner	520,132	-	-	520,132	(447,795)	(14,467)	-	(462,262)	57,870
Sludge injection equipment	72,463	7,200	-	79,663	(42,601)	(5,794)	-	(48,395)	31,268
Transmission/work equipment	508,477	591,629	-	1,100,106	(186,404)	(23,317)	-	(209,721)	890,385
Meters	4,034,424	-	-	4,034,424	(1,881,788)	(205,296)	-	(2,087,084)	1,947,340
Vehicles	2,476,697	144,474	(23,977)	2,597,194	(1,538,183)	(134,845)	18,802	(1,654,226)	942,968
Total depreciable assets	338,633,377	15,171,823	(23,977)	353,781,223	(97,384,087)	(7,314,450)	18,802	(104,679,735)	249,101,488
Land and land rights	5,913,340	83,483	-	5,996,823	-	-	-	-	5,996,823
Construction in progress	6,189,533	9,689,247	(14,111,618)	1,767,162	-	-	-	-	1,767,162
Total nondepreciable assets	12,102,873	9,772,730	(14,111,618)	7,763,985	-	-	-	-	7,763,985
Total capital assets	\$ 350,736,250	24,944,553	(14,135,595)	361,545,208	(97,384,087)	(7,314,450)	18,802	(104,679,735)	256,865,473

During 2012, Lincoln Wastewater System incurred \$3,564,879 of interest cost. Interest capitalized into construction in progress during 2012 was \$162,593. 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 2.07% in 2012.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(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
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, 2012 and 2011

(4) Long-term Liabilities

Long-term debt of Lincoln Wastewater System at August 31, 2012 and 2011 is summarized below:

2012

Type of Debt	August 31, 2011	Additions	Reductions	August 31, 2012	Due Within One Year
2.0% - 5.0% Wastewater Revenue & Refunding Bonds, Series 2003, refunded in 2012.	\$42,115,000	—	42,115,000	—	—
4.0% - 5.0% Wastewater Revenue Bonds Series 2005, due in annual principal installments on June 15, increasing from \$560,000 in 2013 to the final payment of \$1,130,000 in 2030.	15,000,000	—	540,000	14,460,000	560,000
4.0% - 4.5% Wastewater Revenue Bonds Series 2007, due in annual principal installments on June 15, increasing from \$595,000 in 2013 to the final payment of \$1,305,000 in 2032.	18,510,000	—	570,000	17,940,000	595,000
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 \$159,922 total due in 2013 to the final payment of \$100,595 in 2031.	3,478,792	—	157,858	3,320,934	159,922
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 \$207,984 due in 2013 to the final payment of \$150,479 in 2032.	3,512,098	1,487,902	100,000	4,900,000	207,984
3.25% Nebraska Department of Environmental Quality 2011 (NDEQ) project loan payable, due in semi-annual principal installments on June 15 and December 15 from \$104,515 due in 2014 to the final payment of \$187,467 in 2034.	—	5,683,103	—	5,683,103	—
1.0% to 5.0% Wastewater Revenue Refunding Bonds, Series 2012, due in annual principal installments on June 15, increasing from \$1,965,000 in 2013 to the final payment of \$2,500,000 in 2028.	—	38,290,000	—	38,290,000	1,965,000
Unamortized premium on bonds Deferred for refunding	1,597,612	3,840,715	1,436,263	4,002,064	—
	—	(1,000,474)	(15,592)	(984,882)	—
	<u>\$84,213,502</u>	<u>48,301,246</u>	<u>44,903,529</u>	<u>87,611,219</u>	<u>3,487,906</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(4) Long-term Liabilities (continued)

In May 2012, the Lincoln Wastewater System issued \$38,290,000 in Sanitary Sewer Refunding Bonds at an average interest rate of 3.70% to refund \$40,345,000 with interest rates ranging from 3.75% to 5.0%. The City completed the advance refunding to reduce its total debt service payments over the next 16 years by \$10,070,963 for an economic gain (difference between the present values of the old and new debt service payments) of \$5,934,216.

Lincoln Wastewater System has entered into a loan agreement with NDEQ consisting of two separate contracts. Under Contract 317247, the Lincoln Wastewater System has borrowed \$4,808,792 to fund certain sewer system extension and sewer repairs. The terms of the project loan payable are reflected in the summary of long-term debt. The Lincoln Wastewater System has also borrowed \$5,000,000 under Contract 317078 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 fiscal year ended August 31, 2012 the Lincoln Wastewater System incurred project costs totaling \$2,556,613 resulting in a project loan payable of \$5,000,000. The terms of the project loan payable are reflected in the summary of long-term debt.

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. During the year ended August 31, 2012, Lincoln Wastewater System incurred project costs totaling \$7,055,103 resulting in a recognition of a project payable of \$5,683,103. The terms of the loan payable are reflected in the summary of long-term debt. The remaining available funds totaling \$11,316,897 are not reflected in the summary of long-term debt.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(4) Long-term Liabilities (continued)

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	<u>1,690,724</u>	<u>—</u>	<u>93,112</u>	<u>1,597,612</u>	<u>—</u>
	<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>

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, 2012, are shown below.

Years ending August 31	Principal	Interest	Total
2013	\$ 3,487,906	2,925,111	6,413,017
2014	3,723,431	2,857,657	6,581,088
2015	3,909,070	2,837,715	6,746,785
2016	4,047,054	2,665,380	6,712,434
2017	4,200,350	2,492,983	6,693,333
2018 - 2022	22,512,739	10,689,736	33,202,475
2023 - 2027	26,752,045	6,262,252	33,014,297
2028 - 2032	15,407,363	1,519,810	16,927,173
2033	554,079	16,810	570,889
Total	\$84,594,037	32,267,454	116,861,491

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(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 loans provided financing for improvements to the sanitary sewer system. The bonds and loans are payable solely from the net earnings of the Wastewater System and are payable through 2034. The total principal and interest remaining to be paid on the bonds and loan is \$116,861,491 with annual payments expected to require 53% of net revenues. Principal and interest paid for the current year and net system revenues were \$6,793,014 and \$12,835,302, respectively.

Construction contracts of the Lincoln Wastewater System at August 31, 2012 and 2011 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, 2012	\$3,793,642	1,653,895	1,996,813	3,450,724	3,333,269
August 31, 2011	\$3,986,693	1,112,012	1,305,063	3,793,642	1,996,813

(5) Commitments and Contingencies

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$1,700,000 at August 31, 2012.

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, 2012, the System's commitment to these developers is estimated to be approximately \$16,200,000 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 \$134,953,000 based on borrowing rates currently available as of August 31, 2012.
- *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, 2012 and 2011

(7) Related Party Transactions

The City billed the Wastewater System approximately \$514,000 and \$406,000 for administrative services during 2012 and 2011, 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 \$833,000 and \$815,000 during 2012 and 2011, respectively. At August 31, 2012, approximately \$60,000 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 \$364,711 and \$686,631 as of August 31, 2012 and 2011, 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 \$347,338 and \$527,415 as of August 31, 2012 and 2011, 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 \$339,000 and \$457,000 in 2012 and 2011, 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. Contributions made by the System were approximately \$540,000 and \$563,000 for 2012 and 2011, respectively. Contributions made by the plan members were approximately \$292,000 and \$302,000 for 2012 and 2011, respectively.

SUPPLEMENTARY
INFORMATION

LINCOLN WASTEWATER SYSTEM

Summary of Long-Term Debt

August 31, 2012

Due years ending August 31	Series 2005		Series 2007		NDEQ Loan (C317247) 2009		NDEQ Loan (C317078) 2009		NDEQ Loan (C317830) 2011		Series 2012		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2013	\$ 560,000	643,362	595,000	767,688	159,922	42,572	207,984	96,714	-	-	1,965,000	1,374,775	3,487,906	2,925,111	6,413,017
2014	580,000	615,362	615,000	743,888	162,004	40,490	211,912	92,786	104,515	85,781	2,050,000	1,279,350	3,723,431	2,857,657	6,581,088
2015	605,000	586,362	640,000	719,288	164,113	38,382	216,171	88,527	213,786	166,806	2,070,000	1,238,350	3,909,070	2,837,715	6,746,785
2016	625,000	556,112	665,000	693,688	166,249	36,245	220,516	84,182	220,289	160,303	2,150,000	1,134,850	4,047,054	2,665,380	6,712,434
2017	650,000	531,112	695,000	667,088	168,413	34,081	224,948	79,749	226,989	153,603	2,235,000	1,027,350	4,200,350	2,492,983	6,693,333
2018-2022	3,660,000	2,225,310	3,915,000	2,895,220	875,527	136,945	1,194,409	329,079	1,242,803	660,157	11,625,000	4,443,025	22,512,739	10,689,736	33,202,475
2023-2027	4,535,000	1,349,236	4,825,000	1,986,140	934,014	78,459	1,319,371	204,117	1,443,660	459,300	13,695,000	2,185,000	26,752,045	6,262,252	33,014,297
2028-2032	3,245,000	296,326	5,990,000	813,382	690,692	18,040	1,304,689	66,085	1,676,982	225,977	2,500,000	100,000	15,407,363	1,519,810	16,927,173
2033-2034	-	-	-	-	-	-	-	-	554,079	16,810	-	-	554,079	16,810	570,889
	\$ 14,460,000	6,803,182	17,940,000	9,286,382	3,320,934	425,214	4,900,000	1,041,239	5,683,103	1,928,737	38,290,000	12,782,700	84,594,037	32,267,454	116,861,491

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 on Revenue Bonds				Debt Service Requirement for all Debt			
				Principal	Interest	Total	Coverage	Principal	Interest	Total	Coverage
2003	15,607,743	9,086,469	6,521,274	1,032,500	266,722	1,299,222	5.02	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	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	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	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	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	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	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	2,695,000	3,731,444	6,426,444	1.68
2011	23,546,370	12,543,964	11,002,406	2,785,000	3,607,044	6,392,044	1.72	2,865,000	3,647,609	6,512,609	1.69
2012	24,763,975	12,378,673	12,385,302	2,880,000	3,504,194	6,384,194	1.94	3,137,858	3,655,156	6,793,014	1.82

Operating Expenses

Years ended August 31, 2012 and 2011

	2012	2011
Plant, pumping and treatment:		
Theresa Street Treatment Plant:		
Supervision and management	\$ 234,536	406,610
Administrative and support staff	60,842	60,366
Training and education	16,851	26,901
Data management	198,108	192,890
General operations	1,043,882	1,236,454
Treatment and process control	673,215	454,733
Solids processing	1,098,098	1,046,687
Structures maintenance	207,434	173,763
Process equipment maintenance	514,470	600,802
Control system maintenance	208,176	197,692
Electrical maintenance	101,761	137,899
Grounds maintenance	49,405	68,464
Depreciation of structure and improvement	1,404,084	1,422,256
Depreciation of treatment equipment	1,495,792	1,496,494
Depreciation of meters	200,530	200,530
Depreciation of shop and lab equipment	335	335
Depreciation of office/communications equipment	45,422	46,421
Total Theresa Street Treatment Plant	\$ 7,552,941	7,769,297
Northeast Treatment Plant:		
Supervision and management	\$ 102,875	143,126
Administrative and support staff	18,117	17,807
Training and education	11,921	8,402
Data management	75,671	57,936
General operations	475,105	441,368
Treatment and process control	163,174	158,277
Solids processing	391,131	386,793
Structures maintenance	63,867	94,483
Process equipment maintenance	205,326	196,227
Control system maintenance	98,282	91,947
Electrical maintenance	69,426	71,256
Grounds maintenance	71,779	59,307
Depreciation of structures and improvements	389,100	259,273
Depreciation of treatment system	583,957	566,199
Depreciation of injection system	43,795	40,298
Depreciation of shop and laboratory equipment	7,549	7,779
Depreciation of office/communications equipment	648	648
Total Northeast Treatment Plant	\$ 2,771,723	2,601,126

LINCOLN WASTEWATER SYSTEM

Operating Expenses, Continued

	2012	2011
Liftstations:		
General operations	\$ 72,819	71,145
Structures maintenance	15,147	22,571
Process equipment maintenance	38,403	66,014
Control system maintenance	14,167	28,572
Electrical maintenance	5,044	14,064
Grounds maintenance	379	2,610
Depreciation of liftstations	63,744	90,567
Total liftstations	209,703	295,543
Total plant, pumping and treatment	\$ 10,534,367	10,665,966
Operation and maintenance of wastewater lines:		
Supervision and management	\$ 364,371	402,646
Administrative and support staff	50,526	48,773
Training and education	54,312	67,588
Data management	158,648	172,492
General operations	254,530	345,128
Structures maintenance	13,211	16,152
Main repair/maintenance	234,744	211,198
Manhole repair/rehabilitation	66,363	84,889
Customer service	289,090	293,513
Cleaning maintenance	766,210	743,529
Field operations	310,123	224,587
Depreciation of structures and improvements	908	908
Depreciation of treatment equipment	71,811	63,000
Depreciation of shop and lab equipment	3,585	3,881
Depreciation of collection system	2,779,450	2,708,852
Total operation and maintenance of wastewater lines	\$ 5,417,882	5,387,136
Sanitary engineering services:		
Supervision and management	\$ 530,002	489,928
Administrative and support staff	62,683	60,647
Training and education	10,489	9,138
Data management	250,567	193,069
General operations	49,543	107,789
Laboratory operations	604,912	656,344
Field operations	598,520	574,717
Depreciation of structures and improvements	16,082	16,084
Depreciation of treatment equipment	516	516
Depreciation of office/communications equipment	3,732	3,732
Depreciation of shop and laboratory equipment	35,086	42,119
Total sanitary engineering services	\$ 2,162,132	2,154,083

LINCOLN WASTEWATER SYSTEM

Operating Expenses, Continued

	2012	2011
Accounting and collecting:		
Supervision and management	\$ 160,179	103,495
Administrative and support staff	3,317	2,782
Meter reading	83,019	76,070
Billing and accounting	156,452	146,154
Collections	77,038	78,068
Customer services and billing	53,386	54,771
Customer contracts and orders	28,747	24,692
Depreciation of general plant	4,767	3,575
Depreciation of office/communications equipment	2,280	2,278
Total accounting and collecting	\$ 569,185	491,885
Administrative and general:		
Supervision and management	\$ 832,836	819,699
Administrative and support staff	124,078	116,265
Delivery service	26,211	23,543
Depreciation of office/communications equipment	26,432	13,640
Total administrative and general	\$ 1,009,557	973,147

LINCOLN WASTEWATER SYSTEM

Schedule 4

Utility Plant in Service

August 31, 2012

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2011	Increases	Decreases	August 31, 2012	August 31, 2011	Increases	Decreases	August 31, 2012	August 31, 2012
Theresa Street Plant:									
Structures and improvements	\$ 59,986,992	557,975	-	60,544,967	(15,635,380)	(1,423,263)	-	(17,058,643)	43,486,324
Line equipment	71,554	3,936	-	75,490	(11,280)	(11,231)	-	(22,511)	52,979
Treatment equipment	34,981,553	2,029,876	-	37,011,429	(16,723,699)	(1,564,469)	-	(18,288,168)	18,723,261
Collection system	195,446,006	7,775,954	-	203,221,960	(47,266,336)	(2,774,841)	-	(50,041,177)	153,180,783
Lift stations/force mains	1,207,441	-	-	1,207,441	(411,817)	(58,584)	-	(470,401)	737,040
Environmental equipment	339,148	-	-	339,148	(320,070)	(11,631)	-	(331,701)	7,447
Office furniture and equipment	393,697	76,751	-	470,448	(284,425)	(32,442)	-	(316,867)	153,581
Shop equipment	156,666	-	-	156,666	(130,220)	(6,957)	-	(137,177)	19,489
Communications system	496,582	-	-	496,582	(200,785)	(45,422)	-	(246,207)	250,375
Laboratory equipment	537,805	-	-	537,805	(449,043)	(20,418)	-	(469,461)	68,344
Meters	4,034,424	-	-	4,034,424	(1,881,788)	(205,296)	-	(2,087,084)	1,947,340
Theresa Street depreciable assets	297,651,868	10,444,492	-	308,096,360	(83,314,843)	(6,154,554)	-	(89,469,397)	218,626,963
Land and land rights	3,852,298	83,483	-	3,935,781	-	-	-	-	3,935,781
Theresa Street nondepreciable assets	3,852,298	83,483	-	3,935,781	-	-	-	-	3,935,781
Total Theresa Street Plant	301,504,166	10,527,975	-	312,032,141	(83,314,843)	(6,154,554)	-	(89,469,397)	222,562,744
Northeast Plant:									
Structures and improvements	15,397,909	3,896,513	-	19,294,422	(7,635,754)	(392,542)	-	(8,028,296)	11,266,126
Treatment equipment	21,185,209	87,515	-	21,272,724	(3,734,513)	(567,369)	-	(4,301,882)	16,970,842
Office furniture and equipment	11,413	-	-	11,413	(6,238)	(649)	-	(6,887)	4,526
Shop and work equipment	150,302	-	-	150,302	(84,549)	(7,549)	-	(92,098)	58,204
Injection system	658,907	-	-	658,907	(394,892)	(13,364)	-	(408,256)	250,651
Pond and liner	520,132	-	-	520,132	(447,795)	(14,467)	-	(462,262)	57,870
Sludge injection equipment	72,463	7,200	-	79,663	(42,601)	(5,794)	-	(48,395)	31,268,000
Lift stations/force mains	-	-	-	-	1,685	-	-	1,685	1,685
Transmission/work equipment	508,477	591,629	-	1,100,106	(186,404)	(23,317)	-	(209,721)	890,385
Northeast depreciable assets	38,504,812	4,582,857	-	43,087,669	(12,531,061)	(1,025,051)	-	(13,556,112)	29,531,557
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	40,565,854	4,582,857	-	45,148,711	(12,531,061)	(1,025,051)	-	(13,556,112)	31,592,599
Vehicles and work equipment (all location)	2,476,697	144,474	(23,977)	2,597,194	(1,538,183)	(134,845)	18,802	(1,654,226)	942,968
Utility plant in service	\$ 344,546,717	15,255,306	(23,977)	359,778,046	(97,384,087)	(7,314,450)	18,802	(104,679,735)	255,098,311
Construction in progress	6,189,533	9,689,247	(14,111,618)	1,767,162	-	-	-	-	1,767,162
Total capital assets	\$ 350,736,250	24,944,553	(14,135,595)	361,545,208	(97,384,087)	(7,314,450)	18,802	(104,679,735)	256,865,473

LINCOLN WASTEWATER SYSTEM**GENERAL STATISTICS****Year Ended August 31, 2012**

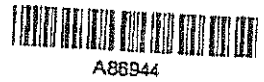
(Unaudited)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	91.76 Square Miles
Population	265,594 Estimate
Total Miles of Wastewater Mains & Collector Lines In Use:	
Miles in use September 1, 2012	1,016.6
Estimated Added During Year	4.9
Estimated Removed During Year	0.0
Total as of August 31, 2012	1,021.5 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	24.19 million gallons per day
Northeast Treatment Facility	27.3 million gallons per day
Total Number of Active Residential Wastewater Customers	
End of Fiscal Year	75,079
Total Number of Active Non-Residential Wastewater Customers	
End of Fiscal Year	4,267
Debt of Lincoln Wastewater System as of August 31, 2012	\$84,594,037

LINCOLN WASTEWATER SYSTEM**TOP TEN CUSTOMERS****Year Ended August 31, 2012**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	373,265	\$713,904
2. State of Nebraska	280,294	526,803
3. Archer-Daniels Midland Company	151,058	298,309
4. University of Nebraska Foundation	125,834	247,610
5. BryanLGH Medical Center	122,556	234,397
6. Lincoln Plating Company	110,638	219,143
7. Lincoln Housing Authority	90,418	192,576
8. Lincoln Public Schools	89,371	180,487
9. Pfizer Animal Health	78,708	158,374
10. St. Elizabeth Community Health	52,197	98,274
Top Ten User Totals	1,474,339	\$2,869,877



12R-177

Introduce: 7-30-12

RESOLUTION NO. A- 86944

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
3 all customers of the Lincoln Wastewater System.

4 WHEREAS, the wastewater rate increases are based upon financial projections
5 which demonstrate the necessity for the increase to support the construction of needed
6 facility improvements, debt service, and the operation and maintenance of the system to
7 provide 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
11 even with the proposed rate increases will continue this tradition of competitive rates within
12 the region and nationally.

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

15 Effective with the "H" billing cycle commencing in November 2012 and November
16 2013 the following 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 185.9 cents.

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

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

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

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

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

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SERVICE CHARGE

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

	Effective November, 2012	Effective November, 2013
Water Meter Size	Service Charge	Service Charge
5/8 inch	\$1.55	\$1.65
3/4 inch	2.30	3.20
1 inch	3.85	5.70
1-1/2 inch	7.65	11.30
2 inch	12.25	18.10
3 inch	23.00	34.00
4 inch	38.35	56.70
6 inch	76.65	113.30
8 inch	122.65	181.30
10 inch	176.35	260.70

WASTEWATER RATES TO CUSTOMERS OUTSIDE THE CITY LIMITS

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

BE IT FURTHER RESOLVED that Resolution No. A-86440, adopted by the City Council on August 8, 2011, is hereby superseded.

Introduced by:

Jon A. Camp

A YES: Camp, Carroll, Cook,
Emery, Eskridge, Hornung,
Schimek; NA YS: None.

Approved as to Form & Legality:

Rod Cooper
City Attorney

Approved this 10th day of Aug., 2012:
[Signature]
Mayor

ADOPTED
AUG - 8 2012
BY CITY COUNCIL


<h1 style="margin: 0;">CITY OF LINCOLN</h1> <p style="margin: 0;">Request for: <input type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution</p>	(Do Not Write in this Space)
	Bill Control No. <u>122-117</u> Date: <u>7/23</u>
	Docketing Date <u>7/30; PH: 8-6-12</u>
	(To Be Entered by City Clerk)

DATE July 23, 2012	REQUEST MADE BY Miki Esposito, Director	DEPARTMENT Public Works/Utilities
DESIRED DOCKET DATE: 7:30; PH 8-6-12	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 rate schedule for the Lincoln Wastewater System for purposes of covering the System's operational and maintenance costs including debt service, and the Capital Improvements Program for F.Y. 2012-13 and 2013-14.

FILED
 CITY CLERK'S OFFICE
 2012 JUL 24 AM 9 44
 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>7/24/12</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: July 30, 2012

Bill Number 12R-177

Public Hearing: August 6, 2012

FACT SHEET

TITLE: Proposed Resolution to increase Wastewater Use Charges

SPONSOR: Public Works/Utilities

OTHER DEPARTMENTS AFFECTED:

OPPONENTS: Unknown

APPLICANT: Public Works/Utilities

STAFF RECOMMENDATION: For

REASON FOR LEGISLATION: To establish a new rate schedule for the Lincoln Wastewater System for purposes of covering the System's operational and maintenance costs including debt service, and the costs of the Capital Improvements Program for F.Y. 2012-13 and F.Y. 2013-14. 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 a 5% revenue increase and proposes to change the following rates as shown below. These changes will take effect with the "H" billing cycle commencing in November, 2012 and November, 2013.

Water Meter Size	Current Rate	Effective November, 2012	Effective November, 2013
		Service Charge	Service Charge
5/8 inch	\$1.50	\$1.55	\$1.65
3/4 inch	1.50	2.30	3.20
1 inch	1.50	3.85	5.70
1-1/2 inch	3.00	7.65	11.30
2 inch	6.01	12.25	18.10
3 inch	13.51	23.00	34.00
4 inch	24.03	38.35	56.70
6 inch	54.09	76.65	113.30
8 inch	96.14	122.65	181.30
10 inch	150.22	176.35	260.70

FACT SHEET PREPARED BY: *Fraiz Mejia*

Public Works & Utilities Business Manager

REVIEWED BY: *Mico Espinoza*

Director of Public Works & Utilities

Lincoln Wastewater System

Summary of Insurance Coverage

August 31, 2012

(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	SEL3017304
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	FM840
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	FM840
Equipment Floater (NON-LIC)	Non-licensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM840
Equipment Floater (Sanitary)	Inspection scheduled equipment	Replacement cost	50,000	2,500	FM Global	FM840
General Liability ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017304
Public Employee Blanket Bond	Employees blanket bond coverage	1,000,000	25,000	10,000	Fidelity & Deposit	CCP 003 059514
Public Officials Liability***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017304
Workers' Compensation Excess	Statutory	Statutory	800,000	0	Midwest Employers Casualty (MECC)	EWCC007744

** 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, 2012, and have issued our report thereon dated November 30, 2012. 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

Management of Lincoln Wastewater System is responsible for establishing and maintaining effective 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*.

We noted certain matters that we reported to Lincoln Wastewater System's management in a separate letter dated November 30, 2012.

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

BKD, LLP

November 30, 2012