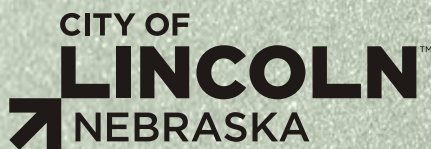


*Rebar structure to form
the lift station wet well.*



LINCOLN WASTEWATER SYSTEM

**Financial
Statements
& Schedules
Fiscal Year Ended
August 31, 2014**

ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS & UTILITIES

CITY OFFICIALS

Chris Beutler Mayor

COUNCIL MEMBERS

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Trent Fellers Vice-Chair

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Roy Christensen
Jonathan Cook
Carl Eskridge
Leirion Gaylor Baird

WASTEWATER SYSTEM

Miki Esposito Director of Public Works & Utilities

Donna Garden Assistant Director of Public Works & Utilities

Lincoln Wastewater System

August 31, 2014 and 2013

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Independent Auditor's Report

The Honorable Mayor and Members of the City Council
Lincoln Wastewater System
Lincoln, Nebraska

Report on the Financial Statements

We have audited the accompanying basic financial statements of Lincoln Wastewater System, which are comprised of balance sheets as of August 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2014 and 2013, 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.

Other Matters

Required Supplementary Information

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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the 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 audits 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014, 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* in considering Lincoln Wastewater System's internal control over financial reporting and compliance.

BKD, LLP

Lincoln, Nebraska
December 8, 2014

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, 2014 and 2013. 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 position; 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 Position

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the System's resources and its activities. These statements include all restricted and unrestricted assets and deferred outflows of resources, 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 position and the changes in net position. The System's total net position – the difference between assets plus deferred outflows of resources and liabilities – is one measure of the System's financial health or financial position. Over time, increases or decreases in the System's net position is 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 Position

The System's net position is the difference between its assets plus deferred outflows of resources and liabilities reported in the Balance Sheet. The System's net position increased by \$4,444,669 in 2014 over 2013 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, 2014, 2013, and 2012.

Table 1

Condensed Balance Sheets

	August 31		Change	
	2014	2013	Dollars	Percent
Current assets	\$ 19,976,997	\$ 17,202,885	\$2,774,112	16.13%
Capital assets	262,080,723	258,139,066	3,941,657	1.53%
Noncurrent assets	16,276,222	15,824,887	451,335	2.85%
Deferred outflows of resources	860,147	922,514	(62,367)	(6.76%)
Total assets and deferred outflows of resources	299,194,089	292,089,352	7,104,737	2.43%
Current liabilities	9,714,904	6,958,058	2,756,846	39.62%
Long-term liabilities	86,217,219	86,313,997	(96,778)	(0.11%)
Total liabilities	95,932,123	93,272,055	2,660,068	2.85%
Net position				
Net investment in capital assets	175,574,409	174,029,586	1,544,823	0.89%
Restricted for debt service	893,268	753,613	139,655	18.53%
Restricted for capital acquisition	620,596	274,406	346,190	126.16%
Unrestricted	26,173,693	23,759,692	2,414,001	10.16%
Total net position	203,261,966	198,817,297	4,444,669	2.24%
Total liabilities and net position	\$299,194,089	\$292,089,352	\$7,104,737	2.43%

Financial Highlights – Fiscal Year 2014

- Current assets increased primarily due to increases in cash and investment balances and an accounts receivable from the Nebraska Department of Environmental Quality (NDEQ).
- Capital assets increased as several projects were completed during the year.
- Current liabilities increased primarily due to timing of payments made to contractors on several construction projects.

Table 2

Condensed Balance Sheets

	August 31		Change	
	2013	2012	Dollars	Percent
Current assets	\$ 17,202,885	\$ 15,815,478	\$1,387,407	8.77%
Capital assets	258,139,066	256,865,473	1,273,593	0.50%
Noncurrent assets	15,824,887	15,373,854	451,033	2.93%
Deferred outflows of resources	922,514	984,882	(62,368)	(6.33%)
Total assets and deferred outflows of resources	292,089,352	289,039,687	3,049,665	1.06%
Current liabilities	6,958,058	8,584,491	(1,626,433)	(18.95%)
Long-term liabilities	86,313,997	85,599,171	714,826	0.84%
Total liabilities	93,272,055	94,183,662	(911,607)	(0.97%)
Net position				
Net investment in capital assets	174,029,586	171,553,512	2,476,074	1.44%
Restricted for debt service	753,613	703,650	49,963	7.10%
Restricted for capital acquisition	274,406	364,711	(90,305)	(24.76%)
Unrestricted	23,759,692	22,234,152	1,525,540	6.86%
Total net position	198,817,297	194,856,025	3,961,272	2.03%
Total liabilities and net position	\$292,089,352	\$289,039,687	\$3,049,665	1.06%

Financial Highlights – Fiscal Year 2013

- Current assets increased primarily due to an increase in cash and investment balances.
- Deferred outflows of resources consists of the deferred loss on refunded debt. In 2012, the Lincoln Wastewater System refunded \$40,345,000 of Wastewater Revenue Bonds, Series 2003 resulting in a deferred loss.
- Current liabilities decreased due to the completion of several construction projects during the year.

Table 3

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

	August 31		Change	
	2014	2013	Dollars	Percent
Operating revenues	\$25,860,215	\$24,577,769	\$1,282,446	5.22%
Operating expenses				
Plant, pumping and treatment	11,241,542	10,588,163	653,379	6.17%
Operation and maintenance of wastewater lines	6,028,135	5,895,677	132,458	2.25%
Sanitary engineering services	2,154,526	2,112,338	42,188	2.00%
Accounting and collecting	774,832	758,989	15,843	2.09%
Administrative and general	924,060	945,682	(21,622)	(2.29%)
Total operating expenses	21,123,095	20,300,849	822,246	4.05%
Operating income	4,737,120	4,276,920	460,200	10.76%
Net nonoperating expenses	(2,161,699)	(3,104,999)	943,300	(30.38%)
Capital contributions	1,869,248	2,801,073	(931,825)	(33.27%)
Transfers out	–	(11,722)	11,722	100.00%
Change in net position	\$ 4,444,669	\$ 3,961,272	\$483,397	12.20%

Financial Highlights – Fiscal Year 2014

- Wastewater revenue increased primarily due to a 5% revenue increase implemented November 2013 and applied solely to the service charge.
- Total operating expenses increased primarily due to increases in personnel costs and increases in other operating costs – primarily gas, electric, and water costs.

Table 4

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

	August 31		Change	
	2013	2012	Dollars	Percent
Operating revenues	\$24,577,769	\$24,097,998	\$479,771	1.99%
Operating expenses				
Plant, pumping and treatment	10,588,163	10,534,367	53,796	0.51%
Operation and maintenance of wastewater lines	5,895,677	5,417,882	477,795	8.82%
Sanitary engineering services	2,112,338	2,162,132	(49,794)	(2.30%)
Accounting and collecting	758,989	569,185	189,804	33.35%
Administrative and general	945,682	1,009,557	(63,875)	(6.33%)
Total operating expenses	20,300,849	19,693,123	607,726	3.09%
Operating income	4,276,920	4,404,875	(127,955)	(2.90%)
Net nonoperating expenses	(3,104,999)	(2,983,959)	(121,040)	(4.06%)
Capital contributions	2,801,073	2,143,397	657,676	30.68%
Transfers in (out)	(11,722)	3,660	(15,382)	100.00%
Change in net position	\$ 3,961,272	\$ 3,567,973	\$393,299	11.02%

Financial Highlights – Fiscal Year 2013

- Total operating expenses increased primarily due to increases in personnel costs and depreciation expense.
- Capital contributions increased in 2013 because of increased development activity during the year.

Debt Activity

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 position 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 \$9,900,000 at August 31, 2014.

Forward-Looking Information

The approved Capital Improvement Program for Fiscal Year 2014/15 - 2019/20 identifies the need for \$67,695,000 to fund capital improvements for the Wastewater System. Approximately \$38,050,000 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 2014, the Lincoln City Council approved the budget allowing for revenue increases for the next two years, which will be attained through increases in the various service charges. (See Note 1)

Contact Information

This financial report is intended to provide users a general overview of the System's financial performance for 2014 and 2013. 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, 2014 and 2013

Assets and Deferred Outflows of Resources	2014	2013
Current assets:		
Equity in pooled cash and investments	\$ 12,144,838	11,065,176
Receivables:		
Accounts receivable	2,168,903	1,983,095
Unbilled revenues	2,632,016	2,509,069
Due from other governments	2,249,364	1,136,734
Due from other funds	69,765	174,043
Impact fees	620,596	274,406
Total receivables	7,740,644	6,077,347
Inventories	91,515	60,362
Total current assets	19,976,997	17,202,885
Noncurrent assets:		
Equity in pooled cash and investments	8,080,552	8,096,955
Restricted assets:		
Equity in pooled cash and investments	1,731,814	1,401,989
Investments	5,840,298	5,660,664
Total restricted assets	7,572,112	7,062,653
Utility plant	382,102,738	370,483,507
Less accumulated depreciation	120,022,015	112,344,441
Net utility plant	262,080,723	258,139,066
Costs recoverable from future billings	623,558	665,279
Total noncurrent assets	278,356,945	273,963,953
Total assets	298,333,942	291,166,838
Deferred outflows of resources:		
Deferred loss on refunding	860,147	922,514
Total assets and deferred outflows of resources	\$ 299,194,089	292,089,352
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 548,048	295,253
Accrued liabilities	550,628	522,027
Deposits liability	16,650	11,250
Accrued compensated absences	383,552	368,437
Construction contracts	3,255,461	1,529,232
Current maturities of long-term debt	4,342,719	3,618,916
Accrued interest	617,846	612,943
Total current liabilities	9,714,904	6,958,058
Long-term liabilities:		
Accrued liabilities	229,704	221,468
Accrued compensated absences	283,481	283,985
Construction contracts	117,455	117,454
Long-term debt, excluding current maturities	85,586,579	85,691,090
Total long-term liabilities	86,217,219	86,313,997
Total liabilities	95,932,123	93,272,055
Net position:		
Net investment in capital assets	175,574,409	174,029,586
Restricted for debt service	893,268	753,613
Restricted for capital acquisition	620,596	274,406
Unrestricted	26,173,693	23,759,692
Total net position	203,261,966	198,817,297
Total liabilities and net position	\$ 299,194,089	292,089,352

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Position

Years ended August 31, 2014 and 2013

	2014	2013
Operating revenues	\$ 25,860,215	24,577,769
Operating expenses:		
Plant, pumping and treatment	11,241,542	10,588,163
Operation and maintenance of wastewater lines	6,028,135	5,895,677
Sanitary engineering services	2,154,526	2,112,338
Accounting and collecting	774,832	758,989
Administrative and general	924,060	945,682
Total operating expenses	21,123,095	20,300,849
Operating income	4,737,120	4,276,920
Nonoperating revenues (expenses):		
Investment income (loss)	600,438	(289,792)
Interest expense	(2,699,875)	(2,773,486)
Net costs recoverable	(41,721)	(41,721)
Miscellaneous expense	(20,541)	-
Net nonoperating expenses	(2,161,699)	(3,104,999)
Increase in net position before capital contributions	2,575,421	1,171,921
Capital contributions from:		
Developers	1,280,739	1,692,563
Tap fees	31,811	32,125
Impact Fees	556,698	668,174
Federal grant revenues	-	408,211
Total capital contributions	1,869,248	2,801,073
Transfers Out	-	(11,722)
Increase in net position	4,444,669	3,961,272
Total net position - beginning	198,817,297	194,856,025
Total net position - ending	\$ 203,261,966	198,817,297

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2014 and 2013

	2014	2013
Operating activities:		
Receipts from customers and users	\$ 26,347,403	25,603,869
Payments to suppliers	(5,661,540)	(5,062,539)
Payments to employees	(7,403,354)	(7,218,597)
Net cash provided by operating activities	13,282,509	13,322,733
Noncapital financing activities:		
Repayment from other funds, net	104,278	173,295
Net cash provided by noncapital financing activities	104,278	173,295
Capital and related financing activities:		
Acquisition and construction of capital assets	(7,937,802)	(8,401,811)
Principal paid on revenue bonds	(3,245,000)	(3,120,000)
Federal grant proceeds	-	526,828
Proceeds from NDEQ loan	2,675,751	3,316,985
Interest paid on long term debt	(3,077,999)	(3,089,697)
Repayments on NDEQ loan	(808,916)	(367,907)
Other	(20,541)	-
Net cash used in capital and related financing activities	(12,414,507)	(11,135,602)
Investing activities:		
Purchases of investments	(17,231,183)	(21,402,142)
Proceeds from investment maturities	15,331,339	19,993,774
Interest on investments	278,191	175,282
Net cash used in investing activities	(1,621,653)	(1,233,086)
Net increase (decrease) in cash and cash equivalents	(649,373)	1,127,340
Cash and cash equivalents at beginning of year	2,224,768	1,097,428
Cash and cash equivalents at end of year	\$ 1,575,395	\$ 2,224,768
Composition of equity in pooled cash and investments (current)		
Cash and cash equivalents	\$ 1,575,395	2,224,768
Investments	10,569,443	8,840,408
Total equity in pooled cash and investments (current)	12,144,838	11,065,176
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 4,737,120	\$ 4,276,920
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,785,109	7,778,689
Changes in operating assets and liabilities:		
Accounts receivable	481,789	1,021,350
Inventories	(31,153)	13,944
Accounts payable	252,796	83,410
Accrued liabilities and deposit liability	42,237	61,904
Accrued compensated absences	14,611	86,516
Total adjustments	8,545,389	9,045,813
Net cash provided by operating activities	\$ 13,282,509	13,322,733

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$1,280,739 and \$1,692,563 were added to utility plant in 2014 and 2013 respectively.

Accounts payable incurred for utility plant purchases were \$3,372,916 and \$1,646,687 in 2014 and 2013, respectively.

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(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 including the regulated operations provisions of GASB Statement No. 62, which permits an entity with cost based rates to defer certain costs or income that would be otherwise recognized when incurred to the extent the rate-regulated entity is recovering or expecting to recover such amounts in rates charged to its customers.

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, 2014 and 2013, 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.

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.

Accounts Receivable and Unbilled Revenues

Wastewater revenues are recorded based on the related period of customer usage. Billings for wastewater revenues are rendered on a cycle basis bi-monthly. 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. Management does not believe an allowance for doubtful accounts is necessary at August 31, 2014 or 2013.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(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. 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, 2014 and 2013

(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 prices. 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, 2014 and 2013

(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 the 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 following rates were in effect as of August 31, 2014 and 2013, respectively:

	<u>August 31, 2014</u>	<u>August 31, 2013</u>
<u>Water Usage</u>	\$1.859	\$1.859
<u>Service Charge</u>		
5/8 inch	\$ 1.65	\$ 1.55
3/4 inch	3.20	2.30
1 inch	5.70	3.85
1 ½ inch	11.30	7.65
2 inch	18.10	12.25
3 inch	34.00	23.00
4 inch	56.70	38.35
6 inch	113.30	76.65
8 inch	181.30	122.65
10 inch	260.70	176.35

In August 2014, the Lincoln City Council approved rate increases for the next two years. The first rate increase of 3% is effective in November 2014 and the second increase of 3% is effective in November 2015.

Costs Recoverable from Future Billings

Certain income and expense items which would be recognized during the current period are deferred and not included in the determination of the change in net position until such costs are expected to be recovered through rates, in accordance with the regulated operations provisions of GASB Statement No. 62. Costs recoverable from future billings are comprised of charges incurred in relation to the System's bond issuances.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

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

Net Position Classification

Net position is required to be classified into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. 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 net investment in capital assets.

Restricted - consists of restricted assets, reduced by liabilities related to those assets, with constraints placed on their use either by a) external groups such as creditors (such as through debt covenants), contributors, or laws or regulations of other governments or b) law through constitutional provisions or enabling legislation.

Unrestricted - consists of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the net investment in capital assets or restricted component of net position.

When both restricted and unrestricted resources are available for use, it is System's policy to use restricted resources first, then unrestricted as they are needed.

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, 2014 and 2013 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, 2014	\$652,422	383,048	368,437	667,033	383,552
August 31, 2013	\$565,906	440,900	354,384	652,422	368,437

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(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 \$230,000 and \$221,000 as of August 31, 2014 and 2013, 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 balance sheet amounts and the disclosure of contingent items 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 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net position.

(2) Deposits, Investments, and Investment Return

Deposits

State statutes require banks either to give bond, provide a Federal Home Loan Bank letter of credit, or to pledge government securities to the City Treasurer in the amount of the City's deposits. The System has been allocated a portion of the City's pooled cash and investments. The City's cash deposits, including certificates of deposit, are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits are covered by collateral held in a Federal Reserve Bank pledge account or by an agent for the City, or a letter of credit issued by a Federal Reserve Bank 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. Government Sponsored 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. Government Sponsored 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. Collateral held for the investment agreement is held by an agent who is not the counterparty to the investment transaction.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

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

At August 31, 2014 and 2013, the Lincoln Wastewater System had the following investments and maturities:

Type	August 31, 2014				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Government Sponsored Agency	\$4,610,317	-	1,370,812	3,239,505	-
Collateralized Investment Agreement	<u>1,229,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,229,981</u>
	<u>\$5,840,298</u>	<u>-</u>	<u>1,370,812</u>	<u>3,239,505</u>	<u>1,229,981</u>

Type	August 31, 2013				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Government Sponsored Agency	\$4,430,683	-	1,374,647	3,056,036	-
Collateralized Investment Agreement	<u>1,229,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,229,981</u>
	<u>\$5,660,664</u>	<u>-</u>	<u>1,374,647</u>	<u>3,056,036</u>	<u>1,229,981</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(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 an 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 Investors 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, 2014 and 2013, 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, 2014 and 2013. The collateralized investment agreement was adequately collateralized as of August 31, 2014 and 2013.

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, allocation limits do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument. As of August 31, 2014 and 2013, the Lincoln Wastewater System investments in Federal Home Loan Bank (FHLB) securities constituted 11.7% 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, 2014 and 2013

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

The carrying amount of equity interests in pooled cash and investments at August 31, 2014 and 2013, are:

	<u>2014</u>	<u>2013</u>
Equity in pooled cash and investments	<u>\$21,957,204</u>	<u>20,564,120</u>

Investment Income

Investment income (loss) for the years ended August 31, 2014 and 2013, consisted of:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$282,305	179,585
Net change in fair value of investments	<u>318,133</u>	<u>(469,377)</u>
	<u>\$600,438</u>	<u>(289,792)</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(3) Utility Plant

Utility plant is summarized by major classification at August 31, 2014 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2013	Increases	Decreases	August 31, 2014	August 31, 2013	Increases	Decreases	August 31, 2014	August 31, 2014
Structures and improvements	\$ 79,914,073	94,954	(18,950)	79,990,077	(26,981,563)	(1,874,085)	18,950	(28,836,698)	51,153,379
Line equipment	121,860	38,613	-	160,473	(43,091)	(26,407)	-	(69,498)	90,975
Treatment equipment	58,812,607	1,920,819	-	60,733,426	(24,833,992)	(2,239,107)	-	(27,073,099)	33,660,327
Collection system	208,133,880	4,520,114	-	212,653,994	(52,976,742)	(3,013,628)	-	(55,990,370)	156,663,624
Lift stations/force mains	1,207,441	-	-	1,207,441	(524,995)	(56,278)	-	(581,273)	626,168
Environmental equipment	376,508	-	-	376,508	(338,457)	(5,768)	-	(344,225)	32,283
Office furniture and equipment	498,889	-	-	498,889	(424,460)	(14,854)	-	(439,314)	59,575
Shop equipment	306,968	-	(35,017)	271,951	(242,661)	(10,219)	35,017	(217,863)	54,088
Communications system	511,621	-	-	511,621	(291,274)	(46,857)	-	(338,131)	173,490
Laboratory equipment	596,548	65,681	-	662,229	(490,126)	(31,952)	-	(522,078)	140,151
Injection system	658,907	-	-	658,907	(421,620)	(13,364)	-	(434,984)	223,923
Pond and liner	520,132	-	-	520,132	(476,730)	(14,467)	-	(491,197)	28,935
Sludge injection equipment	79,663	-	-	79,663	(54,429)	(6,034)	-	(60,463)	19,200
Transmission/work equipment	1,125,400	-	-	1,125,400	(261,057)	(51,336)	-	(312,393)	813,007
Meters	4,104,327	271,775	-	4,376,102	(2,295,001)	(218,982)	-	(2,513,983)	1,862,119
Vehicles	2,577,308	339,529	(75,828)	2,841,009	(1,688,243)	(161,771)	53,568	(1,796,446)	1,044,563
Total depreciable assets	359,546,132	7,251,485	(129,795)	366,667,822	(112,344,441)	(7,785,109)	107,535	(120,022,015)	246,645,807
Land and land rights	6,001,129	204,827	-	6,205,956	-	-	-	-	6,205,956
Construction in progress	4,936,246	9,731,736	(5,439,022)	9,228,960	-	-	-	-	9,228,960
Total nondepreciable assets	10,937,375	9,936,563	(5,439,022)	15,434,916	-	-	-	-	15,434,916
Total capital assets	\$ 370,483,507	17,188,048	(5,568,817)	382,102,738	(112,344,441)	(7,785,109)	107,535	(120,022,015)	262,080,723

During 2014, Lincoln Wastewater System incurred \$3,082,903 of interest cost. Interest capitalized into construction in progress during 2014 was \$193,487. 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 2.12% in 2014.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(3) Utility Plant

Utility plant is summarized by major classification at August 31, 2013 as follows:

Asset Class	Capital Assets			August 31, 2013	Accumulated Depreciation			August 31, 2013	Net Capital Assets
	August 31, 2012	Increases	Decreases		August 31, 2012	Increases	Decreases		August 31, 2013
Structures and improvements	\$ 79,839,389	74,684	-	79,914,073	(25,086,939)	(1,894,624)	-	(26,981,563)	52,932,510
Line equipment	75,490	46,370	-	121,860	(22,511)	(20,580)	-	(43,091)	78,769
Treatment equipment	58,284,153	528,454	-	58,812,607	(22,590,050)	(2,243,942)	-	(24,833,992)	33,978,615
Collection system	203,221,960	4,911,920	-	208,133,880	(50,041,177)	(2,935,565)	-	(52,976,742)	155,157,138
Lift stations/force mains	1,207,441	-	-	1,207,441	(468,716)	(56,279)	-	(524,995)	682,446
Environmental equipment	339,148	37,360	-	376,508	(331,701)	(6,756)	-	(338,457)	38,051
Office furniture and equipment	481,861	17,028	-	498,889	(323,754)	(100,706)	-	(424,460)	74,429
Shop equipment	306,968	-	-	306,968	(229,275)	(13,386)	-	(242,661)	64,307
Communications system	496,582	15,039	-	511,621	(246,207)	(45,067)	-	(291,274)	220,347
Laboratory equipment	537,805	58,743	-	596,548	(469,461)	(20,665)	-	(490,126)	106,422
Injection system	658,907	-	-	658,907	(408,256)	(13,364)	-	(421,620)	237,287
Pond and liner	520,132	-	-	520,132	(462,262)	(14,468)	-	(476,730)	43,402
Sludge injection equipment	79,663	-	-	79,663	(48,395)	(6,034)	-	(54,429)	25,234
Transmission/work equipment	1,100,106	25,294	-	1,125,400	(209,721)	(51,336)	-	(261,057)	864,343
Meters	4,034,424	69,903	-	4,104,327	(2,087,084)	(207,917)	-	(2,295,001)	1,809,326
Vehicles	2,597,194	109,108	(128,994)	2,577,308	(1,654,226)	(148,001)	113,984	(1,688,243)	889,065
Total depreciable assets	353,781,223	5,893,903	(128,994)	359,546,132	(104,679,735)	(7,778,690)	113,984	(112,344,441)	247,201,691
Land and land rights	5,996,823	4,306	-	6,001,129	-	-	-	-	6,001,129
Construction in progress	1,767,162	6,977,258	(3,808,174)	4,936,246	-	-	-	-	4,936,246
Total nondepreciable assets	7,763,985	6,981,564	(3,808,174)	10,937,375	-	-	-	-	10,937,375
Total capital assets	\$ 361,545,208	12,875,467	(3,937,168)	370,483,507	(104,679,735)	(7,778,690)	113,984	(112,344,441)	258,139,066

During 2013, Lincoln Wastewater System incurred \$3,036,393 of interest cost. Interest capitalized into construction in progress during 2013 was \$73,366. 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 2013.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(4) Long-term Liabilities

Long-term debt of Lincoln Wastewater System at August 31, 2014 and 2013 is summarized below:

2014

Type of Debt	August 31, 2013	Additions	Reductions	August 31, 2014	Due Within One Year
4.0% - 5.0% Wastewater Revenue Bonds Series 2005. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2030. Redeemable at par on or after June 15, 2015.	\$13,900,000	—	580,000	13,320,000	605,000
4.0% - 4.5% Wastewater Revenue Bonds Series 2007. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2032. Redeemable at par on or after June 15, 2017.	17,345,000	—	615,000	16,730,000	640,000
0.0% - 2.0% Nebraska Department of Environmental Quality (NDEQ) 2009 project loan payable. Principal and interest payments due semi-annually on June 15 and December 15, with final payment in 2031.	3,161,012	—	162,004	2,999,008	164,113
2.0% Nebraska Department of Environmental Quality (NDEQ) 2009 project loan payable. Principal and interest payments due semi-annually on June 15 and December 15, with final payment in 2032.	4,692,016	—	211,912	4,480,104	216,171
3.25% Nebraska Department of Environmental Quality (NDEQ) 2011 project loan payable. Principal and interest payments due semi-annually on June 15 and December 15.	10,136,822	4,925,115	435,000	14,626,937	647,435
1.0% to 5.0% Wastewater Revenue Refunding Bonds, Series 2012. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2028. Redeemable at par on or after June 15, 2022.	36,325,000	—	2,050,000	34,275,000	2,070,000
Unamortized premium on bonds	<u>3,750,156</u>	<u>—</u>	<u>251,907</u>	<u>3,498,249</u>	<u>—</u>
	<u>\$89,310,006</u>	<u>4,925,115</u>	<u>4,305,823</u>	<u>89,929,298</u>	<u>4,342,719</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(4) Long-term Liabilities (continued)

2013

Type of Debt	August 31, 2012	Additions	Reductions	August 31, 2013	Due Within One Year
4.0% - 5.0% Wastewater Revenue Bonds Series 2005. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2030. Redeemable at par on or after June 15, 2015.	\$14,460,000	—	560,000	13,900,000	580,000
4.0% - 4.5% Wastewater Revenue Bonds Series 2007. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2032. Redeemable at par on or after June 15, 2017.	17,940,000	—	595,000	17,345,000	615,000
0.0% - 2.0% Nebraska Department of Environmental Quality (NDEQ) 2009 project loan payable. Principal and interest payments due semi-annually on June 15 and December 15, with final payment in 2031.	3,320,934	—	159,922	3,161,012	162,004
2.0% Nebraska Department of Environmental Quality (NDEQ) 2009 project loan payable. Principal and interest payments due semi-annually on June 15 and December 15, with final payment in 2032.	4,900,000	—	207,984	4,692,016	211,912
3.25% Nebraska Department of Environmental Quality (NDEQ) 2011 project loan payable. Principal and interest payments due semi-annually on June 15 and December 15, after construction is complete.	5,683,103	4,453,719	—	10,136,822	—
1.0% to 5.0% Wastewater Revenue Refunding Bonds, Series 2012. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2014 through 2028. Redeemable at par on or after June 15, 2022.	38,290,000	—	1,965,000	36,325,000	2,050,000
Unamortized premium on bonds	4,002,064	—	251,908	3,750,156	—
	<u>\$88,596,101</u>	<u>4,453,719</u>	<u>3,739,814</u>	<u>89,310,006</u>	<u>3,618,916</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.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(4) Long-term Liabilities (continued)

Maturities and sinking fund requirements on long-term debt at August 31, 2014, are shown below.

Years ending August 31	Principal	Interest	Total
2015	\$ 4,342,719	3,145,231	7,487,950
2016	4,372,188	2,961,981	7,334,169
2017	4,536,775	2,778,291	7,315,066
2018	4,627,077	2,665,667	7,292,744
2019	4,723,108	2,542,770	7,265,878
2020 - 2024	25,963,280	10,238,410	36,201,690
2025 - 2029	27,477,743	4,896,013	32,373,756
2030 - 2034	10,388,159	832,941	11,221,100
Total	\$86,431,049	30,061,304	116,492,353

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%. 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, 2014, Lincoln Wastewater System incurred project costs totaling \$7,272,120 resulting in a recognition of a project payable of \$14,626,937, which is shown net of \$435,000 of principal repayments. The terms of the loan payable are reflected in the summary of long-term debt. The remaining available funds totaling \$1,938,063 are not reflected in the summary of long-term debt.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(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 loans is \$116,492,353 with annual payments expected to require 52% of net revenues. Principal and interest paid for the current year and net system revenues were \$7,131,915 and \$13,711,176, respectively.

Construction contracts of the Lincoln Wastewater System at August 31, 2014 and 2013 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, 2014	\$1,646,686	3,255,462	1,529,232	3,372,916	3,255,461
August 31, 2013	\$3,450,723	1,529,232	3,333,269	1,646,686	1,529,232

(5) Commitments and Contingencies

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$9,900,000 at August 31, 2014.

(6) Related Party Transactions

The City billed the Wastewater System approximately \$482,000 and \$475,000 for administrative services during 2014 and 2013, 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 \$991,000 and \$889,000 during 2014 and 2013, respectively. Approximately \$75,000 and \$60,000 are included in accounts payable for amounts owed to LES at August 31, 2014 and 2013.

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 \$620,596 and \$274,406 as of August 31, 2014 and 2013, 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 \$69,765 and \$174,043 as of August 31, 2014 and 2013, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the balance sheets.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

(7) 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 for 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 \$420,000 and \$415,000 in 2014 and 2013, respectively.

(8) 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 \$525,000 and \$517,000 for 2014 and 2013, respectively. Contributions made by the plan members were approximately \$298,000 and \$288,000 for 2014 and 2013, respectively.

SUPPLEMENTARY
INFORMATION

LINCOLN WASTEWATER SYSTEM

Summary of Long-Term Debt

August 31, 2014

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
2015	\$ 605,000	586,362	640,000	719,288	164,113	38,382	216,171	88,527	647,435	474,322	2,070,000	1,238,350	4,342,719	3,145,231	7,487,950
2016	625,000	556,112	665,000	693,688	166,249	36,245	220,516	84,182	545,423	456,904	2,150,000	1,134,850	4,372,188	2,961,981	7,334,169
2017	650,000	531,112	695,000	667,088	168,413	34,081	224,948	79,749	563,414	438,911	2,235,000	1,027,350	4,536,775	2,778,291	7,315,066
2018	675,000	505,112	720,000	639,288	170,606	31,889	229,470	75,228	582,001	420,325	2,250,000	993,825	4,627,077	2,665,667	7,292,744
2019	700,000	476,424	750,000	610,488	172,826	29,668	234,082	70,615	601,200	401,125	2,265,000	954,450	4,723,108	2,542,770	7,265,878
2020-2024	3,980,000	1,897,772	4,250,000	2,562,580	898,468	114,003	1,242,907	280,581	3,316,905	1,694,724	12,275,000	3,688,750	25,963,280	10,238,410	36,201,690
2025-2029	4,955,000	940,714	5,260,000	1,549,452	958,490	53,985	1,372,943	150,545	3,901,310	1,110,317	11,030,000	1,091,000	27,477,743	4,896,013	32,373,756
2030-2034	1,130,000	50,850	3,750,000	332,934	299,843	3,899	739,067	22,312	4,469,249	422,946	-	-	10,388,159	832,941	11,221,100
	\$ 13,320,000	5,544,458	16,730,000	7,774,806	2,999,008	342,152	4,480,104	851,739	14,626,937	5,419,574	34,275,000	10,128,575	86,431,049	30,061,304	116,492,353

LINCOLN WASTEWATER SYSTEM

Schedule 2

Debt Coverage Ratio

Last ten fiscal years

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
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
2013	24,988,276	12,522,160	12,466,116	3,120,000	2,785,825	5,905,825	2.11	3,487,906	3,089,698	6,577,604	1.90
2014	27,049,162	13,337,986	13,711,176	3,245,000	2,638,600	5,883,600	2.33	4,053,916	3,077,999	7,131,915	1.92

Operating Expenses

Years ended August 31, 2014 and 2013

	2014	2013
Plant, pumping and treatment:		
Theresa Street Treatment Plant:		
Supervision and management	\$ 201,630	205,417
Administrative and support staff	53,310	66,098
Training and education	24,762	30,851
Data management	228,985	207,153
General operations	1,507,590	1,109,309
Treatment and process control	797,896	808,797
Solids processing	1,075,845	1,081,954
Structures maintenance	242,602	161,418
Process equipment maintenance	677,155	511,867
Control system maintenance	206,362	192,551
Electrical maintenance	111,704	76,284
Grounds maintenance	42,083	53,988
Depreciation of structure and improvement	1,418,988	1,425,000
Depreciation of treatment equipment	1,602,345	1,605,796
Depreciation of shop and lab equipment	335	335
Depreciation of office/communications equipment	44,709	44,709
Total Theresa Street Treatment Plant	\$ 8,236,301	7,581,527
Northeast Treatment Plant:		
Supervision and management	\$ 80,756	82,613
Administrative and support staff	13,096	19,067
Training and education	7,443	10,926
Data management	69,459	65,767
General operations	548,180	512,394
Treatment and process control	158,631	147,420
Solids processing	264,791	339,692
Structures maintenance	67,450	67,601
Process equipment maintenance	262,944	211,199
Control system maintenance	83,203	97,494
Electrical maintenance	44,860	45,336
Grounds maintenance	56,455	58,057
Depreciation of structures and improvements	432,248	446,624
Depreciation of treatment system	613,587	614,799
Depreciation of injection system	44,035	44,035
Depreciation of shop and laboratory equipment	7,022	7,022
Depreciation of office/communications equipment	648	648
Total Northeast Treatment Plant	\$ 2,754,808	2,770,694

LINCOLN WASTEWATER SYSTEM

Schedule 3, Cont.

Operating Expenses, Continued

	2014	2013
Liftstations:		
General operations	\$ 88,308	84,541
Structures maintenance	32,503	19,313
Process equipment maintenance	45,707	42,673
Control system maintenance	15,397	18,570
Electrical maintenance	5,973	9,407
Grounds maintenance	1,372	-
Depreciation of liftstations	61,173	61,438
Total liftstations	250,433	235,942
Total plant, pumping and treatment	\$ 11,241,542	10,588,163
Operation and maintenance of wastewater lines:		
Supervision and management	\$ 298,799	338,576
Administrative and support staff	46,776	55,326
Training and education	56,135	63,888
Data management	87,717	146,774
General operations	324,554	245,228
Structures maintenance	24,015	12,904
Main repair/maintenance	215,695	287,246
Manhole repair/rehabilitation	80,935	48,161
Customer service	474,783	419,321
Cleaning maintenance	846,396	801,129
Field operations	248,686	248,353
Depreciation of structures and improvements	757	908
Depreciation of treatment equipment	85,275	80,019
Depreciation of meters	214,216	203,151
Depreciation of shop and lab equipment	4,894	4,517
Depreciation of collection system	3,018,502	2,940,176
Total operation and maintenance of wastewater lines	\$ 6,028,135	5,895,677
Sanitary engineering services:		
Supervision and management	\$ 496,305	544,991
Administrative and support staff	69,658	60,413
Training and education	16,897	13,889
Data management	251,529	208,561
General operations	82,374	39,944
Laboratory operations	651,994	645,364
Field operations	529,620	549,293
Depreciation of structures and improvements	16,083	16,083
Depreciation of treatment equipment	1,712	1,313
Depreciation of office/communications equipment	2,666	3,554
Depreciation of shop and laboratory equipment	35,688	28,933
Total sanitary engineering services	\$ 2,154,526	2,112,338

LINCOLN WASTEWATER SYSTEMSchedule 3, Cont.**Operating Expenses, Continued**

	2014	2013
Accounting and collecting:		
Supervision and management	\$ 196,825	187,496
Administrative and support staff	2,226	2,726
Meter reading	114,442	108,572
Billing and accounting	250,493	231,641
Collections	104,446	96,386
Customer services and billing	66,037	93,867
Customer contracts and orders	35,027	31,256
Depreciation of general plant	4,766	4,767
Depreciation of office/communications equipment	570	2,278
Total accounting and collecting	\$ 774,832	758,989
Administrative and general:		
Supervision and management	\$ 750,635	698,998
Administrative and support staff	130,859	122,932
Delivery service	29,447	29,168
Depreciation of office/communications equipment	13,119	94,584
Total administrative and general	\$ 924,060	945,682

LINCOLN WASTEWATER SYSTEM

Schedule 4

Utility Plant in Service

August 31, 2014 and 2013

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2013	Increases	Decreases	August 31, 2014	August 31, 2013	Increases	Decreases	August 31, 2014	August 31, 2014
Theresa Street Plant:									
Structures and improvements	\$ 60,595,616	80,935	(18,950)	60,657,601	(18,503,202)	(1,438,396)	18,950	(19,922,648)	40,734,953
Line equipment	121,860	38,613	-	160,473	(43,091)	(26,407)	-	(69,498)	90,975
Treatment equipment	37,539,883	1,920,819	-	39,460,702	(19,961,919)	(1,670,128)	-	(21,632,047)	17,828,655
Collection system	208,133,880	4,520,114	-	212,653,994	(52,976,742)	(3,013,628)	-	(55,990,370)	156,663,624
Lift stations/force mains	1,207,441	-	-	1,207,441	(526,680)	(56,278)	-	(582,958)	624,483
Environmental equipment	376,508	-	-	376,508	(338,457)	(5,768)	-	(344,225)	32,283
Office furniture and equipment	487,476	-	-	487,476	(416,925)	(14,206)	-	(431,131)	56,345
Shop equipment	156,666	-	(35,017)	121,649	(143,541)	(3,197)	35,017	(111,721)	9,928
Communications system	511,621	-	-	511,621	(291,274)	(46,857)	-	(338,131)	173,490
Laboratory equipment	596,548	65,681	-	662,229	(490,126)	(31,952)	-	(522,078)	140,151
Meters	4,104,327	271,775	-	4,376,102	(2,295,001)	(218,982)	-	(2,513,983)	1,862,119
Theresa Street depreciable assets	313,831,826	6,897,937	(53,967)	320,675,796	(95,986,958)	(6,525,799)	53,967	(102,458,790)	218,217,006
Land and land rights	3,940,087	204,827	-	4,144,914	-	-	-	-	4,144,914
Theresa Street nondepreciable assets	3,940,087	204,827	-	4,144,914	-	-	-	-	4,144,914
Total Theresa Street Plant	317,771,913	7,102,764	(53,967)	324,820,710	(95,986,958)	(6,525,799)	53,967	(102,458,790)	222,361,920
Northeast Plant:									
Structures and improvements	19,318,457	14,019	-	19,332,476	(8,478,361)	(435,689)	-	(8,914,050)	10,418,426
Treatment equipment	21,272,724	-	-	21,272,724	(4,872,073)	(568,979)	-	(5,441,052)	15,831,672
Office furniture and equipment	11,413	-	-	11,413	(7,535)	(648)	-	(8,183)	3,230
Shop and work equipment	150,302	-	-	150,302	(99,120)	(7,022)	-	(106,142)	44,160
Injection system	658,907	-	-	658,907	(421,620)	(13,364)	-	(434,984)	223,923
Pond and liner	520,132	-	-	520,132	(476,730)	(14,467)	-	(491,197)	28,935
Sludge injection equipment	79,663	-	-	79,663	(54,429)	(6,034)	-	(60,463)	19,200,000
Lift stations/force mains	-	-	-	-	1,685	-	-	1,685	1,685
Transmission/work equipment	1,125,400	-	-	1,125,400	(261,057)	(51,336)	-	(312,393)	813,007
Northeast depreciable assets	43,136,998	14,019	-	43,151,017	(14,669,240)	(1,097,539)	-	(15,766,779)	27,384,238
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	45,198,040	14,019	-	45,212,059	(14,669,240)	(1,097,539)	-	(15,766,779)	29,445,280
Vehicles and work equipment (all locations)	2,577,308	339,529	(75,828)	2,841,009	(1,688,243)	(161,771)	53,568	(1,796,446)	1,044,563
Utility plant in service	\$ 365,547,261	7,456,312	(129,795)	372,873,778	(112,344,441)	(7,785,109)	107,535	(120,022,015)	252,851,763
Construction in progress	4,936,246	9,731,736	(5,439,022)	9,228,960	-	-	-	-	9,228,960
Total capital assets	\$ 370,483,507	17,188,048	(5,568,817)	382,102,738	(112,344,441)	(7,785,109)	107,535	(120,022,015)	262,080,723

LINCOLN WASTEWATER SYSTEM**GENERAL STATISTICS****Year Ended August 31, 2014**

(Unaudited)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	92.82 Square Miles
Population	272,592 Estimate
Total Miles of Wastewater Mains & Collector Lines In Use:	
Miles in use September 1, 2013	1,024.0
Estimated Added During Year	8.7
Estimated Removed During Year	—
Total as of August 31, 2014	1,032.7 Miles
Number of Wastewater Lift (Pumping) Stations:	14
Number of Stormwater Pumping Stations:	4
Plant Capacity:	
Theresa Street Treatment Facility	27.4 million gallons per day
Northeast Treatment Facility	10.0 million gallons per day
Average Daily Flow:	
Theresa Street Treatment Facility	23.3 million gallons per day
Northeast Treatment Facility	2.2 million gallons per day
Total Number of Active Residential Wastewater Customers	
End of Fiscal Year	76,523
Total Number of Active Non-Residential Wastewater Customers	
End of Fiscal Year	4,328
Total Debt of Lincoln Wastewater System as of August 31, 2014	\$86,431,049

LINCOLN WASTEWATER SYSTEM**TOP TEN CUSTOMERS**

Year Ended August 31, 2014

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	350,742	\$709,097
2. State of Nebraska	282,751	551,008
3. Archer-Daniels Midland Company	158,125	317,710
4. University of Nebraska Foundation	121,171	241,587
5. Bryan Health	106,415	214,195
6. Lincoln Industries	102,948	207,891
7. Lincoln Housing Authority	87,307	203,716
8. Lincoln Public Schools	82,463	189,798
9. City of Lincoln	75,592	167,760
10. Zoetis	61,963	128,535
Top Ten User Totals	1,429,477	\$2,931,297

Lincoln Wastewater System

Summary of Insurance Coverage

August 31, 2014

(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	SEL3017306
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	FM969
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	FM969
Equipment Floater (NON-LIC)	Non-licensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM969
Equipment Floater (Sanitary)	Inspection scheduled equipment	Replacement cost	50,000	2,500	FM Global	FM969
General Liability ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017306
Public Employee Blanket Bond	Employees blanket bond coverage	2,000,000	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	SEL3017306
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 Auditor's 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, 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, the basic financial statements of Lincoln Wastewater System, which comprise the balance sheet as of August 31, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2014, which contained an emphasis of matter paragraph indicating that the financial statements do not purport to, and do not, present fairly the financial position and changes in financial position of the City of Lincoln, Nebraska as a whole.

Internal Control Over Financial Reporting

Management of Lincoln Wastewater System is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered Lincoln Wastewater System's internal control to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Lincoln Wastewater System's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln Wastewater System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Lincoln, Nebraska
December 8, 2014