

City of Lincoln, Nebraska
Solid Waste Management Fund

Independent Auditor's Report and Financial Statements

August 31, 2016 and 2015



City of Lincoln, Nebraska
Solid Waste Management Fund
August 31, 2016 and 2015

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Independent Auditor's Report

The Honorable Mayor and
Members of the City Council
Solid Waste Management Fund
City of Lincoln, Nebraska

We have audited the accompanying basic financial statements, which are comprised of statements of net position as of August 31, 2016 and 2015, 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 basic financial statements, as listed in the table of contents, of the Solid Waste Management Fund of the City of Lincoln, Nebraska.

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. 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 the Solid Waste Management Fund of the City of Lincoln, Nebraska as of August 31, 2016 and 2015, 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 the Solid Waste Management Fund are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities, each major fund and the aggregate remaining fund information of the City of Lincoln, Nebraska that is attributable to the transactions of the Solid Waste Management Fund. They do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2016 and 2015, the changes in its financial position or, where applicable its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Lincoln, Nebraska
February 23, 2017

City of Lincoln, Nebraska
Solid Waste Management Fund
Statements of Net Position
August 31, 2016 and 2015

Assets and Deferred Outflows of Resources

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 105,643	\$ 154,475
Equity in pooled cash and investments	3,640,581	2,526,852
Accounts receivable	2,077,594	1,445,154
Accrued interest receivable	10,610	7,908
Due from other City funds, net	7,579	11,147
Due from other governments	4,318	10,598
Total current assets	<u>5,846,325</u>	<u>4,156,134</u>
Noncurrent Assets		
Equity in pooled cash and investments	1,974,584	1,884,212
Restricted assets		
Equity in pooled cash and investments	3,852,363	6,377,289
Accrued interest receivable	10,032	5,391
Total restricted assets	<u>3,862,395</u>	<u>6,382,680</u>
Capital Assets, Net	<u>29,988,581</u>	<u>26,967,732</u>
Total noncurrent assets	<u>35,825,560</u>	<u>35,234,624</u>
Deferred Outflows of Resources		
Deferred cost of refunded debt	26,447	31,736
Total assets and deferred outflows of resources	<u>41,698,332</u>	<u>39,422,494</u>
Liabilities		
Current Liabilities		
Accounts payable	958,325	297,817
Accrued liabilities	131,444	102,712
Accrued compensated absences	124,628	113,280
Due to other governments	88,451	74,902
Accrued interest payable	31,848	37,148
Current portion of long-term debt	795,000	775,000
Total current liabilities	<u>2,129,696</u>	<u>1,400,859</u>
Noncurrent Liabilities		
Accrued closure/post-closure care costs	20,491,000	17,574,000
Long-term debt, net	11,392,787	12,234,407
Other accrued liabilities	183,261	167,246
Total noncurrent liabilities	<u>32,067,048</u>	<u>29,975,653</u>
Total liabilities	<u>34,196,744</u>	<u>31,376,512</u>
Net Position		
Net investment in capital assets	21,015,904	20,261,928
Restricted for capital projects	29,478	-
Unrestricted	<u>(13,543,794)</u>	<u>(12,215,946)</u>
Total net position	<u>\$ 7,501,588</u>	<u>\$ 8,045,982</u>

City of Lincoln, Nebraska
Solid Waste Management Fund
Statements of Revenues, Expenses and Changes in Net Position
Years Ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Fees	\$ 7,248,947	\$ 6,294,019
Other	848,941	927,796
	<u>8,097,888</u>	<u>7,221,815</u>
Operating Expenses		
Personal services	2,884,252	2,834,460
Operation and maintenance	3,611,401	3,439,047
Depreciation	2,154,144	2,066,770
Estimated closure and post-closure care costs	2,917,000	868,000
	<u>11,566,797</u>	<u>9,208,277</u>
Operating loss	<u>(3,468,909)</u>	<u>(1,986,462)</u>
Nonoperating Revenues (Expenses)		
Occupation tax	4,194,442	2,832,539
Investment income	79,082	20,187
Gain on disposal of capital assets	16,486	6,539
Grants	15,077	-
Bond issuance costs	-	(129,524)
Interest expense	(192,245)	(167,578)
Other	-	973
	<u>4,112,842</u>	<u>2,563,136</u>
Excess of Revenues Over Expenses Before Contributions and Transfers	643,933	576,674
Capital Contributions	212,500	1,953,763
Transfers Out to Other City Funds, Net	<u>(1,400,827)</u>	<u>(1,246,016)</u>
Increase (Decrease) in Net Position	(544,394)	1,284,421
Net Position, Beginning of Year	<u>8,045,982</u>	<u>6,761,561</u>
Net Position, End of Year	<u>\$ 7,501,588</u>	<u>\$ 8,045,982</u>

City of Lincoln, Nebraska
Solid Waste Management Fund
Statements of Cash Flows
Years Ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Activities		
Receipts from customers and users	\$ 7,106,818	\$ 6,337,121
Payments to suppliers for goods and services	(3,458,795)	(3,559,040)
Payments to employees	(2,808,325)	(2,783,051)
Other receipts	642,419	907,843
Net cash provided by operating activities	<u>1,482,117</u>	<u>902,873</u>
Noncapital Financing Activities		
Occupation tax receipts	3,878,941	2,860,621
Transfers to other funds, net	(1,400,827)	(1,246,016)
Payments from other funds	-	15,775
Grant proceeds	15,077	-
Net cash provided by noncapital financing activities	<u>2,493,191</u>	<u>1,630,380</u>
Capital and Related Financing Activities		
Purchases of capital assets	(4,517,896)	(1,611,161)
Capital contributions	212,500	-
Proceeds from sales of capital assets	61,525	-
Net proceeds from issuance of long-term debt	-	5,694,151
Principal payments of long-term debt	(775,000)	(550,000)
Interest and fiscal charges paid on long-term debt	(397,833)	(196,953)
Other	-	973
Net cash provided by (used in) capital and related financing activities	<u>(5,416,704)</u>	<u>3,337,010</u>
Investing Activities		
Purchases of investments	(8,089,475)	(9,784,062)
Proceeds from sales and maturities of investments	9,627,656	3,780,884
Interest and other receipts	52,174	20,460
Net cash provided by (used in) investing activities	<u>1,590,355</u>	<u>(5,982,718)</u>
Change in Cash and Cash Equivalents	148,959	(112,455)
Cash and Cash Equivalents, Beginning of Year	<u>351,692</u>	<u>464,147</u>
Cash and Cash Equivalents, End of Year	<u>\$ 500,651</u>	<u>\$ 351,692</u>

City of Lincoln, Nebraska
Solid Waste Management Fund
Statements of Cash Flows - Continued
Years Ended August 31, 2016 and 2015

The table below summarizes the amount of cash and cash equivalents included within each financial statement line item caption on the Statements of Net Position:

**Reconciliation of Cash and Cash Equivalents
to the Statements of Net Position**

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 105,643	\$ 154,475
Equity in pooled cash and investments - current	234,559	79,911
Equity in pooled cash and investments - restricted	<u>160,449</u>	<u>117,306</u>
	<u>\$ 500,651</u>	<u>\$ 351,692</u>

**Reconciliation of Operating Loss to Net Cash
Provided by Operating Activities**

Operating loss	\$ (3,468,909)	\$ (1,986,462)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	2,154,144	2,066,770
Changes in operating assets and liabilities		
Accounts receivable	(360,978)	37,909
Due from other City funds, net	3,568	(5,472)
Due to/from other governments, net	19,829	1,450
Accounts payable	161,368	(111,587)
Accrued liabilities	43,389	18,824
Accrued compensated absences	12,706	13,441
Closure/post-closure care costs	<u>2,917,000</u>	<u>868,000</u>

Net Cash Provided by Operating Activities

	<u>\$ 1,482,117</u>	<u>\$ 902,873</u>
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Supplemental Cash Flows Information

Payables incurred for acquisition of capital assets	\$ 634,451	\$ 135,311
Contribution of capital assets	\$ -	\$ 1,953,763
Change in fair value of investments	\$ 19,566	\$ (1,329)
Proceeds from sale of capital assets included in receivables	\$ -	\$ 44,039
Capitalized interest included in capital asset additions	\$ 158,957	\$ 21,253

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies

Organization and Nature of Operations

The Solid Waste Management Fund (the “Fund”) is an enterprise fund of the City of Lincoln, Nebraska (the “City”) that is used to account for operations related to the management of solid wastes generated within the City of Lincoln and Lancaster County.

The solid waste operation facilities are owned by the City, and operated under the direction of the Mayor and the City Council. The authority to adopt the annual budget, to incur debt and to establish fees, rates and charges are vested in the City Council by the City charter.

The financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City as of August 31, 2016 and 2015, 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.

Measurement Focus and Basis Of Accounting

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Fund first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies - Continued

Deposits and Investments

The City Treasurer is responsible for the safekeeping of cash and investments of the Fund. 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 cash from other City funds and the interest earned on these investments is allocated monthly to the various funds by the City Treasurer on a pro rata basis of using aggregate quarterly balances.

For purposes of the Statements of Cash Flows, the Fund 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 Fund participates in a cash management pool managed by the City. The pool consists of bank deposits and investments. The Fund's interest in this pool is shown as equity in pooled cash and investments in the statements of net position. 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.

Investments are carried at fair value. Investment income includes interest income and the net change for the year in the fair value of investments.

Accounts Receivable

Accounts receivable are stated at amounts billed to customers and include both fees and occupation taxes. Monthly statements are issued for accounts receivable, which are due on the last day of the month. Accounts unpaid by the due date are assessed a late fee of 1% monthly. Management does not believe an allowance for doubtful accounts is necessary at August 31, 2016 and 2015. At August 31, 2016 and 2015, approximately 45% and 24% of accounts receivable were owed from two and one customers, respectively.

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies - Continued

Capital Assets

The cost of additions and replacements to land, buildings, improvements other than buildings and equipment in service is capitalized. Cost includes acquisition price, negotiation and appraisal services and payments to contractors. The cost of land, buildings, improvements and equipment along with the related accumulated depreciation is removed from the books at time of disposal and a gain or loss is recognized. 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 capital assets.

Estimated Useful Lives

Buildings	10 - 25 years
Improvements other than buildings	10 - 25 years
Machinery and equipment	5 - 10 years

The Fund capitalizes interest costs as a component of construction in progress, based on interest costs of the borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. During 2016 and 2015, the System incurred \$351,202 and \$188,831 of interest cost, respectively. Interest capitalized into construction in progress during 2016 and 2015 was \$158,957 and \$21,253, respectively. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

Compensated Absences

Employees earn vacation days at a variable rate based on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation. Employees earn sick leave at the rate of approximately one day per month. Upon retirement, an employee is reimbursed for one-half or up to 65% of accumulated sick leave. In some cases payment may be placed in a medical spending account rather than reimbursing the employee directly.

Vacation leave and other compensated absences with similar characteristics are accrued as the benefits are earned if the leave is attributable to past service and it is probable that the Fund will compensate the employees for such benefits. Sick leave and other compensated absences with similar characteristics are accrued as the benefits are earned only to the extent it is probable that the Fund will compensate the employees for such benefits through cash payments conditioned on the employee's termination or retirement. Such accruals are based on current salary rates and include salary-related payments directly and incrementally associated with payments made for compensated absences on termination.

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies - Continued

Other Post-Employment Benefits

The Fund recorded a liability for the annual required contribution (ARC) of approximately \$130,000 and \$115,000 as of August 31, 2016 and 2015, respectively, in connection with GASB Statement No. 45, *Accounting and Financial Reporting 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).

Net Position

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 – This component of net position 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 - This component of net position consists of restrictions placed on net position 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. There are no components of net position at August 31, 2016 and 2015 that meet the restricted definition.

Unrestricted - This component consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Operating and Nonoperating Revenues and Expenses

As an enterprise fund, the Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Fund’s principal ongoing operations. Operating revenues include all fees charged for the disposal of solid waste less occupation tax, and other revenues including those from the sale of recyclable materials and rental of property. Operating expenses include personnel costs, the cost of materials and services for operation and maintenance, depreciation on capital assets and closure and post-closure care costs.

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies - Continued

Operating and Nonoperating Revenues and Expenses - Continued

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Occupation tax, investment income, interest expense and gain/loss on disposal of assets are classified as nonoperating revenues or expenses.

As detailed in the table below, fund revenue is generated by a fee for refuse disposed of in the City's municipal solid waste landfill; an occupation tax for refuse collected within the corporate limits of the City of Lincoln by a refuse hauler, and on refuse collected outside the corporate limits of the City of Lincoln by a refuse hauler and disposed of in the City's municipal solid waste landfill; other fees authorized by the City Council; and nonoperating revenues.

		2016		2015
Landfill refuse fee (including special wastes), per ton	\$	17.75	\$	16.00
Occupation tax, per ton		11.00		9.00

Note 2: Deposits, Investments and Investment Return

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Fund has been allocated a portion of the City's pooled cash and investments. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State Statutes 15-846 and 15-847 R.R.S., 1943 require banks either to provide a bond, provide a Federal Home Loan Bank letter of credit, or to pledge government securities (types of which are specifically identified in the Statutes) to the City Treasurer in the amount of the City's deposits. The Statutes allow pledged securities to be reduced by the amount of the deposit insured by the Federal Deposit Insurance Corporation (FDIC).

The City's cash deposits, including certificates of deposit, are insured up to \$250,000 by the FDIC. Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits are covered by collateral held in a Federal Reserve pledge account or by an agent for the City, or a letter of credit issued by the Federal Reserve Bank, and thus no custodial credit risk exists. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2016 and 2015

Note 2: Deposits, Investments and Investment Return - Continued

The carrying values of deposits and investments are included in the statements of net position as follows:

	2016	2015
Carrying value		
Deposits	\$ 105,643	\$ 154,475
Equity in pooled cash and investments	9,467,528	10,788,353
	\$ 9,573,171	\$ 10,942,828
Included in the following statements of net position captions:		
Current Assets		
Cash and cash equivalents	\$ 105,643	\$ 154,475
Equity in pooled cash and investments	3,640,581	2,526,852
Noncurrent Assets		
Equity in pooled cash and investments	1,974,584	1,884,212
Equity in pooled cash and investments - restricted	3,852,363	6,377,289
	\$ 9,573,171	\$ 10,942,828

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2016 and 2015

Note 3: Capital Assets

Capital asset activity for the year ended August 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 1,540,452	\$ -	\$ -	\$ -	\$ 1,540,452
Construction in progress	328,669	3,310,319	-	(377,314)	3,261,674
Total capital assets, not being depreciated	<u>1,869,121</u>	<u>3,310,319</u>	<u>-</u>	<u>(377,314)</u>	<u>4,802,126</u>
Capital assets, being depreciated:					
Buildings	2,076,504	-	-	-	2,076,504
Improvements other than buildings	40,834,208	-	-	377,314	41,211,522
Machinery and equipment	8,258,869	1,865,674	44,706	-	10,079,837
Total capital assets, being depreciated	<u>51,169,581</u>	<u>1,865,674</u>	<u>44,706</u>	<u>377,314</u>	<u>53,367,863</u>
Less accumulated depreciation for:					
Buildings	1,491,514	64,996	-	-	1,556,510
Improvements other than buildings	20,430,320	1,565,162	-	-	21,995,482
Machinery and equipment	4,149,136	523,986	43,706	-	4,629,416
Total accumulated depreciation	<u>26,070,970</u>	<u>2,154,144</u>	<u>43,706</u>	<u>-</u>	<u>28,181,408</u>
Total capital assets, being depreciated, net	<u>25,098,611</u>	<u>(288,470)</u>	<u>1,000</u>	<u>377,314</u>	<u>25,186,455</u>
Capital assets, net	<u>\$ 26,967,732</u>	<u>\$ 3,021,849</u>	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ 29,988,581</u>

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2016 and 2015

Note 3: Capital Assets - Continued

Capital asset activity for the year ended August 31, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 1,540,452	\$ -	\$ -	\$ -	\$ 1,540,452
Construction in progress	101,230	227,439	-	-	328,669
Total capital assets, not being depreciated	<u>1,641,682</u>	<u>227,439</u>	<u>-</u>	<u>-</u>	<u>1,869,121</u>
Capital assets, being depreciated:					
Buildings	2,076,504	-	-	-	2,076,504
Improvements other than buildings	40,427,067	407,141	-	-	40,834,208
Machinery and equipment	6,427,625	2,037,264	206,020	-	8,258,869
Total capital assets, being depreciated	<u>48,931,196</u>	<u>2,444,405</u>	<u>206,020</u>	<u>-</u>	<u>51,169,581</u>
Less accumulated depreciation for:					
Buildings	1,425,446	66,068	-	-	1,491,514
Improvements other than buildings	18,797,262	1,633,058	-	-	20,430,320
Machinery and equipment	3,950,012	367,644	168,520	-	4,149,136
Total accumulated depreciation	<u>24,172,720</u>	<u>2,066,770</u>	<u>168,520</u>	<u>-</u>	<u>26,070,970</u>
Total capital assets, being depreciated, net	<u>24,758,476</u>	<u>377,635</u>	<u>37,500</u>	<u>-</u>	<u>25,098,611</u>
Capital assets, net	<u>\$ 26,400,158</u>	<u>\$ 605,074</u>	<u>\$ 37,500</u>	<u>\$ -</u>	<u>\$ 26,967,732</u>

The Fund has commitments under major construction contracts in progress of approximately \$1,994,000 at August 31, 2016.

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2016 and 2015

Note 4: Long-term Obligations - Continued

During fiscal year 2013, \$8,340,000 of revenue and refunding bonds were issued to refund \$2,800,000 of Series 2006 bonds and finance improvements to the City's solid waste management facilities. Interest rates on the bonds range from .25% to 4.00% and interest is payable semi-annually. Annual principal installments are due August 1, ranging from \$330,000 to \$850,000 through 2029. Series 2013 bonds maturing on or after August 1, 2024 are subject to redemption prior to maturity at the option of the City at any time on or after August 1, 2023.

During fiscal year 2015, \$5,520,000 of revenue bonds were issued to finance improvements to the City's solid waste management facilities. Interest rates on the bonds range from 2.00% to 5.00% and interest is payable semi-annually. Annual principal installments are due August 1, ranging from \$220,000 to \$400,000 through 2035. Series 2015 bonds maturing on or after August 1, 2026 are subject to redemption prior to maturity at the option of the City at any time on or after August 1, 2025.

The Fund has pledged future revenues derived from the operation of the municipally owned solid waste management facilities, net of operating and maintenance expenses, to repay the outstanding revenue bonds discussed above. The total principal and interest remaining to be paid on the bonds is \$14,931,463, with annual payments expected to require 30% of net revenues. Principal and interest paid for the current year and net system revenues were \$1,171,521 and \$4,474,932, respectively.

The debt service requirements as of August 31, 2016 are as follows:

Year Ending August 31	Principal	Interest	Total
2017	\$ 795,000	\$ 382,096	\$ 1,177,096
2018	810,000	366,796	1,176,796
2019	810,000	348,896	1,158,896
2020	830,000	327,084	1,157,084
2021	850,000	303,284	1,153,284
2022-2026	3,110,000	1,081,669	4,191,669
2027-2031	2,810,000	484,063	3,294,063
2032-2035	1,495,000	127,575	1,622,575
	<u>\$ 11,510,000</u>	<u>\$ 3,421,463</u>	<u>\$ 14,931,463</u>

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2016 and 2015

Note 5: Risk Management

The Fund participates in the City's self-insurance program administered by the City's Risk Management Division. The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and the public; or acts of God. The City has a self-insured retention for workers' compensation exposures up to \$800,000 per individual; building and contents exposures up to \$75,000 per occurrence; general liability exposures up to \$250,000 per occurrence; public official's exposures up to \$250,000 per occurrence; auto liability exposures up to \$250,000, and employee long-term disability.

Workers' compensation, general liability, and public official's liability are covered by excess insurance which provides statutory limits above the City's retention. Auto liability is covered by a policy which provides a limit of \$6 million. The Nebraska Political Tort Claims Act limits the City's liability for tort claims to \$1 million per individual and \$5 million per occurrence. Settled claims have not exceeded coverage in any of the past three fiscal years.

Premium amounts are paid to the Insurance Revolving Fund, including an estimate of the liability for claims incurred but not yet reported as of August 31, 2016 and 2015. The Fund incurred insurance expense of approximately \$60,000 and \$57,000 in 2016 and 2015, respectively.

Note 6: Closure and Post-closure Care Costs

The City of Lincoln currently owns and operates both a municipal solid waste landfill and a construction and demolition debris landfill. State and federal laws require the City to close the landfills once capacity is reached and to monitor and maintain the site for thirty subsequent years on the municipal solid waste landfill and five subsequent years on the construction and demolition debris landfill. Although certain closure and post-closure care costs will be paid only near or after the date that the landfills stop accepting waste, the City reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each statement of net position date.

At August 31, 2016 and 2015, the City had established a closure/post-closure cost liability of \$13,273,000 and \$12,553,000, respectively, for the municipal solid waste landfill which represents the amount of estimated costs reported to date based on the approximately 59% and 57% of landfill capacity used to date, respectively. The remaining estimated liability for these costs is approximately \$9.2 million, which will be recognized as the remaining capacity is used (estimated to be approximately 16 years).

At August 31, 2016 and 2015, the City had established a closure/post-closure cost liability of \$892,000 and \$843,000, respectively, for the construction and demolition debris landfill which represents the amount of estimated costs reported to date based on the approximately 64% and 62% of landfill capacity used to date, respectively. The remaining estimated liability for these costs is approximately \$496,000, which will be recognized as the remaining capacity is used (estimated to be approximately 12 years).

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Note 6: Closure and Post-closure Care Costs - Continued

The estimated costs of closure and post-closure care, as determined by an independent engineering consultant, are subject to changes such as the effects of inflation, revision of laws, changes in technology, actual sequence of landfill development and closure and other variables.

The City of Lincoln also owns a solid waste disposal area which discontinued operations in 1990. Although exempt from the U.S. Environmental Protection Agency Solid Waste Disposal Criteria issued October 9, 1991, the City still adheres to certain closure and post-closure care requirements under prior legislation, including the construction of final cover, monitoring of groundwater conditions and landfill gas migration and general site maintenance. At August 31, 2016 and 2015, a liability for post-closure care costs is recorded in the amount of \$6,326,000 and \$4,178,000, respectively. If any unanticipated corrective action costs related to landfill gas migration or groundwater contamination are identified through current monitoring procedures, an additional accrued liability will be recorded once these costs can be reasonably estimated. In 2016, the City changed its method for estimating the future post-closure care costs for this solid waste disposal area, which more closely aligns the City's approach to that used for its operational landfills, effective September 1, 2015. The effect of this change in estimate increased operating expenses for estimated landfill closure and post-closure care costs by approximately \$2,150,000 for the year ended August 31, 2016.

Note 7: Pension Plan

Employees are eligible after six months of service and age 19 to be covered under the City's Money Purchase Pension Plan, established by City Ordinance, and administered by an insurance company. Enrollment in the program is mandatory at age 40 with five years of service. Vesting occurs in increments between three and seven years of enrollment in the plan. The Plan is a defined contribution plan requiring employees to contribute at a rate determined by the employees' bargaining unit and date of hire. The City contributes between \$1.29 and \$2.00 for every \$1.00 contributed by employees. Employee forfeitures are used to reduce employer contributions. Employees covered by the Plan may also make voluntary contributions.

	<u>2016</u>	<u>2015</u>
Total payroll	\$ 1,753,812	\$ 1,765,466
Covered payroll	1,696,384	1,675,660
Employee contributions	99,056	97,380
Employee contributions as a percentage of covered payroll	5.84%	5.81%
Employer contributions	\$ 192,470	\$ 189,823
Employer contributions as a percentage of covered payroll	11.35%	11.33%

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Note 8: Related Party Transactions

The City provides certain administrative services to the Fund for which the Fund pays fees to the City. These fees amounted to approximately \$323,000 and \$304,000 for the years ended August 31, 2016 and 2015, respectively.

Amounts due from other City funds for solid waste fees are \$8,664 and \$14,711 as of August 31, 2016 and 2015, respectively. Amounts due to other City funds for administrative and other services are \$1,085 and \$3,564 as of August 31, 2016 and 2015, respectively.