

City of Lincoln, Nebraska
Solid Waste Management Fund

Independent Auditor's Report and Financial Statements

August 31, 2018 and 2017



City of Lincoln, Nebraska
Solid Waste Management Fund
August 31, 2018 and 2017

Contents

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	12

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 financial statements of the Solid Waste Management Fund of the City of Lincoln, Nebraska, as of and for the years ended August 31, 2018 and 2017, 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. 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, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, in 2018, the Solid Waste Management Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements present only the Solid Waste Management Fund and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2018 and 2017, 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. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a 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.

BKD, LLP

Lincoln, Nebraska
February 15, 2019

City of Lincoln, Nebraska
Solid Waste Management Fund
Management's Discussion and Analysis
August 31, 2018 and 2017

This discussion and analysis of the Solid Waste Management Fund of the City of Lincoln, Nebraska's (the Fund) financial statements provides the reader an overview of the Fund's financial activities for 2018, 2017 and 2016. The Solid Waste Management Fund's financial statements are comprised of three components: (1) Management's Discussion and Analysis, (2) financial statements, and (3) notes to the financial statements. Please read this in conjunction with the audited financial statements and footnotes contained herein.

Summary of the Financial Statements

The financial statements, related notes to the financial statements and management's discussion and analysis provide information about the Solid Waste Management Fund's financial position and activities.

Management's Discussion and Analysis – provides an objective and easily readable analysis of the financial activities of the Solid Waste Management Fund based on currently known facts, decisions or conditions.

Statements of Net Position – provide a summary of the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Solid Waste Management Fund, as of the Fund's fiscal year end. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

Statements of Revenues, Expenses and Changes in Net Position – present the operating results of the Solid Waste Management Fund into various categories of operating revenues and expenses, and non-operating revenues and expenses.

Statements of Cash Flows – report the cash provided by and used for operating activities, as well as other cash sources such as interest income.

The financial statements are designed to provide readers with a broad overview of the Solid Waste Management Fund's finances in a manner similar to a private-sector business.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Fund's financial position. In the case of the Solid Waste Management Fund, as of August 31, 2018, net position was \$6,286,888. The Fund's condensed financial information as of and for the years ended August 31, 2018, 2017 and 2016 is found below.

City of Lincoln, Nebraska
Solid Waste Management Fund
Management's Discussion and Analysis
August 31, 2018 and 2017

Condensed Statements of Net Position
As of August 31,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 8,514,989	\$ 6,288,219	\$ 5,846,325
Capital assets, net	29,510,382	30,469,432	29,988,581
Other noncurrent assets	<u>3,408,662</u>	<u>4,446,338</u>	<u>5,836,979</u>
Total assets	41,434,033	41,203,989	41,671,885
Deferred outflows of resources	<u>28,863</u>	<u>21,158</u>	<u>26,447</u>
Total assets and deferred outflows of resources	<u>\$ 41,462,896</u>	<u>\$ 41,225,147</u>	<u>\$ 41,698,332</u>
Current liabilities	\$ 1,792,858	\$ 1,986,831	\$ 2,129,696
Noncurrent liabilities	<u>33,371,779</u>	<u>32,653,382</u>	<u>32,067,048</u>
Total liabilities	<u>35,164,637</u>	<u>34,640,213</u>	<u>34,196,744</u>
Deferred inflows of resources	<u>11,371</u>	<u>-</u>	<u>-</u>
Net investment in capital assets	19,878,660	20,512,403	21,015,904
Restricted for capital projects	20,300	32,181	29,478
Unrestricted	<u>(13,612,072)</u>	<u>(13,959,650)</u>	<u>(13,543,794)</u>
Total net position	<u>6,286,888</u>	<u>6,584,934</u>	<u>7,501,588</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 41,462,896</u>	<u>\$ 41,225,147</u>	<u>\$ 41,698,332</u>

Total assets remained relatively consistent from 2017 to 2018, with a slight increase primarily due to equity in pooled cash and investments. Additionally, total liabilities increased from 2017 to 2018, as a result of an approximately \$1.5 million increase in accrued closure/post-closure care costs from 2017 to 2018.

City of Lincoln, Nebraska
Solid Waste Management Fund
Management's Discussion and Analysis
August 31, 2018 and 2017

Condensed Statements of Revenues, Expenses, and Change in Net Position
For the Years Ended August 31,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 9,223,269	\$ 8,893,740	\$ 8,097,888
Operating expenses	<u>11,480,383</u>	<u>11,543,893</u>	<u>11,566,797</u>
Operating loss	(2,257,114)	(2,650,153)	(3,468,909)
Net nonoperating revenues	<u>3,463,832</u>	<u>2,309,614</u>	<u>4,112,842</u>
Excess (deficiency) of revenues over (under) expenses before contributions and transfers	1,206,718	(340,539)	643,933
Capital contributions	-	112,100	212,500
Transfers, net	<u>(1,421,291)</u>	<u>(688,215)</u>	<u>(1,400,827)</u>
Change in net position	(214,573)	(916,654)	(544,394)
Net position, beginning of year	<u>6,584,934</u>	<u>7,501,588</u>	<u>8,045,982</u>
Adjustment for implementation of GASB 75	<u>(83,473)</u>		
Net position - beginning of year, after restatement	<u>6,501,461</u>		
Net position, end of year	<u>\$ 6,286,888</u>	<u>\$ 6,584,934</u>	<u>\$ 7,501,588</u>

Operating revenues increased \$329,529 or 3.7% from 2017 to 2018, primarily as a result of an increase in the landfill refuse fee. Effective January 1, 2018, the landfill refuse fee, per ton, was increased from \$20.75 to \$23.75. Net nonoperating revenues increased \$1,154,218 from 2017 to 2018, primarily as a result of an approximately \$1.4 million loss on disposal of capital assets incurred by the Fund in 2017, in relation to its transfer of a hazardous waste collection facility to the City of Lincoln/Lancaster County Health Department.

Operating revenues increased \$795,852 or 9.8% from 2016 to 2017, primarily as a result of an increase in the landfill refuse fee. Effective January 1, 2017, the landfill refuse fee, per ton, was increased from \$17.75 to \$20.75. Net nonoperating revenues decreased \$1,803,228 from 2016 to 2017, as a result of the loss on disposal of capital assets discussed previously, and as a result of \$465,383 or 11.1% decrease in occupation tax revenues.

City of Lincoln, Nebraska
Solid Waste Management Fund
Management's Discussion and Analysis
August 31, 2018 and 2017

Condensed Statements of Cash Flows
For the Years Ended August 31,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities	\$ 1,443,658	\$ 1,081,041	\$ 1,482,117
Cash flows from noncapital financing activities	2,081,598	2,448,014	2,493,191
Cash flows from capital and related financing activities	(2,710,767)	(4,210,896)	(5,416,704)
Cash flows from investing activities	<u>(667,913)</u>	<u>577,473</u>	<u>1,590,355</u>
Net increase (decrease) in cash	<u>\$ 146,576</u>	<u>\$ (104,368)</u>	<u>\$ 148,959</u>

Capital Assets

The Solid Waste Management Fund's investment in capital assets as of August 31, 2018 and 2017 amounted to \$29,510,382 and \$30,469,432, respectively. Capital asset balances as of August 31, 2018, 2017 and 2016 is summarized as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Capital assets not being depreciated	\$ 2,575,941	\$ 6,896,541	\$ 4,802,126
Capital assets being depreciated	58,720,569	53,708,164	53,367,863
Accumulated depreciation	<u>(31,786,128)</u>	<u>(30,135,273)</u>	<u>(28,181,408)</u>
Net capital assets	<u>\$ 29,510,382</u>	<u>\$ 30,469,432</u>	<u>\$ 29,988,581</u>

Additional information on the Solid Waste Management Fund's capital assets can be found in the notes to the financial statements.

Debt Administration

At August 31, 2018 and 2017, the Solid Waste Management Fund had total bonded debt outstanding of \$9,905,000 and \$10,715,000, respectively. Decreases in the balance of debt outstanding is a result of scheduled debt service payments of \$810,000 and \$795,000 during 2018 and 2017, respectively. Additional information on the Solid Waste Management Fund's debt can be found in the notes to the financial statements.

City of Lincoln, Nebraska
Solid Waste Management Fund
Management's Discussion and Analysis
August 31, 2018 and 2017

General Trends and Significant Events

Per City Ordinance 20433, as of April 1, 2018, the City is no longer accepting recyclable cardboard at the City's public sanitary landfills. Recycling promotes greater environmental stewardship in the community, delays the need for a new landfill, conserves resources, creates new jobs and improves the local economy. The Fund does expect the banning of recyclable cardboard at the sanitary landfills to have an impact on revenues. Initial reduction was offset by fees from the demolition/disposal of the University of Nebraska-Lincoln Cather Pound Hall debris, which resulted in a one-time increase in tonnage of approximately 30,000 tons of material.

Requests for Information

This financial report is designed to provide a general overview of the Fund's finances for all those with an interest in the Solid Waste Management Fund. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lincoln Finance Department, 555 South 10th Street, Lincoln, NE 68508.

City of Lincoln, Nebraska

Solid Waste Management Fund

Statements of Net Position August 31, 2018 and 2017

Assets	2018	2017
Current Assets		
Cash and cash equivalents	\$ 121,029	\$ 91,218
Equity in pooled cash and investments	6,331,098	4,420,162
Accounts receivable	1,870,586	1,732,833
Accrued interest receivable	37,672	28,676
Due from other City funds, net	54,546	6,696
Due from other governments	100,058	8,634
Total current assets	8,514,989	6,288,219
Noncurrent Assets		
Equity in pooled cash and investments	2,271,278	2,533,066
Restricted assets		
Equity in pooled cash and investments	1,131,275	1,905,345
Accrued interest receivable	6,109	7,927
Total restricted assets	1,137,384	1,913,272
Capital Assets, Net	29,510,382	30,469,432
Total noncurrent assets	32,919,044	34,915,770
Total assets	41,434,033	41,203,989
Deferred Outflows of Resources		
Deferred outflows for OPEB	12,995	-
Deferred cost of refunded debt	15,868	21,158
Total deferred outflows of resources	28,863	21,158
Liabilities		
Current Liabilities		
Accounts payable	712,673	836,989
Accrued liabilities	59,359	95,995
Accrued compensated absences	118,201	137,954
Due to other governments	63,544	75,320
Accrued interest payable	29,081	30,573
Current portion of long-term debt	810,000	810,000
Total current liabilities	1,792,858	1,986,831
Noncurrent Liabilities		
Accrued closure/post-closure care costs	23,400,000	21,894,500
Long-term debt, net	9,676,235	10,534,959
Total OPEB liability	217,414	-
Other accrued liabilities	78,130	223,923
Total noncurrent liabilities	33,371,779	32,653,382
Total liabilities	35,164,637	34,640,213
Deferred Inflows of Resources		
Deferred inflows for OPEB	11,371	-
Net Position		
Net investment in capital assets	19,878,660	20,512,403
Restricted for capital projects	20,300	32,181
Unrestricted	(13,612,072)	(13,959,650)
Total net position	\$ 6,286,888	\$ 6,584,934

City of Lincoln, Nebraska
Solid Waste Management Fund
Statements of Revenues, Expenses and Changes in Net Position
Years Ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Fees	\$ 8,269,804	\$ 7,847,225
Other	953,465	1,046,515
	<u>9,223,269</u>	<u>8,893,740</u>
Operating Expenses		
Personal services	3,248,116	3,168,016
Operation and maintenance	4,414,267	4,825,067
Depreciation	2,312,500	2,147,310
Estimated closure and post-closure care costs	1,505,500	1,403,500
	<u>11,480,383</u>	<u>11,543,893</u>
Total operating expenses		
	<u>11,480,383</u>	<u>11,543,893</u>
Operating loss	<u>(2,257,114)</u>	<u>(2,650,153)</u>
Nonoperating Revenues (Expenses)		
Occupation tax	3,542,544	3,729,059
Investment income	97,651	74,422
Gain (loss) on disposal of capital assets	35,633	(1,404,762)
Interest expense	(323,158)	(184,540)
Grant revenue	111,162	-
Other	-	95,435
	<u>3,463,832</u>	<u>2,309,614</u>
Net nonoperating revenues		
	<u>3,463,832</u>	<u>2,309,614</u>
Excess (Deficiency) of Revenues Over (Under) Expenses Before Contributions and Transfers	1,206,718	(340,539)
Capital Contributions	-	112,100
Transfers Out to Other City Funds, Net	<u>(1,421,291)</u>	<u>(688,215)</u>
Decrease in Net Position	<u>(214,573)</u>	<u>(916,654)</u>
Net Position, Beginning of Year, As Previously Reported	6,584,934	7,501,588
Adjustment for Implementation of GASB 75	<u>(83,473)</u>	<u>-</u>
Net Position - Beginning of Year, After Restatement	<u>6,501,461</u>	<u>-</u>
Net Position - End of Year	<u>\$ 6,286,888</u>	<u>\$ 6,584,934</u>

City of Lincoln, Nebraska
Solid Waste Management Fund
Statements of Cash Flows
Years Ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from customers and users	\$ 8,129,535	\$ 7,939,932
Payments to suppliers for goods and services	(4,357,923)	(4,838,167)
Payments to employees	(3,295,507)	(3,128,051)
Other receipts	967,553	1,107,327
Net cash provided by operating activities	<u>1,443,658</u>	<u>1,081,041</u>
Noncapital Financing Activities		
Occupation tax receipts	3,532,279	3,915,221
Transfers to other funds, net	(1,421,291)	(1,467,207)
Advances to other funds	(45,763)	-
Grant proceeds	16,373	-
Net cash provided by noncapital financing activities	<u>2,081,598</u>	<u>2,448,014</u>
Capital and Related Financing Activities		
Purchases of capital assets	(1,624,007)	(3,950,715)
Proceeds from sales of capital assets	91,325	-
Capital contributions	-	778,992
Insurance proceeds	-	95,435
Proceeds from sales of capital assets	-	43,810
Principal payments of long-term debt	(810,000)	(795,000)
Interest and fiscal charges paid on long-term debt	(368,085)	(383,418)
Net cash used in capital and related financing activities	<u>(2,710,767)</u>	<u>(4,210,896)</u>
Investing Activities		
Purchases of investments	(6,761,055)	(7,245,687)
Proceeds from sales and maturities of investments	5,982,365	7,759,773
Interest and other receipts	110,777	63,387
Net cash provided by (used in) investing activities	<u>(667,913)</u>	<u>577,473</u>
Change in Cash and Cash Equivalents	146,576	(104,368)
Cash and Cash Equivalents, Beginning of Year	<u>396,283</u>	<u>500,651</u>
Cash and Cash Equivalents, End of Year	<u>\$ 542,859</u>	<u>\$ 396,283</u>

City of Lincoln, Nebraska
Solid Waste Management Fund
Statements of Cash Flows - Continued
Years Ended August 31, 2018 and 2017

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	2018	2017
Cash and cash equivalents	\$ 121,029	\$ 91,218
Equity in pooled cash and investments - current	331,583	241,077
Equity in pooled cash and investments - restricted	<u>90,247</u>	<u>63,988</u>
	<u>\$ 542,859</u>	<u>\$ 396,283</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (2,257,114)	\$ (2,650,153)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	2,312,500	2,147,310
Changes in operating assets and liabilities		
Accounts receivable	(127,488)	158,599
Due from other City funds, net	(2,014)	883
Due to/from other governments, net	(8,411)	(17,447)
Deferred outflows for OPEB	(12,995)	-
Accounts payable	90,550	19,810
Accrued liabilities	(36,636)	(22,139)
Accrued compensated absences	(22,646)	40,678
OPEB liability	(8,959)	-
Deferred inflows for OPEB	11,371	-
Closure/post-closure care costs	<u>1,505,500</u>	<u>1,403,500</u>
Net Cash Provided by Operating Activities	<u>\$ 1,443,658</u>	<u>\$ 1,081,041</u>
Supplemental Cash Flows Information		
Payables incurred for acquisition of capital assets	\$ 278,440	\$ 493,305
Contribution of capital assets	\$ -	\$ 112,100
Change in fair value of investments	\$ (20,377)	\$ (4,927)
Capitalized interest included in capital asset additions	\$ -	\$ 155,064

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017

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, 2018 and 2017. At August 31, 2018 and 2017, approximately 47% and 45%, respectively, of accounts receivable were owed from two customers.

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2018 and 2017

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

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, 2018 and 2017

Note 1: Summary of Significant Accounting Policies - Continued

Other Postemployment Benefits

The Fund recorded a liability in the amount of \$217,414 as of August 31, 2018, for its proportionate share of the City's total OPEB liability in connection with Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). The complete disclosures and required supplementary information required by Statement No. 75 are included in the City of Lincoln Comprehensive Annual Financial Report. The Fund recorded a liability for the annual required contribution (ARC) of approximately \$143,000 as of August 31, 2017, in connection with GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This liability is included in other accrued liabilities in the statements of net position as of August 31, 2017.

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.

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, 2018 and 2017

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.

		2018		2017
Landfill refuse fee (including special wastes), per ton	\$	23.75	\$	20.75
Occupation tax, per ton		11.00		11.00

Implementation of New Accounting Principles

During 2018, the Fund implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). The revised requirements under Statement No. 75 establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method, and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. Restatement of the 2017 financial statements is not practical because prior year information calculated under the provisions of GASB 75 is not available, accordingly, the Fund has reported the cumulative effect of applying GASB 75 as a restatement of net position as of September 1, 2017. This restatement decreased previously reported net position by \$83,473.

During 2018, the Fund early implemented the provisions of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Statement No. 89 requires that, in financial statements using the economic resources measurement focus, interest costs incurred before the end of a construction period be recognized as expenses in the period in which the costs are incurred. Previous governmental accounting standards guidance required such costs to be capitalized and included as a component of construction in progress for certain projects, and any amount capitalized was included in the historical cost of a capital asset reported in the financial statements. Statement No. 89 was applied prospectively, thus any interest costs capitalized in previous years were not removed from the historical cost of the related capital assets.

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2018 and 2017

Note 1: Summary of Significant Accounting Policies - Continued

Implementation of New Accounting Principles - Continued

During 2017, for tax-exempt borrowings, the Fund capitalized interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest incurred was:

	2018	2017
Interest costs capitalized	\$ -	\$ 155,064
Interest costs charged to expense	323,158	184,540
Total interest incurred	\$ 323,158	\$ 339,604

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, 2018 and 2017

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:

	2018	2017
Carrying value		
Deposits	\$ 121,029	\$ 91,218
Equity in pooled cash and investments	9,733,651	8,858,573
	\$ 9,854,680	\$ 8,949,791
Included in the following statements of net position captions:		
Current Assets		
Cash and cash equivalents	\$ 121,029	\$ 91,218
Equity in pooled cash and investments	6,331,098	4,420,162
Noncurrent Assets		
Equity in pooled cash and investments	2,271,278	2,533,066
Equity in pooled cash and investments - restricted	1,131,275	1,905,345
	\$ 9,854,680	\$ 8,949,791

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2018 and 2017

Note 3: Capital Assets

Capital asset activity for the year ended August 31, 2018 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	5,356,089	960,203	-	(5,280,803)	1,035,489
Total capital assets, not being depreciated	<u>6,896,541</u>	<u>960,203</u>	<u>-</u>	<u>(5,280,803)</u>	<u>2,575,941</u>
Capital assets, being depreciated:					
Buildings	2,076,504	-	-	1,447,558	3,524,062
Improvements other than buildings	41,211,522	50,574	-	3,833,245	45,095,341
Machinery and equipment	10,420,138	398,365	717,337	-	10,101,166
Total capital assets, being depreciated	<u>53,708,164</u>	<u>448,939</u>	<u>717,337</u>	<u>5,280,803</u>	<u>58,720,569</u>
Less accumulated depreciation for:					
Buildings	1,609,718	101,460	-	-	1,711,178
Improvements other than buildings	23,526,714	1,614,462	-	-	25,141,176
Machinery and equipment	4,998,841	596,578	661,645	-	4,933,774
Total accumulated depreciation	<u>30,135,273</u>	<u>2,312,500</u>	<u>661,645</u>	<u>-</u>	<u>31,786,128</u>
Total capital assets, being depreciated, net	<u>23,572,891</u>	<u>(1,863,561)</u>	<u>55,692</u>	<u>-</u>	<u>26,934,441</u>
Capital assets, net	<u>\$ 30,469,432</u>	<u>\$ (903,358)</u>	<u>\$ 55,692</u>	<u>\$ -</u>	<u>\$ 29,510,382</u>

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2018 and 2017

Note 3: Capital Assets - Continued

Capital asset activity for the year ended August 31, 2017 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	3,261,674	3,542,988	1,448,573	-	5,356,089
Total capital assets, not being depreciated	4,802,126	3,542,988	1,448,573	-	6,896,541
Capital assets, being depreciated:					
Buildings	2,076,504	-	-	-	2,076,504
Improvements other than buildings	41,211,522	-	-	-	41,211,522
Machinery and equipment	10,079,837	533,746	193,445	-	10,420,138
Total capital assets, being depreciated	53,367,863	533,746	193,445	-	53,708,164
Less accumulated depreciation for:					
Buildings	1,556,510	53,208	-	-	1,609,718
Improvements other than buildings	21,995,482	1,531,232	-	-	23,526,714
Machinery and equipment	4,629,416	562,870	193,445	-	4,998,841
Total accumulated depreciation	28,181,408	2,147,310	193,445	-	30,135,273
Total capital assets, being depreciated, net	25,186,455	(1,613,564)	-	-	23,572,891
Capital assets, net	\$ 29,988,581	\$ 1,929,424	\$ 1,448,573	\$ -	\$ 30,469,432

During 2017, the Fund completed construction on a hazardous waste collection facility located near the landfill site. This asset was subsequently transferred to the City of Lincoln/Lancaster County Health Department, as the Health department is responsible for the operation and continuing maintenance of the facility. The transfer of this asset to the Health Department is shown as a decrease in construction in progress in the activity table above.

The Fund has commitments under major construction contracts in progress of approximately \$837,000 at August 31, 2018.

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2018 and 2017

Note 4: Long-term Obligations

Long-term liability activity for the years ended August 31, 2018 and 2017 was as follows:

	2018				
	Beginning Balance (as restated)	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds, Series 2013	\$ 5,640,000	\$ -	\$ 580,000	\$ 5,060,000	\$ 575,000
Revenue bonds, Series 2015	5,075,000	-	230,000	4,845,000	235,000
Issuance premium	629,959	-	48,724	581,235	-
Net bonds payable	11,344,959	-	858,724	10,486,235	810,000
Other liabilities					
Other accrued liabilities	218,977	-	22,646	196,331	118,201
Total OPEB liability	226,373	-	8,959	217,414	-
Closure/post-closure care costs	21,894,500	1,505,500	-	23,400,000	-
Total long-term liabilities	<u>\$ 33,684,809</u>	<u>\$ 1,505,500</u>	<u>\$ 890,329</u>	<u>\$ 34,299,980</u>	<u>\$ 928,201</u>
	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds, Series 2013	\$ 6,210,000	\$ -	\$ 570,000	\$ 5,640,000	\$ 580,000
Revenue bonds, Series 2015	5,300,000	-	225,000	5,075,000	230,000
Issuance premium	677,787	-	47,828	629,959	-
Net bonds payable	12,187,787	-	842,828	11,344,959	810,000
Other liabilities					
Other accrued liabilities	307,889	178,616	124,628	361,877	137,954
Closure/post-closure care costs	20,491,000	1,403,500	-	21,894,500	-
Total long-term liabilities	<u>\$ 32,986,676</u>	<u>\$ 1,582,116</u>	<u>\$ 967,456</u>	<u>\$ 33,601,336</u>	<u>\$ 947,954</u>

Other accrued liabilities include compensated absences and Solid Waste's allocation of the City's OPEB obligation as of August 31, 2017.

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2018 and 2017

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 \$12,577,570, with annual payments expected to require 31% of net revenues. Principal and interest paid for the current year and net system revenues were \$1,176,796 and \$3,779,790, respectively.

The debt service requirements as of August 31, 2018 are as follows:

Year Ending August 31	Principal	Interest	Total
2019	\$ 810,000	\$ 348,896	\$ 1,158,896
2020	830,000	327,083	1,157,083
2021	850,000	303,284	1,153,284
2022	575,000	269,284	844,284
2023	600,000	243,834	843,834
2024-2028	3,340,000	829,539	4,169,539
2029-2033	2,120,000	310,825	2,430,825
2034-2035	780,000	39,825	819,825
	<u>\$ 9,905,000</u>	<u>\$ 2,672,570</u>	<u>\$ 12,577,570</u>

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2018 and 2017

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, 2018 and 2017. The Fund incurred insurance expense of approximately \$61,000 and \$57,000 in 2018 and 2017, 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, 2018 and 2017, the City had established a closure/post-closure cost liability of \$15,263,000 and \$13,933,000, respectively, for the municipal solid waste landfill which represents the amount of estimated costs reported to date based on the approximately 59% and 61% of landfill capacity used to date, respectively. The remaining estimated liability for these costs is approximately \$10.7 million, which will be recognized as the remaining capacity is used (estimated to be approximately 18 years).

At August 31, 2018 and 2017, the City had established a closure/post-closure cost liability of \$1,343,000 and \$1,333,000, respectively, for the construction and demolition debris landfill which represents the amount of estimated costs reported to date based on the approximately 38% and 69% of landfill capacity used to date, respectively. The remaining estimated liability for these costs is approximately \$2,235,000, which will be recognized as the remaining capacity is used (estimated to be approximately 30 years). During 2018, the City revised the number of acres used for calculating the landfill capacity from 121 acres to 186 acres.

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2018 and 2017

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, 2018 and 2017, a liability for post-closure care costs is recorded in the amount of \$6,794,000 and \$6,628,500, 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.

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>2018</u>	<u>2017</u>
Total payroll	\$ 2,042,298	\$ 1,992,018
Covered payroll	1,902,103	1,890,245
Employee contributions	114,042	112,350
Employee contributions as a percentage of covered payroll	6.00%	5.94%
Employer contributions	\$ 212,193	\$ 211,479
Employer contributions as a percentage of covered payroll	11.16%	11.19%

City of Lincoln, Nebraska
Solid Waste Management Fund
Notes to Financial Statements
August 31, 2018 and 2017

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 \$316,000 and \$402,000 for the years ended August 31, 2018 and 2017, respectively.

Amounts due from other City funds for solid waste fees are \$11,559 and \$9,428 as of August 31, 2018 and 2017, respectively. Additionally, amounts due from other City funds as of August 31, 2018 included \$45,763 of advances to other funds from the Fund. Amounts due to other City funds for administrative and other services are \$2,776 and \$2,732 as of August 31, 2018 and 2017, respectively.