

LINCOLN WASTEWATER SYSTEM



**Financial
Statements
& Schedules
Fiscal Year Ended
August 31, 2013**

ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS/UTILITIES

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Lincoln Wastewater System

August 31, 2013 and 2012

Contents

Independent Auditor’s Report on Financial Statements and Supplementary Information	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12
Supplementary Information	
Summary of Long-Term Debt	29
Debt Coverage Ratio	30
Operating Expenses	31
Utility Plant in Service	34
General Statistics (unaudited)	35
Top Ten Customers (unaudited)	36
Wastewater Use Charges (unaudited)	37
Summary of Insurance Coverage (unaudited)	43
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 <i>Government Auditing Standards</i>	45

Independent Auditor's Report on Financial Statements and Supplementary Information

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 comprise the balance sheets as of August 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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 respective financial position of Lincoln Wastewater System as of August 31, 2013 and 2012, 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.

Other 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, 2013 and 2012, 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.

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 audit was conducted for the purpose of forming opinions 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 audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, except for that portion marked "Unaudited", on which we express no opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2013, 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
November 27, 2013

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, 2013 and 2012. 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 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 plus deferred inflows of resources – 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 plus deferred inflows of resources reported in the Balance Sheet. The System's net position increased by \$3,961,272 in 2013 over 2012 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, 2013, 2012, and 2011.

Table 1

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. (See Note 4)
- Current liabilities decreased due to the completion of several construction projects during the year.

Table 2
Condensed Balance Sheets

	August 31		Change	
	2012	2011	Dollars	Percent
Current assets	\$ 15,815,478	\$ 8,610,594	\$7,204,884	83.67%
Capital assets	256,865,473	253,352,163	3,513,310	1.39%
Noncurrent assets	15,373,854	19,580,176	(4,206,322)	(21.48%)
Deferred outflows of resources	984,882	—	984,882	100.00%
Total assets and deferred outflows of resources	289,039,687	281,542,933	7,496,754	2.66%
Current liabilities	8,584,491	6,986,882	1,597,609	22.87%
Long-term liabilities	85,599,171	83,267,999	2,331,172	2.80%
Total liabilities	94,183,662	90,254,881	3,928,781	4.35%
Net position				
Net investment in capital assets	171,553,512	171,395,000	158,512	0.09%
Restricted for debt service	703,650	1,019,749	(316,099)	(31.00%)
Restricted for capital acquisition	364,711	686,631	(321,920)	(46.88%)
Unrestricted	22,234,152	18,186,672	4,047,480	22.26%
Total net position	194,856,025	191,288,052	3,567,973	1.87%
Total liabilities and net position	\$289,039,687	\$281,542,933	\$7,496,754	2.66%

Financial Highlights – Fiscal Year 2012

- Current assets increased primarily due to higher cash balances at fiscal year end.
- Noncurrent assets decreased because of lower 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. (See Note 4)
- Current liabilities increased primarily due to progress billings on several construction projects.

Table 3

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	10,791,314	10,534,367	256,947	2.44%
Operation and maintenance of wastewater lines	5,692,526	5,417,882	274,644	5.07%
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.

Table 4

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

	August 31		Change	
	2012	2011	Dollars	Percent
Operating revenues	\$24,097,998	\$22,973,653	\$1,124,345	4.89%
Operating expenses				
Plant, pumping and treatment	10,534,367	10,665,966	(131,599)	(1.23%)
Operation and maintenance of wastewater lines	5,417,882	5,387,136	30,746	0.57%
Sanitary engineering services	2,162,132	2,154,083	8,049	0.37%
Accounting and collecting	569,185	491,885	77,300	15.72%
Administrative and general	1,009,557	973,147	36,410	3.74%
Total operating expenses	19,693,123	19,672,217	20,906	0.11%
Operating income	4,404,875	3,301,436	1,103,439	33.42%
Net nonoperating expenses	(2,983,959)	(3,119,335)	135,376	(4.34%)
Capital contributions	2,143,397	1,081,660	1,061,737	98.16%
Transfers in	3,660	–	3,660	100.00%
Change in net position	\$ 3,567,973	\$ 1,263,761	\$2,304,212	182.33%

Financial Highlights – Fiscal Year 2012

- Operating revenues increased primarily due to a 5% user fee increase implemented with the billings starting in February 2012. Sanitary sewer bills for residential customers are based on water usage during a two-month period during the winter and remain the same over the balance of the following ten-month period. Non-residential customers are billed for sanitary sewer based on their monthly water usage.
- Capital contributions increased in 2013 because of increased development activity during the year.

Debt Activity

In May 2012, the Lincoln Wastewater System issued \$38,290,000 in Sanitary Sewer Refunding Bonds at an average interest rate of 3.70% to refund \$40,345,000 of Sanitary Sewer Revenue and Refunding Bonds, Series 2003, with interest rates ranging from 3.75% to 5.0%. The City completed the advance refunding to reduce its total debt service payments over the next 16 years by \$10,070,963 for an economic gain (difference between the present values of the old and new debt service payments) of \$5,934,216.

In connection with its bond issues the System is required, among other things, to maintain certain financial conditions and the System's ability to issue debt is restricted.

System Credit and Bond Ratings

The outstanding revenue bonds of the System are currently rated by Standard & Poor's and Moody's. This rating takes into account the amount of unrestricted net 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 \$3,400,000 at August 31, 2013.

Forward-Looking Information

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

In August 2012, the Lincoln City Council approved 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 2013 and 2012. 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, 2013 and 2012

Assets and Deferred Outflows of Resources	2013	2012
Current assets:		
Equity in pooled cash and investments	\$ 11,065,176	9,487,297
Receivables:		
Accounts receivable	1,983,095	1,996,412
Unbilled revenues	2,509,069	2,459,540
Due from other governments	1,136,734	1,085,874
Due from other funds	174,043	347,338
Impact fees	274,406	364,711
Total receivables	6,077,347	6,253,875
Inventories	60,362	74,306
Total current assets	17,202,885	15,815,478
Noncurrent assets:		
Equity in pooled cash and investments	8,096,955	7,208,921
Restricted assets:		
Equity in pooled cash and investments	1,401,989	1,459,840
Investments	5,660,664	5,998,092
Total restricted assets	7,062,653	7,457,932
Utility plant	370,483,507	361,545,208
Less accumulated depreciation	112,344,441	104,679,735
Net utility plant	258,139,066	256,865,473
Costs recoverable from future billings	665,279	707,001
Total noncurrent assets	273,963,953	272,239,327
Total assets	291,166,838	288,054,805
Deferred outflows of resources:		
Deferred loss on refunding	922,514	984,882
Total assets and deferred outflows of resources	\$ 292,089,352	289,039,687
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 295,253	211,842
Accrued liabilities	522,027	524,341
Deposits liability	11,250	6,500
Accrued compensated absences	368,437	354,384
Construction contracts	1,529,232	3,333,269
Current maturities of long-term debt	3,618,916	3,487,906
Accrued interest	612,943	666,249
Total current liabilities	6,958,058	8,584,491
Long-term liabilities:		
Accrued liabilities	221,468	162,000
Accrued compensated absences	283,985	211,522
Construction contracts	117,454	117,454
Long-term debt, excluding current maturities	85,691,090	85,108,195
Total long-term liabilities	86,313,997	85,599,171
Total liabilities	93,272,055	94,183,662
Net position:		
Net investment in capital assets	174,029,586	171,553,512
Restricted for debt service	753,613	703,650
Restricted for capital acquisition	274,406	364,711
Unrestricted	23,759,692	22,234,152
Total net position	198,817,297	194,856,025
Total liabilities and net position	\$ 292,089,352	289,039,687

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Position

Years ended August 31, 2013 and 2012

	2013	2012
Operating revenues	\$ 24,577,769	24,097,998
Operating expenses:		
Plant, pumping and treatment	10,791,314	10,534,367
Operation and maintenance of wastewater lines	5,692,526	5,417,882
Sanitary engineering services	2,112,338	2,162,132
Accounting and collecting	758,989	569,185
Administrative and general	945,682	1,009,557
Total operating expenses	20,300,849	19,693,123
Operating income	4,276,920	4,404,875
Nonoperating revenues (expenses):		
Investment income (loss)	(289,792)	204,843
Interest expense	(2,773,486)	(3,285,067)
Net costs recoverable	(41,721)	(39,608)
Insurance proceeds	-	135,873
Net nonoperating expenses	(3,104,999)	(2,983,959)
Increase in net position before capital contributions	1,171,921	1,420,916
Capital contributions from:		
Developers	1,692,563	883,120
Tap fees	32,125	25,370
Impact Fees	668,174	435,764
Federal grant revenues	408,211	799,143
Total capital contributions	2,801,073	2,143,397
Transfers In (Out)	(11,722)	3,660
Increase in net position	3,961,272	3,567,973
Total net position - beginning	194,856,025	191,288,052
Total net position - ending	\$ 198,817,297	194,856,025

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2013 and 2012

	2013	2012
Operating activities:		
Receipts from customers and users	\$ 25,603,869	24,893,725
Payments to suppliers	(5,062,539)	(5,463,418)
Payments to employees	(7,218,597)	(6,944,605)
Net cash provided by operating activities	13,322,733	12,485,702
Noncapital financing activities:		
Repayment from other funds, net	173,295	180,077
Net cash provided by noncapital financing activities	173,295	180,077
Capital and related financing activities:		
Acquisition and construction of capital assets	(8,401,811)	(9,822,765)
System funds used for bond refinancing	-	(560,300)
Principal paid on revenue bonds	(3,120,000)	(2,880,000)
Federal grant proceeds	526,828	680,526
Insurance proceeds	-	135,873
Proceeds from NDEQ loan	3,316,985	6,203,748
Interest paid on long term debt	(3,089,697)	(3,492,563)
Repayments on NDEQ loan	(367,907)	(257,858)
Net cash used in capital and related financing activities	(11,135,602)	(9,993,339)
Investing activities:		
Purchases of investments	(21,402,142)	(33,070,291)
Proceeds from investment maturities	19,993,774	28,776,654
Interest on investments	175,282	317,414
Net cash used in investing activities	(1,233,086)	(3,976,223)
Net increase (decrease) in cash and cash equivalents	1,127,340	(1,303,783)
Cash and cash equivalents at beginning of year	1,097,428	2,401,211
Cash and cash equivalents at end of year	\$ 2,224,768	\$ 1,097,428
Composition of equity in pooled cash and investments (current)		
Cash and cash equivalents	\$ 2,224,768	1,097,428
Investments	8,840,408	8,389,869
Total equity in pooled cash and investments (current)	11,065,176	9,487,297
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 4,276,920	\$ 4,404,875
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,778,689	7,314,450
Changes in operating assets and liabilities:		
Accounts receivable	1,021,350	795,801
Inventories	13,944	(8,802)
Accounts payable	83,410	(108,059)
Accrued liabilities and deposit liability	61,904	80,635
Accrued compensated absences	86,516	6,802
Total adjustments	9,045,813	8,080,827
Net cash provided by operating activities	\$ 13,322,733	12,485,702

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$1,692,563 and \$883,120 were added to utility plant in 2013 and 2012 respectively.

Accounts payable incurred for utility plant purchases were \$1,646,687 and \$3,450,723 in 2013 and 2012, respectively.

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

(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, 2013 and 2012, 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, 2013 or 2012.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

(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, 2013 and 2012

(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, 2013 and 2012

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

Revenue

Wastewater usage is billed on a two-month cycle for substantially all customers. Unbilled revenues, representing estimated consumer usage for the period between the last billing date and the end of the period, are accrued in the period of consumption.

The City Council sets the rate schedule for Lincoln Wastewater System. In August 2012, the Lincoln City Council approved two revenue increases of 5% each, which were effective in November 2012 and November 2013. These revenue increases did not change the water use charge in each of the two years, but raised the service charge.

The billings for residential customers are based on water usage during a winter billing cycle, whereas the billings for nonresidential customers are based on water used each cycle. The rates were \$1.859 per hundred cubic feet of water for both August 31, 2013 and 2012, respectively. The service charge rates as of August 31, 2012 were \$1.50 per month for a single family home and \$0.89 per month for a multi-family dwelling unit. Effective November 2012, the service charge is based on meter size as shown below:

<u>Water Meter Size</u> (effective November 2012)	<u>Monthly Service Charge</u>
5/8 inch	\$1.55
3/4 inch	2.30
1 inch	3.85
1 ½ inch	7.65
2 inch	12.25
3 inch	23.00
4 inch	38.35
6 inch	76.65
8 inch	122.65
10 inch	176.35

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, 2013 and 2012

(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, 2013 and 2012 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, 2013	\$565,906	440,900	354,384	652,422	368,437
August 31, 2012	\$559,104	371,498	364,696	565,906	354,384

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

(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 \$221,000 and \$162,000 as of August 31, 2013 and 2012, 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 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net position.

Implementation of New Accounting Principles

In 2013, the System implemented the provisions of the following accounting principles:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This standard was created to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pre-November 30, 1989 FASB and AICPA pronouncements, which do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement amends the net asset reporting requirements in GASB Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The implementation of these standards did not have a significant impact on the System's financial statements.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

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

The System also early implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard required the System to discontinue carrying debt issuance costs as an asset on the balance sheets. However, as the System meets the criteria as a rate-making entity under the regulated operations provisions of GASB Statement No. 62, the costs were deferred and are shown as costs recoverable from future billings on the balance sheets.

(2) Deposits, Investments, and Investment Return

Deposits

State statutes require banks either to give bond, provide 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 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, 2013 and 2012

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

At August 31, 2013 and 2012, the Lincoln Wastewater System had the following investments and maturities:

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

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

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

(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 establishes requirements for certain investment securities to be rated at certain rates or higher without having collateral pledged to the City. The following investment types must be rated at the minimum rates noted below:

	<u>S&P</u>	<u>Moody's</u>
Money Markets	AA	Aa
Corporate Notes	AA-	Aa3
Investment Agreements	AA-	Aa3

Investment agreements are made 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 Agency 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, 2013 and 2012, 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, 2013 and 2012. The collateralized investment agreement was adequately collateralized as of August 31, 2013.

Concentration of Credit Risk:

Concentration of credit risk is the risk associated with the amount of investments the System has with any issuer that exceeds 5% of its total investments. 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. The investment concentrations mentioned below were made with funds from the bond debt reserve funds established. Concentrations greater than 5% at August 31 are shown below:

	<u>2013</u>	<u>2012</u>
U.S. Government Agency Obligations		
Federal Farm Credit Bank	5.7%	5.2%
Federal Home Loan Bank	14.0%	11.7%
Collateralized Investment Agreement		
American International Group, Inc.	5.1%	—

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

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

The carrying amount of equity interests in pooled cash and investments at August 31, 2013 and 2012, are:

	<u>2013</u>	<u>2012</u>
Equity in pooled cash and investments	\$20,564,120	18,156,058

Investment Income

Investment income for the years ended August 31, 2013 and 2012, consisted of:

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 179,585	282,487
Net change in fair value of investments	(469,377)	(77,644)
	<u>\$(289,792)</u>	<u>204,843</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

(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, 2013 and 2012

(3) Utility Plant

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

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

During 2012, Lincoln Wastewater System incurred \$3,564,879 of interest cost. Interest capitalized into construction in progress during 2012 was \$162,593. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 2.07% in 2012.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

(4) Long-term Liabilities

Long-term debt of Lincoln Wastewater System at August 31, 2013 and 2012 is summarized below:

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>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

(4) Long-term Liabilities (continued)

2012

Type of Debt	August 31, 2011	Additions	Reductions	August 31, 2012	Due Within One Year
2.0% - 5.0% Wastewater Revenue & Refunding Bonds, Series 2003, refunded in 2012.	\$42,115,000	—	42,115,000	—	—
4.0% - 5.0% Wastewater Revenue Bonds Series 2005. Interest due semi-annually on June 15 and December 15. Principal payments due annually on June 15, 2013 through 2030. Redeemable at par on or after June 15, 2015.	15,000,000	—	540,000	14,460,000	560,000
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, 2013 through 2032. Redeemable at par on or after June 15, 2017.	18,510,000	—	570,000	17,940,000	595,000
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.	3,478,792	—	157,858	3,320,934	159,922
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.	3,512,098	1,487,902	100,000	4,900,000	207,984
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	—	5,683,103	—
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, 2013 through 2028. Redeemable at par on or after June 15, 2022.	—	38,290,000	—	38,290,000	1,965,000
Unamortized premium on bonds	<u>1,597,612</u>	<u>3,840,715</u>	<u>1,436,263</u>	<u>4,002,064</u>	<u>—</u>
	<u>\$84,213,502</u>	<u>49,301,720</u>	<u>44,919,121</u>	<u>88,596,101</u>	<u>3,487,906</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, 2013 and 2012

(4) Long-term Liabilities (continued)

Maturities and sinking fund requirements on long-term debt at August 31, 2013, are shown below.

Years ending August 31	Principal	Interest	Total
2014	\$ 3,618,916	3,013,690	6,632,606
2015	3,695,284	2,976,921	6,672,205
2016	4,202,421	2,808,275	7,010,696
2017	4,360,442	2,631,152	6,991,594
2018	4,443,931	2,525,340	6,969,271
2019 - 2023	24,099,137	10,538,372	34,637,509
2024 - 2028	28,258,800	5,660,740	33,919,540
2029 - 2033	11,572,939	1,197,460	12,770,399
2034 - 2035	1,307,980	49,726	1,357,706
Total	\$85,559,850	31,401,676	116,961,526

In May 2012, the Lincoln Wastewater System issued \$38,290,000 in Sanitary Sewer Refunding Bonds at an average interest rate of 3.70% to refund \$40,345,000 of Sanitary Sewer Revenue and Refunding Bonds, Series 2003, with interest rates ranging from 3.75% to 5.0%. The City completed the advance refunding to reduce its total debt service payments over the next 16 years by \$10,070,963 for an economic gain (difference between the present values of the old and new debt service payments) of \$5,934,216.

Lincoln Wastewater System has entered into a loan agreement with NDEQ consisting of two separate contracts. Under Contract 317247, the Lincoln Wastewater System has borrowed \$4,808,792 to fund certain sewer system extension and sewer repairs. The terms of the project loan payable are reflected in the summary of long-term debt. The Lincoln Wastewater System has also borrowed \$5,000,000 under Contract 317078 to fund certain projects at the Theresa Street and Northeast Wastewater Treatment Facilities. The interest rate throughout the term of the loan is 2.0%. 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, 2013, Lincoln Wastewater System incurred project costs totaling \$4,929,999 resulting in a recognition of a project payable of \$10,136,822. The terms of the loan payable are reflected in the summary of long-term debt. The remaining available funds totaling \$6,863,178 are not reflected in the summary of long-term debt.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

(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 2035. The total principal and interest remaining to be paid on the bonds and loans is \$116,961,526 with annual payments expected to require 53% of net revenues. Principal and interest paid for the current year and net system revenues were \$6,577,604 and \$12,466,116, respectively.

Construction contracts of the Lincoln Wastewater System at August 31, 2013 and 2012 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, 2013	\$3,450,723	1,529,232	3,333,269	1,646,686	1,529,232
August 31, 2012	\$3,793,642	1,653,895	1,996,814	3,450,723	3,333,269

(5) Commitments and Contingencies

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$3,400,000 at August 31, 2013.

(6) Related Party Transactions

The City billed the Wastewater System approximately \$475,000 and \$514,000 for administrative services during 2013 and 2012, 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 \$889,000 and \$833,000 during 2013 and 2012, respectively. Approximately \$60,000 is included in accounts payable for amounts owed to LES at August 31, 2013 and 2012.

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 \$274,406 and \$364,711 as of August 31, 2013 and 2012, 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 \$174,043 and \$347,338 as of August 31, 2013 and 2012, 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, 2013 and 2012

(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 \$282,000 and \$339,000 in 2013 and 2012, 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 \$517,000 and \$540,000 for 2013 and 2012, respectively. Contributions made by the plan members were approximately \$288,000 and \$292,000 for 2013 and 2012, respectively.

SUPPLEMENTARY
INFORMATION

LINCOLN WASTEWATER SYSTEM

Summary of Long-Term Debt

August 31, 2013

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
2014	580,000	615,362	615,000	743,888	162,004	40,490	211,912	92,786	-	241,814	2,050,000	1,279,350	3,618,916	3,013,690	6,632,606
2015	605,000	586,362	640,000	719,288	164,113	38,382	216,171	88,527	-	306,012	2,070,000	1,238,350	3,695,284	2,976,921	6,672,205
2016	625,000	556,112	665,000	693,688	166,249	36,245	220,516	84,182	375,656	303,198	2,150,000	1,134,850	4,202,421	2,808,275	7,010,696
2017	650,000	531,112	695,000	667,088	168,413	34,081	224,948	79,749	387,081	291,772	2,235,000	1,027,350	4,360,442	2,631,152	6,991,594
2018	675,000	505,112	720,000	639,288	170,606	31,889	229,470	75,228	398,855	279,998	2,250,000	993,825	4,443,931	2,525,340	6,969,271
2019-2023	3,815,000	2,065,872	4,080,000	2,734,412	886,922	125,548	1,218,417	305,071	2,183,798	1,210,469	11,915,000	4,097,000	24,099,137	10,538,372	34,637,509
2024-2028	4,740,000	1,149,588	5,035,000	1,772,522	946,174	66,301	1,345,890	177,598	2,536,736	857,531	13,655,000	1,637,200	28,258,800	5,660,740	33,919,540
2029-2033	2,210,000	150,300	4,895,000	548,520	496,531	9,706	1,024,692	41,384	2,946,716	447,550	-	-	11,572,939	1,197,460	12,770,399
2034-2035	-	-	-	-	-	-	-	-	1,307,980	49,726	-	-	1,307,980	49,726	1,357,706
	\$ 13,900,000	6,159,820	17,345,000	8,518,694	3,161,012	382,642	4,692,016	944,525	10,136,822	3,988,070	36,325,000	11,407,925	85,559,850	31,401,676	116,961,526

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
2004	18,092,619	10,042,919	8,049,700	1,750,000	2,135,009	3,885,009	2.07	1,750,000	2,135,009	3,885,009	2.07
2005	18,248,683	10,482,955	7,765,728	1,500,000	2,404,824	3,904,824	1.99	1,500,000	2,404,824	3,904,824	1.99
2006	19,827,194	11,125,819	8,701,375	2,065,000	3,044,805	5,109,805	1.70	2,065,000	3,044,805	5,109,805	1.70
2007	21,158,743	11,462,964	9,695,779	2,005,000	3,082,787	5,087,787	1.91	2,005,000	3,082,787	5,087,787	1.91
2008	22,347,867	11,393,624	10,954,243	2,415,000	4,030,454	6,445,454	1.70	2,415,000	4,030,454	6,445,454	1.70
2009	22,643,270	11,771,291	10,871,979	2,620,000	3,820,044	6,440,044	1.69	2,620,000	3,820,044	6,440,044	1.69
2010	22,472,096	11,664,594	10,807,502	2,695,000	3,731,444	6,426,444	1.68	2,695,000	3,731,444	6,426,444	1.68
2011	23,546,370	12,543,964	11,002,406	2,785,000	3,607,044	6,392,044	1.72	2,865,000	3,647,609	6,512,609	1.69
2012	24,763,975	12,378,673	12,385,302	2,880,000	3,504,194	6,384,194	1.94	3,137,858	3,655,156	6,793,014	1.82
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

Operating Expenses

Years ended August 31, 2013 and 2012

	2013	2012
Plant, pumping and treatment:		
Theresa Street Treatment Plant:		
Supervision and management	\$ 205,417	234,536
Administrative and support staff	66,098	60,842
Training and education	30,851	16,851
Data management	207,153	198,108
General operations	1,109,309	1,043,882
Treatment and process control	808,797	673,215
Solids processing	1,081,954	1,098,098
Structures maintenance	161,418	207,434
Process equipment maintenance	511,867	514,470
Control system maintenance	192,551	208,176
Electrical maintenance	76,284	101,761
Grounds maintenance	53,988	49,405
Depreciation of structure and improvement	1,425,000	1,404,084
Depreciation of treatment equipment	1,605,796	1,495,792
Depreciation of meters	203,151	200,530
Depreciation of shop and lab equipment	335	335
Depreciation of office/communications equipment	44,709	45,422
Total Theresa Street Treatment Plant	\$ 7,784,678	7,552,941
Northeast Treatment Plant:		
Supervision and management	\$ 82,613	102,875
Administrative and support staff	19,067	18,117
Training and education	10,926	11,921
Data management	65,767	75,671
General operations	512,394	475,105
Treatment and process control	147,420	163,174
Solids processing	339,692	391,131
Structures maintenance	67,601	63,867
Process equipment maintenance	211,199	205,326
Control system maintenance	97,494	98,282
Electrical maintenance	45,336	69,426
Grounds maintenance	58,057	71,779
Depreciation of structures and improvements	446,624	389,100
Depreciation of treatment system	614,799	583,957
Depreciation of injection system	44,035	43,795
Depreciation of shop and laboratory equipment	7,022	7,549
Depreciation of office/communications equipment	648	648
Total Northeast Treatment Plant	\$ 2,770,694	2,771,723

LINCOLN WASTEWATER SYSTEM

Schedule 3, Cont.

Operating Expenses, Continued

	2013	2012
Liftstations:		
General operations	\$ 84,541	72,819
Structures maintenance	19,313	15,147
Process equipment maintenance	42,673	38,403
Control system maintenance	18,570	14,167
Electrical maintenance	9,407	5,044
Grounds maintenance	-	379
Depreciation of liftstations	61,438	63,744
Total liftstations	235,942	209,703
Total plant, pumping and treatment	\$ 10,791,314	10,534,367
Operation and maintenance of wastewater lines:		
Supervision and management	\$ 338,576	364,371
Administrative and support staff	55,326	50,526
Training and education	63,888	54,312
Data management	146,774	158,648
General operations	245,228	254,530
Structures maintenance	12,904	13,211
Main repair/maintenance	287,246	234,744
Manhole repair/rehabilitation	48,161	66,363
Customer service	419,321	289,090
Cleaning maintenance	801,129	766,210
Field operations	248,353	310,123
Depreciation of structures and improvements	908	908
Depreciation of treatment equipment	80,019	71,811
Depreciation of shop and lab equipment	4,517	3,585
Depreciation of collection system	2,940,176	2,779,450
Total operation and maintenance of wastewater lines	\$ 5,692,526	5,417,882
Sanitary engineering services:		
Supervision and management	\$ 544,991	530,002
Administrative and support staff	60,413	62,683
Training and education	13,889	10,489
Data management	208,561	250,567
General operations	39,944	49,543
Laboratory operations	645,364	604,912
Field operations	549,293	598,520
Depreciation of structures and improvements	16,083	16,082
Depreciation of treatment equipment	1,313	516
Depreciation of office/communications equipment	3,554	3,732
Depreciation of shop and laboratory equipment	28,933	35,086
Total sanitary engineering services	\$ 2,112,338	2,162,132

Operating Expenses, Continued

	2013	2012
Accounting and collecting:		
Supervision and management	\$ 187,496	160,179
Administrative and support staff	2,726	3,317
Meter reading	108,572	83,019
Billing and accounting	231,641	156,452
Collections	96,386	77,038
Customer services and billing	93,867	53,386
Customer contracts and orders	31,256	28,747
Depreciation of general plant	4,767	4,767
Depreciation of office/communications equipment	2,278	2,280
Total accounting and collecting	\$ 758,989	569,185
Administrative and general:		
Supervision and management	\$ 698,998	832,836
Administrative and support staff	122,932	124,078
Delivery service	29,168	26,211
Depreciation of office/communications equipment	94,584	26,432
Total administrative and general	\$ 945,682	1,009,557

LINCOLN WASTEWATER SYSTEM

Schedule 4

Utility Plant in Service

August 31, 2013

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2012	Increases	Decreases	August 31, 2013	August 31, 2012	Increases	Decreases	August 31, 2013	August 31, 2013
Theresa Street Plant:									
Structures and improvements	\$ 60,544,967	50,649	-	60,595,616	(17,058,643)	(1,444,559)	-	(18,503,202)	42,092,414
Line equipment	75,490	46,370	-	121,860	(22,511)	(20,580)	-	(43,091)	78,769
Treatment equipment	37,011,429	528,454	-	37,539,883	(18,288,168)	(1,673,751)	-	(19,961,919)	17,577,964
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	(470,401)	(56,279)	-	(526,680)	680,761
Environmental equipment	339,148	37,360	-	376,508	(331,701)	(6,756)	-	(338,457)	38,051
Office furniture and equipment	470,448	17,028	-	487,476	(316,867)	(100,058)	-	(416,925)	70,551
Shop equipment	156,666	-	-	156,666	(137,177)	(6,364)	-	(143,541)	13,125
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
Meters	4,034,424	69,903	-	4,104,327	(2,087,084)	(207,917)	-	(2,295,001)	1,809,326
Theresa Street depreciable assets	308,096,360	5,735,466	-	313,831,826	(89,469,397)	(6,517,561)	-	(95,986,958)	217,844,868
Land and land rights	3,935,781	4,306	-	3,940,087	-	-	-	-	3,940,087
Theresa Street nondepreciable assets	3,935,781	4,306	-	3,940,087	-	-	-	-	3,940,087
Total Theresa Street Plant	312,032,141	5,739,772	-	317,771,913	(89,469,397)	(6,517,561)	-	(95,986,958)	221,784,955
Northeast Plant:									
Structures and improvements	19,294,422	24,035	-	19,318,457	(8,028,296)	(450,065)	-	(8,478,361)	10,840,096
Treatment equipment	21,272,724	-	-	21,272,724	(4,301,882)	(570,191)	-	(4,872,073)	16,400,651
Office furniture and equipment	11,413	-	-	11,413	(6,887)	(648)	-	(7,535)	3,878
Shop and work equipment	150,302	-	-	150,302	(92,098)	(7,022)	-	(99,120)	51,182
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)	25,234,000
Lift stations/force mains	-	-	-	-	1,685	-	-	1,685	1,685
Transmission/work equipment	1,100,106	25,294	-	1,125,400	(209,721)	(51,336)	-	(261,057)	864,343
Northeast depreciable assets	43,087,669	49,329	-	43,136,998	(13,556,112)	(1,113,128)	-	(14,669,240)	28,467,758
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	45,148,711	49,329	-	45,198,040	(13,556,112)	(1,113,128)	-	(14,669,240)	30,528,800
Vehicles and work equipment (all locations)	2,597,194	109,108	(128,994)	2,577,308	(1,654,226)	(148,001)	113,984	(1,688,243)	889,065
Utility plant in service	\$ 359,778,046	5,898,209	(128,994)	365,547,261	(104,679,735)	(7,778,690)	113,984	(112,344,441)	253,202,820
Construction in progress	1,767,162	6,977,258	(3,808,174)	4,936,246	-	-	-	-	4,936,246
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

LINCOLN WASTEWATER SYSTEM**GENERAL STATISTICS****Year Ended August 31, 2013**

(Unaudited)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	92.05 Square Miles
Population	268,808 Estimate
Total Miles of Wastewater Mains & Collector Lines In Use:	
Miles in use September 1, 2012	1,021.5
Estimated Added During Year	2.5
Estimated Removed During Year	—
Total as of August 31, 2013	1,024.0 Miles
Number of Wastewater Lift (Pumping) Stations:	15
Number of Stormwater Pumping Stations:	4
Plant Capacity:	
Theresa Street Treatment Facility	27.4 million gallons per day
Northeast Treatment Facility	10.0 million gallons per day
Average Daily Flow:	
Theresa Street Treatment Facility	24.19 million gallons per day
Northeast Treatment Facility	2.3 million gallons per day
Total Number of Active Residential Wastewater Customers	
End of Fiscal Year	75,782
Total Number of Active Non-Residential Wastewater Customers	
End of Fiscal Year	4,284
Total Debt of Lincoln Wastewater System as of August 31, 2013	\$85,559,850

LINCOLN WASTEWATER SYSTEM**TOP TEN CUSTOMERS**

Year Ended August 31, 2013

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	329,322	\$651,994
2. State of Nebraska	263,518	506,573
3. University of Nebraska Foundation	148,022	294,793
4. Archer-Daniels Midland Company	138,512	277,699
5. BryanLGH Medical Center	113,614	222,735
6. Lincoln Plating Company	103,199	207,483
7. Lincoln Housing Authority	87,777	194,829
8. Lincoln Public Schools	86,935	186,340
9. Pfizer Animal Health	60,230	123,525
10. St. Elizabeth Community Health	54,031	103,229
Top Ten User Totals	1,385,160	\$2,769,200

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

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

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

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

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

1 SERVICE CHARGE

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

	Effective November, 2012	Effective November, 2013
5 Water Meter Size	Service Charge	Service Charge
6 5/8 inch	\$1.55	\$1.65
7 3/4 inch	2.30	3.20
8 1 inch	3.85	5.70
9 1-1/2 inch	7.65	11.30
10 2 inch	12.25	18.10
11 3 inch	23.00	34.00
12 4 inch	38.35	56.70
13 6 inch	76.65	113.30
14 8 inch	122.65	181.30
15 10 inch	176.35	260.70

16 WASTEWATER RATES TO CUSTOMERS OUTSIDE
 17 THE CITY LIMITS

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

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

Introduced by:

Jon A. Camp

AYES: Camp, Carroll, Cook,
Emery, Eskridge, Hornung,
Schimek; NAYS: None.

Approved as to Form & Legality:

Rod Cooper
City Attorney

Approved this 10th day of Aug. 2012:

[Signature]
Mayor

ADOPTED
AUG - 8 2012
BY CITY COUNCIL

<h1 style="margin: 0;">CITY OF LINCOLN</h1> <p style="margin: 5px 0;">Request for: <input type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution</p>	(Do Not Write in this Space)
	Bill Control No. <u>12R-117</u> Date: <u>7/23</u>
	Docketing Date <u>7/30; PH: 8-6-12</u>
	(To Be Entered by City Clerk)

DATE July 23, 2012	REQUEST MADE BY Miki Esposito, Director	DEPARTMENT Public Works/Utilities
DESIRED DOCKET DATE: 7-30; PH 8-6-12	IF EMERGENCY, GIVE REASON (See Art. 6, Sec. 2 of Charter)	
Emergency Measure Required: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		

REASONS OR JUSTIFICATION FOR PROPOSED LEGISLATION

To establish a new rate schedule for the Lincoln Wastewater System for purposes of covering the System's operational and maintenance costs including debt service, and the Capital Improvements Program for F.Y. 2012-13 and 2013-14.

FILED
 CITY CLERK'S OFFICE
 2012 JUL 24 AM 9 44
 CITY OF LINCOLN
 NEBRASKA

REQUESTOR <input type="checkbox"/> DOES <input checked="" type="checkbox"/> DOES NOT	WISH TO REVIEW AND APPROVE THIS ORDINANCE PRIOR TO ITS INTRODUCTION	<div style="text-align: right;"> DIRECTOR'S SIGNATURE </div> <div style="text-align: right; margin-top: 5px;"> <u>7/24/12</u> DATE </div>
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TO BE USED BY THE FINANCE DEPARTMENT

BUDGET REVIEW	DATE:	ACCOUNT NUMBER AND APPROPRIATE BALANCES	DATE:	FUND AVAILABILITY APPROVED	DATE:
DIRECTOR OF FINANCE SIGNATURE					

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City Council Introduction: July 30, 2012

Bill Number 12R-177

Public Hearing: August 6, 2012

FACT SHEET

TITLE: Proposed Resolution to increase Wastewater Use Charges

SPONSOR: Public Works/Utilities

OPPONENTS: Unknown

OTHER DEPARTMENTS AFFECTED:

STAFF RECOMMENDATION: For

APPLICANT: Public Works/Utilities

REASON FOR LEGISLATION: To establish a new rate schedule for the Lincoln Wastewater System for purposes of covering the System's operational and maintenance costs including debt service, and the costs of the Capital Improvements Program for F.Y. 2012-13 and F.Y. 2013-14. Residential wastewater use charges are based on water usage during a winter billing cycle. Non-residential wastewater use charges are based on water used during each cycle.

DISCUSSION

The Public Works & Utilities Department recommends a 5% revenue increase and proposes to change the following rates as shown below. These changes will take effect with the "H" billing cycle commencing in November, 2012 and November, 2013.

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

FACT SHEET PREPARED BY: *Franco Mejia*

Public Works & Utilities Business Manager

REVIEWED BY: *Mick Espinoza*

Director of Public Works & Utilities

Lincoln Wastewater System

Summary of Insurance Coverage

August 31, 2013

(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	SEL3017305
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	SEL3017305
Public Employee Blanket Bond	Employees blanket bond coverage	1,000,000	25,000	10,000	Fidelity & Deposit	CCP 003 059514
Public Officials Liability***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017305
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 financial statements of Lincoln Wastewater System, which comprise the balance sheet as of August 31, 2013, 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 November 27, 2013, which contained an other 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

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*.

Other Matters

We noted certain matters that we reported to Lincoln Wastewater System's management in a separate letter dated November 27, 2013.

The purpose of this communication 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 compliance. This communication 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
November 27, 2013