

LINCOLN WASTEWATER SYSTEM

Financial Statements & Schedules
Fiscal Year Ended August 31, 2010



Stevens Creek Basin Trunk Sewer Phase II

Designed by Citizen Information Center 11/2010

ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS/UTILITIES

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WASTEWATER SYSTEM

Greg MacLean Director of Public Works/Utilities

Lincoln Wastewater System

August 31, 2010 and 2009

Contents

Independent Accountants' 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 Assets	10
Statements of Cash Flows	11
Notes to Financial Statements	12
Supplementary Information	
Summary of Long-Term Debt	27
Debt Coverage Ratio (unaudited)	28
Operating Expenses	29
Utility Plant in Service	32
General Statistics (unaudited)	33
Top Ten Customers (unaudited)	34
Wastewater Use Charges (unaudited)	35
Summary of Insurance Coverage (unaudited)	40
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	42

Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying basic financial statements of Lincoln Wastewater System as of and for the years ended August 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of Lincoln Wastewater System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of Lincoln Wastewater System are intended to present the financial position, the changes in financial position and cash flows of only that portion of the City of Lincoln, Nebraska, that is attributable to the transactions of Lincoln Wastewater System. They do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Wastewater System as of August 31, 2010 and 2009, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2010 on our consideration of Lincoln Wastewater System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on Lincoln Wastewater System's basic financial statements. 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, except for that portion marked "Unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Handwritten signature in black ink that reads "BKD, LLP". The letters are stylized and cursive.

November 30, 2010

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, 2010 and 2009. Please read this information in conjunction with the accompanying basic financial statements and notes to the financial statements.

Using This Annual Report

The System's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the System, including resources held by the System but restricted for specific purposes by creditors, contributors, or enabling legislation. The System is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the System's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the System's net assets and changes in them. The System's total net assets – the difference between assets and liabilities – is one measure of the System's financial health or financial position. Over time, increases or decreases in the System's net assets are an indicator of whether its financial health is improving or deteriorating.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The System's Net Assets

The System's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The System's net assets increased by \$2,468,583 (1.316%) in 2010 over 2009 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, 2010, 2009, and 2008.

Table 1

Condensed Balance Sheets

	August 31		Change	
	2010	2009	Dollars	Percent
Current assets	\$ 9,966,480	\$ 8,509,370	\$1,457,110	17.124%
Capital assets	253,702,816	252,718,286	984,530	0.390%
Long-term investments	14,813,015	14,490,420	322,595	2.226%
Deferred charges	743,424	782,328	(38,904)	(4.973%)
Total assets	279,225,735	276,500,404	2,725,331	0.986%
Current liabilities	5,874,660	5,765,924	108,736	1.886%
Long-term liabilities	83,326,784	83,178,772	148,012	0.178%
Total liabilities	89,201,444	88,944,696	256,748	0.289%
Net assets				
Invested in capital assets, net of related debt	178,631,892	181,153,293	(2,521,401)	(1.392%)
Restricted for debt service	860,936	356,741	504,195	141.334%
Restricted for capital acquisition	522,914	621,524	(98,610)	(15.866%)
Unrestricted	10,008,549	5,424,150	4,584,399	84.518%
Total net assets	190,024,291	187,555,708	2,468,583	1.316%
Total liabilities and net assets	\$279,225,735	\$276,500,404	\$2,725,331	0.986%

Financial Highlights – Fiscal Year 2010

- Total assets at year-end were \$279,225,735 and exceeded total liabilities by \$190,024,291. Of this amount \$10,008,549 (unrestricted) is available to meet the ongoing obligations of the System.
- Current assets increased by \$1,457,110 (17.124%) due to a federal grant receivable related to a construction project.

Table 2**Condensed Balance Sheets**

	August 31		Change	
	2009	2008	Dollars	Percent
Current assets	\$ 8,509,370	\$ 8,835,762	(\$326,392)	(3.694%)
Capital assets	252,718,286	252,199,939	518,347	0.206%
Long-term investments	14,490,420	18,366,151	(3,875,731)	(21.103%)
Deferred charges	782,328	821,232	(38,904)	(4.737%)
Total assets	276,500,404	280,223,084	(3,722,680)	(1.328%)
Current liabilities	5,765,924	9,265,605	(3,499,681)	(37.771%)
Long-term liabilities	83,178,772	84,621,022	(1,442,250)	(1.704%)
Total liabilities	88,944,696	93,886,627	(4,941,931)	(5.264%)
Net assets				
Invested in capital assets, net of related debt	181,153,293	179,559,321	1,593,972	0.888%
Restricted for debt service	356,741	1,421,370	(1,064,629)	(74.902%)
Restricted for capital acquisition	621,524	220,690	400,834	181.628%
Unrestricted	5,424,150	5,135,076	289,074	5.629%
Total net assets	187,555,708	186,336,457	1,219,251	0.654%
Total liabilities and net assets	\$276,500,404	\$280,223,084	(\$3,722,680)	(1.328%)

Financial Highlights – Fiscal Year 2009

- Total assets at year-end were \$276,500,404 and exceeded total liabilities by \$187,555,708. Of this amount \$5,424,150 (unrestricted) is available to meet the ongoing obligations of the System.
- Current assets decreased by \$326,392 (-3.694%) due to completion of several construction projects.
- Capital assets increased by \$518,347 (0.206%). Major project additions were:
Theresa Street Plant Improvement – approximately \$980,000
Trunk Sewer Improvement Mains – approximately \$4,273,000
- Long-term investments decreased by \$3,875,731 (-21.103%) due to completion of several major construction projects.
- There was an decrease of \$3,499,681 (-37.771%) in current liabilities primarily because a number of new construction projects were completed during the year.

Table 3

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

	August 31		Change	
	2010	2009	Dollars	Percent
Operating revenues	\$21,703,427	\$21,142,579	\$ 560,848	2.653%
Operating expenses				
Plant, pumping and treatment	10,285,529	10,801,562	(516,033)	(4.777%)
Operation and maintenance of wastewater lines	4,948,090	4,936,337	11,753	0.238%
Sanitary engineering services	1,978,209	2,090,344	(112,135)	(5.364%)
Accounting and collecting	482,777	498,284	(15,507)	(3.112%)
Administrative and general	1,133,324	1,033,553	99,771	9.653%
Total operating expenses	18,827,929	19,360,080	(532,151)	(2.749%)
Operating income	2,875,498	1,782,499	1,092,999	61.318%
Net nonoperating expenses	(2,294,476)	(2,620,982)	326,506	(12.457%)
Capital contributions	1,887,561	2,057,734	(170,173)	(8.270%)
Change in net assets	\$ 2,468,583	\$ 1,219,251	\$1,249,332	102.467%

Financial Highlights – Fiscal Year 2010

- Operating revenues increased by \$560,848 (2.653%) compared to 2009. This increase was primarily due to a 4% user fee increase implemented with the billings starting in February 2010. Sanitary sewer bills for residential customers are based on water usage during a two-month period during the winter and remain the same over the balance of the following ten-month period. Non-residential customers are billed for sanitary sewer based on their monthly water usage.
- Net non-operating expenses decreased \$326,506 (-12.457%) primarily due to a reduction in interest income on investments and a reimbursement from insurance proceeds.

Table 4

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

	August 31		Change	
	2009	2008	Dollars	Percent
Operating revenues	\$21,142,579	\$20,621,911	\$ 520,668	2.525%
Operating expenses				
Plant, pumping and treatment	10,801,562	9,925,015	876,547	8.832%
Operation and maintenance of wastewater lines	4,936,337	4,735,743	200,594	4.236%
Sanitary engineering services	2,090,344	2,011,265	79,079	3.932%
Accounting and collecting	498,284	455,542	42,742	9.383%
Administrative and general	1,033,553	1,051,042	(17,489)	(1.664%)
Total operating expenses	19,360,080	18,178,607	1,181,473	6.499%
Operating income	1,782,499	2,443,304	(660,805)	(27.046%)
Net nonoperating revenues (expenses)	(2,620,982)	474,857	(3,095,839)	(651.952%)
Capital contributions	2,057,734	2,544,965	(487,231)	(19.145%)
Change in net assets	\$ 1,219,251	\$ 5,463,126	(\$4,243,875)	(77.682%)

Financial Highlights – Fiscal Year 2009

- Operating revenues increased by \$520,668 (2.525%) compared to 2008. This increase was primarily due to a 3% user fee increase implemented with the billings starting in February 2009. Sanitary sewer bills for residential customers are based on water usage during a two-month period during the winter and remain the same over the balance of the following ten-month period. Non-residential customers are billed for sanitary sewer based on their monthly water usage.
- Net non-operating revenues (expenses) decreased \$3,095,839 (-651.952%) primarily due to a significant decrease in average capital investment resulting in less capitalized interest in 2009 as compared to 2008.

Debt Activity

In August 2009, the Lincoln Wastewater System received a loan from the Nebraska Department of Environmental Quality (NDEQ) to fund several improvements to the Wastewater's Collection & Treatment system, of which \$1,250,000 is American Recovery & Reimbursement Act (ARRA) funds. An additional \$1,250,000 of ARRA funds were received as a grant, and do not require repayment.

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

System Credit and Bond Ratings

The outstanding revenue bonds of the System are currently rated by Standard & Poor's and Moody's. This rating takes into account the amount of unrestricted net assets maintained by the System, to which the revenue bonds' obligation of the System is pledged. Currently, the credit rating received from Standard & Poor's Rating Services is AAA (MBIA Insured) and AA+ (Underlying). The credit rating issued by Moody's Rating Services is Aaa (MBIA Insured) and Aa2 (Underlying).

Commitments and Contingencies

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$4,900,000 at August 31, 2010.

Forward-Looking Information

The approved Capital Improvement Program for Fiscal Year 2010/11 - 2015/16 identifies the need for \$66,787,000 to fund capital improvements for the Wastewater System. Approximately \$45,629,000 of that total is projected to be funded by revenue bonds. Future user fee increases will be necessary to make the needed improvements possible.

Contact Information

This financial report is intended to provide users a general overview of the System's financial performance for 2010 and 2009. 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, 2010 and 2009

Assets	2010	2009
Current assets:		
Equity in pooled cash and investments	\$ 3,080,393	3,283,735
Receivables:		
Accounts receivable	1,860,228	1,760,530
Other accounts receivable	1,580,036	-
Unbilled revenues	2,238,194	2,109,234
Due from other funds	581,735	654,229
Impact fees	522,914	621,524
Total receivables	6,783,107	5,145,517
Inventories	102,980	80,118
Total current assets	9,966,480	8,509,370
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and investments	8,396,064	8,002,807
Investments	6,416,951	6,487,613
Total restricted assets	14,813,015	14,490,420
Utility plant	344,084,851	336,378,035
Less accumulated depreciation	90,382,035	83,659,749
Net utility plant	253,702,816	252,718,286
Unamortized bond issue costs	743,424	782,328
Total noncurrent assets	269,259,255	267,991,034
Total assets	\$ 279,225,735	276,500,404

Liabilities and Net Assets

Current liabilities:		
Accounts payable	\$ 249,416	380,187
Accrued liabilities	424,898	396,029
Deposits liability	11,074	6,075
Accrued compensated absences	347,742	330,462
Construction contracts	1,305,063	1,180,787
Current maturities of long-term debt	2,785,000	2,695,000
Accrued interest	751,467	777,384
Total current liabilities	5,874,660	5,765,924
Long-term liabilities:		
Accrued liabilities	84,011	28,742
Accrued compensated absences	196,528	184,339
Construction contracts	2,681,630	2,771,854
Long-term debt, excluding current maturities	80,364,615	80,193,837
Total long-term liabilities	83,326,784	83,178,772
Total liabilities	89,201,444	88,944,696
Net assets:		
Invested in capital assets, net of related debt	178,631,892	181,153,293
Restricted for debt service	860,936	356,741
Restricted for capital acquisition	522,914	621,524
Unrestricted	10,008,549	5,424,150
Total net assets	190,024,291	187,555,708
Total liabilities and net assets	\$ 279,225,735	276,500,404

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets

Years ended August 31, 2010 and 2009

	2010	2009
Operating revenues	\$ 21,703,427	21,142,579
Operating expenses:		
Plant, pumping and treatment	10,285,529	10,801,562
Operation and maintenance of wastewater lines	4,948,090	4,936,337
Sanitary engineering services	1,978,209	2,090,344
Accounting and collecting	482,777	498,284
Administrative and general	1,133,324	1,033,553
Total operating expenses	18,827,929	19,360,080
Operating income	2,875,498	1,782,499
Nonoperating revenues (expenses):		
Investment income	455,149	998,912
Interest expense	(3,398,746)	(3,580,990)
Amortization of bond costs	(38,904)	(38,904)
Insurance proceeds	688,025	-
Net nonoperating revenues (expenses)	(2,294,476)	(2,620,982)
Increase (decrease) in net assets before capital contributions	581,022	(838,483)
Capital contributions from:		
Developers	324,041	1,555,955
Tap fees	15,516	23,261
Impact fees	298,004	478,518
Federal grant revenues	1,250,000	-
Total capital contributions	1,887,561	2,057,734
Increase in net assets	2,468,583	1,219,251
Total net assets - beginning	187,555,708	186,336,457
Total net assets - ending	\$ 190,024,291	187,555,708

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2010 and 2009

	2010	2009
Operating activities:		
Receipts from customers and users	\$ 19,998,342	20,661,481
Payments to suppliers	(5,067,426)	(5,187,358)
Payments to employees	(6,637,193)	(6,580,411)
Net cash provided by operating activities	8,293,723	8,893,712
Noncapital financing activities:		
Repayment from other funds, net	72,494	396,164
Net cash provided by noncapital financing activities	72,494	396,164
Capital and related financing activities:		
Acquisition and construction of capital assets	(7,476,253)	(8,240,018)
Principal paid on revenue bonds	(2,695,000)	(2,620,000)
Federal grant revenue	1,250,000	-
Insurance proceeds	688,025	-
Proceeds from NDEQ loan	3,048,891	-
Interest paid on revenue bonds	(3,517,776)	(3,692,565)
Net cash used in capital and related financing activities	(8,702,113)	(14,552,583)
Investing activities:		
Purchases of investments	(3,775,939)	(3,288,340)
Proceeds from investment maturities	3,401,675	7,380,050
Interest on investments	506,818	782,933
Net cash provided by investing activities	132,554	4,874,643
Net decrease in cash and cash equivalents	(203,342)	(388,064)
Cash and cash equivalents at beginning of year	3,283,735	3,671,799
Cash and cash equivalents at end of year	\$ 3,080,393	\$ 3,283,735
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 2,875,498	\$ 1,782,499
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,163,336	7,588,789
Changes in operating assets and liabilities:		
Accounts receivable	(1,710,084)	(478,773)
Inventories	(22,862)	20,937
Accounts payable	(130,771)	(18,603)
Accrued liabilities and deposit liability	89,137	(6,750)
Accrued compensated absences	29,469	5,613
Total adjustments	5,418,225	7,111,213
Net cash provided by operating activities	\$ 8,293,723	8,893,712

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$324,041 and \$1,555,955 were added to utility plant in 2010 and 2009, respectively.

Accounts payable incurred for utility plant purchases were \$3,986,693 and \$3,952,641 in 2010 and 2009, respectively.

See accompanying notes to financial statements.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

(1) Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations

Lincoln Wastewater System is a public utility accounted for as an enterprise fund by the City of Lincoln, Nebraska (City). Lincoln Wastewater System (System) is operated under the direction of the Mayor and City Council. The authority to adopt the annual budget, to incur debt and to fix rates and charges is vested in the City Council by the Charter of the City of Lincoln. As Lincoln Wastewater System is part of the City, it is exempt from federal income tax.

Measurement Focus and Basis of Accounting

The financial statements of Lincoln Wastewater System are prepared on the accrual basis of accounting using the economic resources measurement focus. Lincoln Wastewater System follows the uniform system of accounts as prescribed by the National Association of Regulatory Utility Commissioners. In reporting financial activity, Lincoln Wastewater System applies all applicable Government Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins that do not conflict with or contradict GASB pronouncements.

The financial statements referred to above present only the Lincoln Wastewater System and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2010 and 2009, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Operating Revenues and Expenses

As an enterprise fund, the Lincoln Wastewater System distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Lincoln Wastewater System's principal ongoing operations. The principal operating revenues of the Lincoln Wastewater System are charges to customers for sales and services. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

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

Utility Plant (Capital Assets)

Cost of additions and replacements to utility plant are capitalized. Cost includes labor, materials, payments to contractors, equipment use, and indirect costs. Long-term construction contracts that are entered into with developers to expand the distribution system and structure are capitalized at cost over the term of construction, with the related liability classified between current and long-term based upon the anticipated expenditure appropriation or collection of directed impact fees. Interest expense, net of interest earned on unspent bond proceeds, is capitalized in connection with the construction of major assets. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Contributed assets are capitalized at their fair value at the date of contribution. The cost of property retired, together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is removed from service, except for land, on which gain or loss is recognized upon disposition. Expenditures for maintenance and repairs are charged to current expenses.

Depreciation expense is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation expense recognized on contributed assets is charged to operations in accordance with similar utility assets.

The following estimated useful lives are being used by the System:

Buildings and improvements	5 - 50 years
Infrastructure	33 - 100 years
Furniture, fixtures and equipment	5 - 15 years

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

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

Deposits and Investments

The City Treasurer is responsible for the safekeeping of cash and invested funds of Lincoln Wastewater System. The City is authorized to invest in certificates of deposit, time deposits, and any securities in which the State investment officer is authorized to invest pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council in effect on the date the investment is made. Cash balances in excess of current requirements are invested along with funds from other governmental bodies, and the interest earned on these investments is allocated monthly to the various governmental bodies by the City Treasurer on a pro rata basis of aggregate monthly balances.

For purposes of the Statements of Cash Flows, Lincoln Wastewater System considers cash on hand and in the bank, as well as cash and equity in pooled cash and investments held by the City Treasurer, which are readily convertible to known amounts of cash and have original maturities of three months or less, to be cash and cash equivalents.

The System participates in a cash management pool, managed by the City. The pool consists of bank deposits and investments. The System's interest in this pool is shown as equity in pooled cash and investments in the balance sheets.

Fair value of the equity in the pool is the same as the value of the pool shares determined using the fair value of the pool's underlying investment portfolio.

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

U.S. agency obligations are carried at fair value as determined based upon quoted market price. Investment agreements are carried at contract value.

Capital Contributions

Developer contributions are sewer system improvements made to developments. Revenues from developer contributions are recorded at fair value when the development is complete. These are considered imposed non-exchange transactions.

Unamortized Premium on Revenue Bonds

The premiums received on bond issuances are being amortized over the life of the bonds using the interest method.

Inventories

Inventories of materials and supplies are stated at the lower of cost or market. Cost is generally determined on a weighted-average basis.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

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

Revenue

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

The City Council sets the rate schedule for Lincoln Wastewater System. The billings for residential customers are based on water usage during a winter billing cycle, whereas the billings for nonresidential customers are based on water used each cycle. The rates were \$1.685 and \$1.62 per hundred cubic feet of water as of August 31, 2010 and 2009, respectively. The service charge rates are \$1.36 and \$1.31 per month for a single-family dwelling unit and \$.81 and \$.78 for a multi-family dwelling unit as of August 31, 2010 and 2009.

Bond Issuance Costs

The issuance costs on the revenue bonds are amortized using the straight-line method over the terms of the related issues.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

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

Net Assets Classification

Net assets are required to be classified into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt.

Restricted - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Compensated Absences

Employees earn vacation days at varying rates dependent on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation which is in no case longer than 35 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, 2010 and 2009 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, 2010	\$514,801	359,931	330,462	544,270	347,742
August 31, 2009	\$509,188	335,305	329,692	514,801	330,462

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

(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 \$84,000 and \$29,000 as of August 31, 2010 and 2009, respectively, in connection with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The complete disclosures required by GASB 45 are included in the City of Lincoln Comprehensive Annual Financial Report (CAFR).

Use of Estimates

Management of the Lincoln Wastewater System has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets, liabilities, and revenues to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on the change in net assets.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

(2) Deposits, Investments, and Investment Return

Deposits

State statutes require banks either to give bond or to pledge government securities to the City Treasurer in the amount of the City's deposits. The System has been allocated a portion of the City's pooled cash and investments. One or more of the financial institutions holding the City's cash accounts are participating in the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program. Under the program, through December 31, 2012, all noninterest-bearing transaction accounts at these institutions are fully guaranteed by the FDIC for the entire amount in the account. For interest-bearing cash accounts, 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 and thus no custodial risk exists. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Investments

The City may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds, bankers' acceptances, and collateralized investment agreements.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. Lincoln Wastewater System's investments in U.S. Agency obligations are held in a book entry system in an account designated as a customer account at the Depository Trust Company and the custodian's internal records identifies the City as owner. Securities pledged as collateral for Lincoln Wastewater System's investments in collateralized investment agreements are held by outside counterparties and the custodian's internal records identifies the City as owner.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

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

At August 31, 2010 and 2009, the Lincoln Wastewater System had the following investments and maturities:

Type	August 31, 2010				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Agency obligations	\$5,186,971	-	5,186,971	-	-
Collateralized Investment Agreement	<u>1,229,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,229,981</u>
	<u>\$6,416,952</u>	<u>-</u>	<u>5,186,971</u>	<u>-</u>	<u>1,229,981</u>

Type	August 31, 2009				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Agency obligations	\$5,257,632	-	5,257,632	-	-
Collateralized Investment Agreement	<u>1,229,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,229,981</u>
	<u>\$6,487,613</u>	<u>-</u>	<u>5,257,632</u>	<u>-</u>	<u>1,229,981</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

(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 the issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy allows collateralized investment agreements with an initial rating at least AA- by Standard & Poor's (S & P) and Aa3 by Moody's Investor Service (Moody's) with provisions that if the provider is downgraded below AA- by S & P or Aa3 by Moody's the provider must deliver collateral of United States government agencies obligations at a margin of 104%, and if the provider is further downgraded below A- by S & P or A3 by Moody's, the issuer will have the right to terminate the agreement and receive all invested amounts plus accrued but unpaid interest without penalty. As of August 31, 2010 and 2009, the Lincoln Wastewater System investments in U.S. Agency obligations not directly guaranteed by the United States government were rated AAA by S & P and Aaa by Moody's. The provider of the collateralized investment agreement was rated AA- by S & P and Aaa by Moody's as of August 31, 2010 and 2009.

Concentration of Credit Risk:

The City's investment policy places various limits on the amount that may be invested in any one issuer. Per the policy, allocation limits do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument. As of August 31, 2010 and 2009, the Lincoln Wastewater System's investments in U.S. Agency obligations constituted 28% and 29% respectively, and the collateralized investment agreement constituted 7% and 7% respectively, of its total funds available for investing. The above mentioned investments were made with funds from the bond debt reserve funds established.

The carrying amount of deposits and investment securities at August 31, 2010 and 2009, are:

	<u>2010</u>	<u>2009</u>
Equity in pooled cash and investments	\$11,476,457	11,286,542

Investment Income

Investment income for the years ended August 31, 2010 and 2009, consisted of:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$496,102	730,913
Net change in fair value of investments	(40,953)	267,999
	<u>\$455,149</u>	<u>998,912</u>

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

(3) Utility Plant

Utility plant is summarized by major classification at August 31, 2010 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2009	Increases	Decreases	August 31, 2010	August 31, 2009	Increases	Decreases	August 31, 2010	August 31, 2010
Structures and improvements	\$ 75,192,066	323,456	(155,824)	75,359,698	(20,013,832)	(1,709,167)	155,824	(21,567,175)	53,792,523
Line equipment	10,159	-	-	10,159	(8,642)	(219)	-	(8,861)	1,298
Treatment equipment	55,324,343	849,342	-	56,173,685	(16,309,475)	(2,130,769)	-	(18,440,244)	37,733,441
Collection system	184,861,131	3,876,638	(2,801)	188,734,968	(41,804,795)	(2,734,164)	2,801	(44,536,158)	144,198,810
Lift stations/force mains	1,177,165	4,692	-	1,181,857	(292,219)	(58,441)	-	(350,660)	831,197
Environmental equipment	339,148	-	-	339,148	(278,708)	(24,313)	-	(303,021)	36,127
Office furniture and equipment	405,110	-	-	405,110	(246,727)	(23,638)	-	(270,365)	134,745
Shop equipment	306,968	-	-	306,968	(181,633)	(16,815)	-	(198,448)	108,520
Communications system	492,783	3,799	-	496,582	(107,943)	(46,421)	-	(154,364)	342,218
Laboratory equipment	507,355	30,450	-	537,805	(404,325)	(23,973)	-	(428,298)	109,507
Injection system	658,907	-	-	658,907	(367,033)	(14,495)	-	(381,528)	277,379
Pond and liner	520,132	-	-	520,132	(418,860)	(14,467)	-	(433,327)	86,805
Sludge injection equipment	40,304	-	-	40,304	(40,304)	-	-	(40,304)	-
Transmission/work equipment	236,322	271,669	-	507,991	(170,149)	(6,085)	-	(176,234)	331,757
Meters	4,010,591	-	-	4,010,591	(1,477,154)	(200,530)	-	(1,677,684)	2,332,907
Vehicles	2,721,405	46,796	(312,674)	2,455,527	(1,537,950)	(159,839)	282,425	(1,415,364)	1,040,163
Total depreciable assets	326,803,889	5,406,842	(471,299)	331,739,432	(83,659,749)	(7,163,336)	441,050	(90,382,035)	241,357,397
Land and land rights	5,774,849	45,984	-	5,820,833	-	-	-	-	5,820,833
Construction in progress	3,799,297	7,712,835	(4,987,546)	6,524,586	-	-	-	-	6,524,586
Total nondepreciable assets	9,574,146	7,758,819	(4,987,546)	12,345,419	-	-	-	-	12,345,419
Total capital assets	\$ 336,378,035	13,165,661	(5,458,845)	344,084,851	(83,659,749)	(7,163,336)	441,050	(90,382,035)	253,702,816

During 2010, Lincoln Wastewater System incurred \$3,612,415 of interest cost. Interest capitalized into construction in progress during 2010 was \$213,669. 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 2010.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

(3) Utility Plant

Utility plant is summarized by major classification at August 31, 2009 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2008	Increases	Decreases	August 31, 2009	August 31, 2008	Increases	Decreases	August 31, 2009	August 31, 2009
Structures and improvements	\$ 75,130,556	409,908	(348,398)	75,192,066	(18,651,704)	(1,710,526)	348,398	(20,013,832)	55,178,234
Line equipment	10,159	-	-	10,159	(8,161)	(481)	-	(8,642)	1,517
Treatment equipment	55,568,115	49,023	(292,795)	55,324,343	(14,057,133)	(2,545,137)	292,795	(16,309,475)	39,014,868
Collection system	175,599,956	9,261,175	-	184,861,131	(39,110,842)	(2,693,953)	-	(41,804,795)	143,056,336
Lift stations/force mains	1,172,473	4,692	-	1,177,165	(233,655)	(58,564)	-	(292,219)	884,946
Environmental equipment	331,066	8,082	-	339,148	(229,479)	(49,229)	-	(278,708)	60,440
Office furniture and equipment	418,642	11,392	(24,924)	405,110	(247,063)	(24,588)	24,924	(246,727)	158,383
Shop equipment	291,788	15,180	-	306,968	(164,297)	(17,336)	-	(181,633)	125,335
Communications system	505,843	-	(13,060)	492,783	(75,025)	(45,978)	13,060	(107,943)	384,840
Laboratory equipment	547,469	15,593	(55,707)	507,355	(418,263)	(41,769)	55,707	(404,325)	103,030
Injection system	658,907	-	-	658,907	(352,311)	(14,722)	-	(367,033)	291,874
Pond and liner	520,132	-	-	520,132	(404,392)	(14,468)	-	(418,860)	101,272
Sludge injection equipment	43,906	-	(3,602)	40,304	(43,382)	(524)	3,602	(40,304)	-
Transmission/work equipment	236,322	-	-	236,322	(165,423)	(4,726)	-	(170,149)	66,173
Meters	4,010,591	-	-	4,010,591	(1,276,624)	(200,530)	-	(1,477,154)	2,533,437
Vehicles	2,244,296	505,269	(28,160)	2,721,405	(1,399,852)	(166,258)	28,160	(1,537,950)	1,183,455
Total depreciable assets	317,290,221	10,280,314	(766,646)	326,803,889	(76,837,606)	(7,588,789)	766,646	(83,659,749)	243,144,140
Land and land rights	5,454,208	320,641	-	5,774,849	-	-	-	-	5,774,849
Construction in progress	6,293,116	5,967,222	(8,461,041)	3,799,297	-	-	-	-	3,799,297
Total nondepreciable assets	11,747,324	6,287,863	(8,461,041)	9,574,146	-	-	-	-	9,574,146
Total capital assets	\$ 329,037,545	16,568,177	(9,227,687)	336,378,035	(76,837,606)	(7,588,789)	766,646	(83,659,749)	252,718,286

During 2009, Lincoln Wastewater System incurred \$3,708,468 of interest cost. Interest capitalized into construction in progress during 2009 was \$127,478. 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 2.32% in 2009.

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

(4) Long-term Debt

Long-term debt of Lincoln Wastewater System at August 31, 2010 and 2009 is summarized below:

2010

Type of Debt	August 31, 2009	Additions	Reductions	August 31, 2010	Due Within One Year
2.0% - 5.0% Wastewater Revenue & Refunding Bonds, Series 2003, due in annual principal installments on June 15, increasing from \$1,710,000 in 2011 to the final payment of \$3,450,000 in 2028.	\$45,485,000	–	1,660,000	43,825,000	1,710,000
4.0% - 5.0% Wastewater Revenue Bonds Series 2005, due in annual principal installments on June 15, increasing from \$525,000 in 2011 to the final payment of \$1,130,000 in 2030.	16,030,000	–	505,000	15,525,000	525,000
4.0% - 4.5% Wastewater Revenue Bonds Series 2007, due in annual principal installments on June 15, increasing from \$550,000 in 2011 to the final payment of \$1,305,000 in 2032.	19,590,000	–	530,000	19,060,000	550,000
0.0% - 2.0% Nebraska Department of Environmental Quality (NDEQ) project loan payable, due in semi-annual principal installments from \$111,829 due in 2012 to the final payment of \$172,068 in 2031.	–	3,048,891	–	3,048,891	–
Unamortized premium on bonds	1,783,837	–	93,113	1,690,724	–
	<u>\$82,888,837</u>	<u>3,048,891</u>	<u>2,788,113</u>	<u>83,149,615</u>	<u>2,785,000</u>

Lincoln Wastewater System has entered into a loan agreement with NDEQ consisting of two separate contracts. Funding totaling \$5,000,000 is available under Contract A to fund certain sewer system extension and sewer repairs. During the year ended August 31, 2010, Lincoln Wastewater System incurred project costs totaling \$4,136,604 resulting in the recognition of \$1,250,000 of federal grant funds and a project loan payable of \$3,048,891 under Contract A. The terms of the project loan payable is reflected in the summary of long-term debt. The remaining available funds totaling \$863,396 under Contract A are not reflected on the Lincoln Wastewater System financial statements. Under Contract B, Lincoln Wastewater System has available a \$5,000,000 loan, subject to availability of State and Federal funds, 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%. No project costs were incurred during Fiscal Year ended August 31, 2010, therefore, the available loan is not reflected on the Lincoln Wastewater System financial statements.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

(4) Long-term Debt (continued)

2009

Type of Debt	August 31, 2008	Additions	Reductions	August 31, 2009	Due Within One Year
2.0% - 5.0% Wastewater Revenue & Refunding Bonds, Series 2003, due in annual principal installments on June 15, increasing from \$1,660,000 in 2010 to the final payment of \$3,450,000 in 2028.	\$47,105,000	—	1,620,000	45,485,000	1,660,000
4.0% - 5.0% Wastewater Revenue Bonds Series 2005, due in annual principal installments on June 15, increasing from \$505,000 in 2010 to the final payment of \$1,130,000 in 2030.	16,520,000	—	490,000	16,030,000	505,000
4.0% - 4.5% Wastewater Revenue Bonds Series 2007, due in annual principal installments on June 15, increasing from \$530,000 in 2010 to the final payment of \$1,305,000 in 2032.	20,100,000	—	510,000	19,590,000	530,000
Unamortized premium on bonds	1,876,949	—	93,112	1,783,837	—
	<u>\$85,601,949</u>	<u>—</u>	<u>2,713,112</u>	<u>82,888,837</u>	<u>2,695,000</u>

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

Maturities and sinking fund requirements on long-term debt at August 31, 2010, are shown below.

Years ending August 31	Principal	Interest	Total
2011	\$ 2,785,000	3,607,044	6,392,044
2012	2,991,829	3,566,086	6,557,915
2013	3,118,966	3,422,774	6,541,740
2014	3,225,510	3,296,430	6,521,940
2015	3,347,084	3,146,755	6,493,839
2016-2020	18,760,175	13,338,497	32,098,672
2021-2025	23,114,589	8,690,680	31,805,269
2026-2030	21,388,670	3,078,150	24,466,820
2031-2032	2,727,068	170,525	2,897,593
Total	\$81,458,891	42,316,941	123,775,832

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

(4) Long-term Debt (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 loan provided financing for improvements to the sanitary sewer system, as well as refunding a \$4.5 million loan to the City from the NDEQ. The bonds and loan are payable solely from the net earnings of the Wastewater System and are payable through 2032. The total principal and interest remaining to be paid on the bonds and loan is \$123,775,832, with annual payments expected to require 59.5 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$6,426,444 and \$10,807,502, respectively.

(5) Commitments and Contingencies

Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$4,900,000 at August 31, 2010.

Lincoln Wastewater System has entered into various agreements with developers to be reimbursed for eligible infrastructure construction. After construction is substantially complete, the developer will be reimbursed by the System based upon the anticipated expenditure appropriation or collection of directed impact fees. As of August 31, 2010, the System's commitment to these developers is estimated to be approximately \$19,000,000 over the next 10 - 15 years.

(6) Disclosure About the Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

- *Cash, accounts receivable and accounts payable* - The carrying amount approximates fair value because of the short maturity of these instruments.
- *Long-term debt* - The estimated fair value of the System's long-term debt is approximately \$94,913,000 based on borrowing rates currently available as of August 31, 2010.
- *Investments* - The fair values of investments are based on quoted market prices for those investments as shown in Note 2.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(Continued)

LINCOLN WASTEWATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

(7) Related Party Transactions

The City billed the Wastewater System approximately \$397,000 and \$343,000 for administrative services during 2010 and 2009, 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 \$822,000 and \$806,000 during 2010 and 2009, respectively. At August 31, 2010, approximately \$57,000 is included in accounts payable for amounts owed to LES.

A special revenue fund of the City collects and holds impact fees until they are distributed in accordance with City ordinance. The Lincoln Wastewater System was due impact fees of \$522,914 and \$621,524 as of August 31, 2010 and 2009, 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 \$581,735 and \$654,229 as of August 31, 2010 and 2009, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the balance sheets.

(8) Risk Management

Lincoln Wastewater System participates in the City's self-insurance program administered by the City's Risk Management Division (the Division). The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On behalf of the City, the Division purchases insurance and administers funds for its self-insured program. The Division maintains a workers' compensation fund and a self-insured loss fund. The Division provides first dollar coverage for all liability and workers' compensation exposure with insurance acting as an umbrella or excess coverage. The maximum exposure would be the deductible amounts for property and auto physical damage, as well as losses not covered by insurance. Lincoln Wastewater System had no claims or judgments exceeding the policy limits during each of the last three prior years. Budgeted premium amounts charged to Lincoln Wastewater System are placed in the appropriate fund maintained by the Division. Premium expense was approximately \$425,000 and \$419,000 in 2010 and 2009, respectively.

(9) Pension Plan

Employees of Lincoln Wastewater System are participants in the City of Lincoln Employees' Retirement Plan. Plan participation is required if the employee has completed five years of continuous service and attained the age of 40. An employee may voluntarily enter the plan upon attaining age 19 and after completing six months of service. The plan is a defined contribution plan requiring employees to contribute to the plan depending on employee class and date of hire. Lincoln Wastewater System contributes between \$1.29 and \$2.00 for every \$1.00 contributed by employees. Plan participants vest in the City's contributions in year three of participation at 20% up to 100% vested in year seven. All past service costs and vested benefits are fully paid. Contributions made by the System were approximately \$523,000 and \$521,000 for 2010 and 2009, respectively. Contributions made by the plan members were approximately \$278,000 and \$271,000 for 2010 and 2009, respectively.

SUPPLEMENTARY
INFORMATION

LINCOLN WASTEWATER SYSTEM

Summary of Long-Term Debt

August 31, 2010

Due years ending August 31	Series 2003		Series 2005		Series 2007		NDEQ Loan		Total		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2011	\$ 1,710,000	2,103,194	525,000	691,362	550,000	812,488	-	-	2,785,000	3,607,044	6,392,044
2012	1,770,000	2,043,344	540,000	670,362	570,000	790,488	111,829	61,892	2,991,829	3,566,086	6,557,915
2013	1,825,000	1,976,968	560,000	643,362	595,000	767,688	138,966	34,756	3,118,966	3,422,774	6,541,740
2014	1,890,000	1,903,968	580,000	615,362	615,000	743,888	140,510	33,212	3,225,510	3,296,430	6,521,940
2015	1,960,000	1,809,468	605,000	586,362	640,000	719,288	142,084	31,637	3,347,084	3,146,755	6,493,839
2016-2020	11,035,000	7,498,590	3,380,000	2,515,434	3,610,000	3,191,040	735,175	133,433	18,760,175	13,338,497	32,098,672
2021-2025	13,745,000	4,497,354	4,155,000	1,722,660	4,435,000	2,381,648	779,589	89,018	23,114,589	8,690,680	31,805,269
2026-2030	9,890,000	1,004,252	5,180,000	720,002	5,490,000	1,313,958	828,670	39,938	21,388,670	3,078,150	24,466,820
2031-2032	-	-	-	-	2,555,000	168,872	172,068	1,653	2,727,068	170,525	2,897,593
	\$ 43,825,000	22,837,138	15,525,000	8,164,906	19,060,000	10,889,358	3,048,891	425,539	81,458,891	42,316,941	123,775,832

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			
				Principal	Interest	Total	Coverage
2001	16,663,975	8,087,688	8,576,287	952,500	364,972	1,317,472	6.51
2002	15,731,749	8,632,287	7,099,462	992,500	316,847	1,309,347	5.42
2003	15,607,743	9,086,469	6,521,274	1,032,500	266,722	1,299,222	5.02
2004	18,092,619	10,042,919	8,049,700	1,750,000	2,135,009	3,885,009	2.07
2005	18,248,683	10,482,955	7,765,728	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
2007	21,158,743	11,462,964	9,695,779	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
2009	22,643,270	11,771,291	10,871,979	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

Operating Expenses

Years ended August 31, 2010 and 2009

	2010	2009
Plant, pumping and treatment:		
Theresa Street Treatment Plant:		
Supervision and management	\$ 374,069	345,412
Administrative and support staff	55,674	54,853
Training and education	20,643	33,564
Data management	180,426	163,454
General operations	905,844	874,731
Treatment and process control	475,792	584,196
Solids processing	1,032,968	1,042,024
Structures maintenance	224,477	270,493
Process equipment maintenance	524,734	530,728
Control system maintenance	180,558	148,313
Electrical maintenance	78,975	118,199
Grounds maintenance	65,904	57,513
Depreciation of structure and improvement	1,426,319	1,427,436
Depreciation of treatment equipment	1,494,609	1,907,436
Depreciation of meters	200,530	200,530
Depreciation of office/communications equipment	46,756	46,313
Total Theresa Street Treatment Plant	\$ 7,288,278	7,805,195
Northeast Treatment Plant:		
Supervision and management	\$ 96,069	91,572
Administrative and support staff	15,850	15,811
Training and education	7,553	10,760
Data management	49,970	49,419
General operations	458,615	486,559
Treatment and process control	199,534	199,124
Solids processing	455,068	482,658
Structures maintenance	81,080	77,825
Process equipment maintenance	213,478	145,651
Control system maintenance	76,987	82,583
Electrical maintenance	65,766	54,432
Grounds maintenance	62,276	60,455
Depreciation of structures and improvements	260,418	260,659
Depreciation of treatment system	570,734	572,273
Depreciation of injection system	35,047	34,439
Depreciation of shop and laboratory equipment	8,156	8,432
Depreciation of office/communications equipment	648	648
Total Northeast Treatment Plant	\$ 2,657,249	2,633,300

Operating Expenses, Continued

	2010	2009
Liftstations:		
Data management	\$ -	214
General operations	72,120	53,184
Structures maintenance	20,804	26,491
Process equipment maintenance	73,682	81,772
Control system maintenance	16,787	41,086
Electrical maintenance	12,253	16,434
Grounds maintenance	2,949	2,357
Depreciation of liftstations	141,407	141,529
Total liftstations	340,002	363,067
Total plant, pumping and treatment	\$ 10,285,529	10,801,562
Operation and maintenance of wastewater lines:		
Supervision and management	\$ 265,649	279,387
Administrative and support staff	46,539	45,160
Training and education	47,089	34,255
Data management	161,181	187,678
General operations	367,003	336,986
Structures maintenance	17,398	13,257
Main repair/maintenance	186,003	102,400
Manhole repair/rehabilitation	62,240	51,174
Customer service	244,456	270,018
Cleaning maintenance	599,230	651,441
Field operations	224,745	277,724
Depreciation of structures and improvements	908	908
Depreciation of treatment equipment	60,800	61,061
Depreciation of shop and lab equipment	3,881	4,131
Depreciation of collection system	2,660,968	2,620,757
Total operation and maintenance of wastewater lines	\$ 4,948,090	4,936,337
Sanitary engineering services:		
Supervision and management	\$ 445,784	424,491
Administrative and support staff	52,830	55,922
Training and education	7,793	10,331
Data management	173,328	235,537
Laboratory operations	733,527	745,404
Field operations	491,888	502,036
Depreciation of structures and improvements	16,083	16,083
Depreciation of treatment equipment	516	516
Depreciation of office/communications equipment	3,732	4,584
Depreciation of shop and laboratory equipment	52,728	95,440
Total sanitary engineering services	\$ 1,978,209	2,090,344

Operating Expenses, Continued

	2010	2009
Accounting and collecting:		
Supervision and management	\$ 134,222	128,781
Administrative and support staff	2,596	1,528
Meter reading	73,774	75,411
Billing and accounting	120,670	144,888
Collections	75,991	71,903
Customer services and billing	50,583	51,074
Customer contracts and orders	22,663	22,990
Depreciation of office/communications equipment	2,278	1,709
Total accounting and collecting	\$ 482,777	498,284
Administrative and general:		
Supervision and management	\$ 962,259	872,465
Administrative and support staff	124,402	108,216
Delivery service	29,684	35,225
Depreciation of office/communications equipment	16,979	17,647
Total administrative and general	\$ 1,133,324	1,033,553

LINCOLN WASTEWATER SYSTEM

Schedule 4

Utility Plant in Service

August 31, 2010

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2009	Increases	Decreases	August 31, 2010	August 31, 2009	Increases	Decreases	August 31, 2010	August 31, 2010
Theresa Street Plant:									
Structures and improvements	\$ 59,794,157	323,456	(155,824)	59,961,789	(12,904,651)	(1,445,308)	155,824	(14,194,135)	45,767,654
Line equipment	10,159	-	-	10,159	(8,642)	(219)	-	(8,861)	1,298
Treatment equipment	34,164,019	824,457	-	34,988,476	(13,705,012)	(1,563,477)	-	(15,268,489)	19,719,987
Collection system	184,861,131	3,876,638	(2,801)	188,734,968	(41,804,795)	(2,734,164)	2,801	(44,536,158)	144,198,810
Lift stations/force mains	1,177,165	4,692	-	1,181,857	(293,904)	(58,441)	-	(352,345)	829,512
Environmental equipment	339,148	-	-	339,148	(278,708)	(24,313)	-	(303,021)	36,127
Office furniture and equipment	393,697	-	-	393,697	(241,785)	(22,990)	-	(264,775)	128,922
Shop equipment	156,666	-	-	156,666	(113,019)	(8,659)	-	(121,678)	34,988
Communications system	492,783	3,799	-	496,582	(107,943)	(46,421)	-	(154,364)	342,218
Laboratory equipment	507,355	30,450	-	537,805	(404,325)	(23,973)	-	(428,298)	109,507
Meters	4,010,591	-	-	4,010,591	(1,477,154)	(200,530)	-	(1,677,684)	2,332,907
Theresa Street depreciable assets	285,906,871	5,063,492	(158,625)	290,811,738	(71,339,938)	(6,128,495)	158,625	(77,309,808)	213,501,930
Land and land rights	3,720,474	39,317	-	3,759,791	-	-	-	-	3,759,791
Theresa Street nondepreciable assets	3,720,474	39,317	-	3,759,791	-	-	-	-	3,759,791
Total Theresa Street Plant	289,627,345	5,102,809	(158,625)	294,571,529	(71,339,938)	(6,128,495)	158,625	(77,309,808)	217,261,721
Northeast Plant:									
Structures and improvements	15,397,909	-	-	15,397,909	(7,109,181)	(263,859)	-	(7,373,040)	8,024,869
Treatment equipment	21,160,324	24,885	-	21,185,209	(2,604,463)	(567,292)	-	(3,171,755)	18,013,454
Office furniture and equipment	11,413	-	-	11,413	(4,942)	(648)	-	(5,590)	5,823
Shop and work equipment	150,302	-	-	150,302	(68,614)	(8,156)	-	(76,770)	73,532
Laboratory equipment	-	-	-	-	-	-	-	-	-
Injection system	658,907	-	-	658,907	(367,033)	(14,495)	-	(381,528)	277,379
Pond and liner	520,132	-	-	520,132	(418,860)	(14,467)	-	(433,327)	86,805
Sludge injection equipment	40,304	-	-	40,304	(40,304)	-	-	(40,304)	-
Collection system	-	-	-	-	-	-	-	-	-
Lift stations/force mains	-	-	-	-	1,685	-	-	1,685	1,685
Transmission/work equipment	236,322	271,669	-	507,991	(170,149)	(6,085)	-	(176,234)	331,757
Northeast depreciable assets	38,175,613	296,554	-	38,472,167	(10,781,861)	(875,002)	-	(11,656,863)	26,815,304
Land and land rights	2,054,375	6,667	-	2,061,042	-	-	-	-	2,061,042
Northeast nondepreciable assets	2,054,375	6,667	-	2,061,042	-	-	-	-	2,061,042
Total Northeast Plant	40,229,988	303,221	-	40,533,209	(10,781,861)	(875,002)	-	(11,656,863)	28,876,346
Vehicles and work equipment (all location:	2,721,405	46,796	(312,674)	2,455,527	(1,537,950)	(159,839)	282,425	(1,415,364)	1,040,163
Utility plant in service	\$ 332,578,738	5,452,826	(471,299)	337,560,265	(83,659,749)	(7,163,336)	441,050	(90,382,035)	247,178,230
Construction in progress	3,799,297	7,712,835	(4,987,546)	6,524,586	-	-	-	-	6,524,586
Total capital assets	\$ 336,378,035	13,165,661	(5,458,845)	344,084,851	(83,659,749)	(7,163,336)	441,050	(90,382,035)	253,702,816

LINCOLN WASTEWATER SYSTEM**GENERAL STATISTICS****Year Ended August 31, 2010**

(Unaudited)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	90.65 Square Miles
Population	259,447 Estimate
Total Miles of Wastewater Mains & Collector Lines In Use:	
Miles in use September 1, 2009	1,009.7
Estimated Added During Year	4.9
Estimated Removed During Year	0.0
Total as of August 31, 2010	1,014.6 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	20.33 million gallons per day
Northeast Treatment Facility	5.21 million gallons per day
Total Number of Active Residential Wastewater Customers	
End of Fiscal Year	74,153
Total Number of Active Non-Residential Wastewater Customers	
End of Fiscal Year	4,223
Debt of Lincoln Wastewater System as of August 31, 2010	\$81,458,891

LINCOLN WASTEWATER SYSTEM**TOP TEN CUSTOMERS****Year Ended August 31, 2010**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	266,504	\$471,335
2. State of Nebraska	258,409	442,575
3. Archer-Daniels Midland Company	160,178	287,793
4. University of Nebraska Foundation	138,370	241,710
5. BryanLGH Medical Center	111,589	194,377
6. Lincoln Housing Authority	92,133	178,235
7. Lincoln Plating Company	87,638	158,384
8. Lincoln Public Schools	80,217	149,222
9. Pfizer Animal Health	52,577	96,483
10. Veyance Technologies, Inc.	51,851	93,719
Top Ten User Totals	1,299,466	\$2,313,833



10R-196

Introduce: 8-16-10

RESOLUTION NO. A- **85973**

1 WHEREAS, the City Council of Lincoln, Nebraska, is authorized under Sections
2 17.60.020 and 17.60.030 of the Lincoln Municipal Code to establish wastewater charges for all
3 customers of the Lincoln Wastewater System.

4 WHEREAS, the wastewater rate increases are based upon financial projections which
5 demonstrate the necessity for the increase to support the construction of needed facility
6 improvements, debt service, and the operation and maintenance of the system to provide
7 community-wide wastewater service.

8 WHEREAS, Lincoln's wastewater infrastructure is a necessary component and is
9 required under city charter to be provided to all areas served within the city limits.

10 And WHEREAS, Lincoln's wastewater rates have historically remained low, and even
11 with the proposed rate increases will continue this tradition of competitive rates within the
12 region and nationally.

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

15 Effective with the "H" billing cycle commencing in November 2010 the following
16 schedule of wastewater use charges is hereby established and adopted:

BASIC WASTEWATER USE CHARGE

18 (a) The basic wastewater use unit charge is hereby established as 177.0 cents.

19 (b) For any given residential property, the basic wastewater use charge for each billing
20 cycle shall be determined by multiplying for each such cycle the total amount of water, in

1 hundreds of cubic feet, metered for said property during a billing cycle chosen by the Director
2 from the most recent past winter, by the basic wastewater use unit charge.

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

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

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

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

19 SERVICE CHARGE

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

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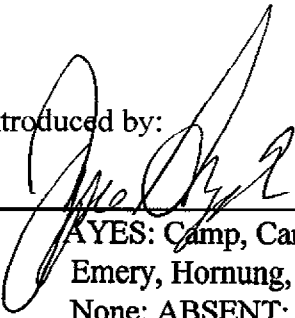
WATER METER SIZE	SERVICE CHARGE
5/8 inch	\$ 1.43
3/4 inch	1.43
1 inch	1.43
1-1/2 inch	2.86
2 inch	5.72
3 inch	12.87
4 inch	22.89
6 inch	51.51
8 inch	91.56
10 inch	143.07

12 The minimum service charge for a multiple dwelling unit or a mobile home shall be at
13 least \$0.85 per dwelling unit or mobile home hookup space per month. In those instances where
14 fire protection considerations dictate that a water meter larger than 1-inch service a single-
15 family dwelling unit located on a single lot, the monthly service charge shall be \$1.43 per
16 dwelling unit.

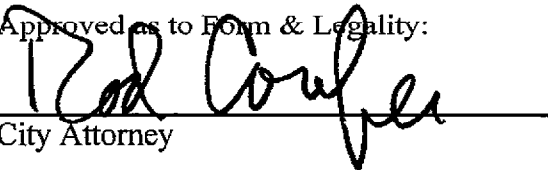
17 WASTEWATER RATES TO CUSTOMERS OUTSIDE
18 THE CITY LIMITS

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


22 BE IT FURTHER RESOLVED that Resolution No. A-85488, adopted by the City
23 Council on August 24, 2009, is hereby superseded.

Introduced by:


AYES: Camp, Carroll, Cook,
Emery, Hornung, Snyder; NAYS:
None: ABSENT: Spatz.

Approved as to Form & Legality:


City Attorney

Approved this 25th day of Aug., 2010:


Mayor

ADOPTED

AUG 23 2010

CITY OF LINCOLN

Request for: Ordinance
 Resolution

(Do Not Write in this Space)

Bill Control No. 10R-196 Date: 8/6

Docketing Date 8/16; PH: 8-23-10

(To Be Entered by City Clerk)

DATE August 3, 2010	REQUEST MADE BY Greg MacLean	DEPARTMENT Public Works/Utilities
DESIRED DOCKET DATE: 8-16; PH 8-23-10	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 schedule for wastewater use charges to increase revenues for the Lincoln Wastewater System for purposes of covering a portion of the System's operational and maintenance costs including debt service, and a portion of the costs of the Capital Improvements Program for F.Y. 2010-11.

FILED
 CITY CLERK'S OFFICE
 2010 AUG 3 PM 1 08
 CITY OF LINCOLN
 NEBRASKA

REQUESTOR <input type="checkbox"/> DOES <input checked="" type="checkbox"/> DOES NOT	WISH TO REVIEW AND APPROVE THIS ORDINANCE PRIOR TO ITS INTRODUCTION	 DIRECTOR'S SIGNATURE	<u>8-3-10</u> DATE
--	---	--	-----------------------

TO BE USED BY THE FINANCE DEPARTMENT

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

DISTRIBUTION
 Return two (2) copies to City Clerk for Docket Number

City Council Introduction: August 16, 2010

Bill Number 10R-196

Public Hearing: August 23, 2010

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 schedule for wastewater use charges to increase revenues for the Lincoln Wastewater System for purposes of covering a portion of the System's operational and maintenance costs including debt service, and a portion of the costs of the Capital Improvements Program for F.Y. 2010-11. 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 that the current schedule of wastewater use charges be increased by 5% as shown below. This results in an 84¢ monthly increase to the average residential wastewater bill.

The Lincoln Wastewater System is proposing to implement these increases with the "H" billing cycle commencing in November 2010, and ending in January 2011.

Current Schedule

New Schedule

168.5¢/HCF

177.0¢

FACT SHEET PREPARED BY: *F Meyer* Business Manager of Public Works/Utilities

REVIEWED BY: *[Signature]* Director of Public Works/Utilities

Lincoln Wastewater System

Summary of Insurance Coverage

August 31, 2010

(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	SEL30117302 & SEL30117401
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	FM618
Money and Securities	Inside/outside premises	50,000	500	0	Fidelity & Deposit	CCP0030595
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FM618
Equipment Floater (NON-LIC)	Non-licensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM618
Equipment Floater (Sanitary)	Inspection scheduled equipment	Replacement cost	50,000	2,500	FM Global	FM618
General Liability ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL30117302 & SEL30117401
Public Employee Blanket Bond	Employees blanket bond coverage	1,000,000	25,000	0	Fidelity & Deposit	CCP 003 05 95
Public Officials Liability***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL30117301 & SEL30117401
Workers' Compensation Excess	Statutory	Statutory	500,000	0	Midwest Employers Casualty (MECC)	EWCC007744

** Self-insured for both comp & collision.

*** Public Entity Policy

LINCOLN WASTEWATER SYSTEM

Summary of Insurance Coverage

This summary of insurance coverage provides general information regarding the City's casualty-property insurance policies.

AUTOMOBILE INSURANCE

Liability Coverage: Provides coverage for accidents involving all owned, nonowned and hired vehicles. Protects the City against third-party claims from members of the public for bodily injury or property damage.

Physical Damage: Provides comprehensive (other than collision) and collision coverage for City-owned vehicles on a self-insured basis.

PROPERTY INSURANCE

Building and Contents: Provides coverage for damage to City-owned buildings and contents provided the buildings are listed on the City's property schedule.

Boiler and Machinery: Provides coverage for damage to boilers, vessels, steam generators, refrigerating and air conditioning vessels and piping, deep well pump units, turbines and certain machines.

Crime: Coverage for theft, disappearance or destruction of money and securities both inside and outside the premises.

Inland Marine Floaters: Provides physical damage coverage for specifically scheduled property. Current floaters insured include: data processing equipment, nonlicensed equipment, recycling containers and sanitary sewer equipment.

GENERAL LIABILITY

Provides coverage for general liability (bodily injury and property damage) claims made against the City.

PUBLIC EMPLOYEES BLANKET BOND

Provides coverage for loss of money and securities resulting from employee dishonesty. This is a blanket policy covering City employees.

PUBLIC OFFICIALS LIABILITY (Claims-made)

The insurance company will pay on behalf of the City of Lincoln (amount over self-insured retention) for any civil claim or claim made against them on a *claims-made basis* because of any wrongful act. A wrongful act under the coverage is defined as any actual or alleged error or misstatement or misleading statement or act of omission or neglect or breach of duty including misfeasance, malfeasance and nonfeasance by an insured. Also covered are claims arising out of employment practices.

WORKERS' COMPENSATION

Provides excess workers' compensation insurance for injuries arising out of and in the course of employment. This provides indemnity and medical coverage above our self-insured retention limits.

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the financial statements of Lincoln Wastewater System as of and for the year ended August 31, 2010, and have issued our report thereon dated November 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lincoln Wastewater System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lincoln Wastewater System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lincoln Wastewater System's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Lincoln Wastewater System's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln Wastewater System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Handwritten signature in black ink that reads "BKA, LLP". The letters are stylized and slanted.

November 30, 2010