

# LINCOLN WATER SYSTEM



Ozone generator

**Financial Statements & Schedules  
Fiscal Year Ended  
August 31, 2011**

# **ANNUAL FINANCIAL REPORT**

## **DEPARTMENT OF PUBLIC WORKS/UTILITIES**

### **CITY OFFICIALS**

Chris Beutler ..... Mayor

### **COUNCIL MEMBERS**

Eugene Carroll ..... Chair

Adam Hornung ..... Vice-Chair

Jon Camp  
Jonathan Cook  
Doug Emery  
Carl Eskridge  
DiAnna Schimek

### **WATER SYSTEM**

Miki Esposito ..... Interim Director of Public Works/Utilities

**Lincoln Water System**  
**August 31, 2011 and 2010**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying basic financial statements of Lincoln Water System as of and for the years ended August 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of Lincoln Water 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 Water 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 Water System. They do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2011 and 2010, 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 Water System as of August 31, 2011 and 2010, 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, 2011 on our consideration of Lincoln Water 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 Water 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.

SKL, LLP

November 30, 2011

## **LINCOLN WATER SYSTEM**

### Management's Discussion and Analysis

This Management's Discussion and Analysis of the Lincoln Water System's (the "System") financial performance provides an overview of the financial activities for the years ended August 31, 2011 and 2010. 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 \$5,432,591 (2.184%) in 2011 over 2010 as shown in Table 1.

## Financial Analysis

The following comparative condensed financial statements summarize Lincoln Water System's financial position and operating results for the years ended August 31, 2011, 2010, and 2009.

**Table 1**

### Condensed Balance Sheets

	August 31		Change	
	2011	2010	Dollars	Percent
Current assets	\$ 9,111,242	\$ 9,500,666	(\$389,424)	(4.099%)
Capital assets	298,002,486	301,028,028	(3,025,542)	(1.005%)
Restricted assets	6,614,058	4,930,281	1,683,777	34.152%
Long-term investments	9,828,598	9,386,641	441,957	4.708%
Deferred charges	587,005	663,892	(76,887)	(11.581%)
<b>Total assets</b>	<b>324,143,389</b>	<b>325,509,508</b>	<b>(1,366,119)</b>	<b>(0.420%)</b>
Current liabilities	9,313,114	9,599,932	(286,818)	(2.988%)
Long-term liabilities	60,669,754	67,181,646	(6,511,892)	(9.693%)
<b>Total liabilities</b>	<b>69,982,868</b>	<b>76,781,578</b>	<b>(6,798,710)</b>	<b>(8.855%)</b>
Net assets				
Invested in capital assets, net of related debt	239,387,493	238,080,168	1,307,325	0.549%
Restricted for debt service	419,376	397,377	21,999	5.536%
Restricted for capital acquisition	39,915	2,454	37,461	1526.528%
Unrestricted	14,313,737	10,247,931	4,065,806	39.674%
<b>Total net assets</b>	<b>254,160,521</b>	<b>248,727,930</b>	<b>5,432,591</b>	<b>2.184%</b>
<b>Total liabilities and net assets</b>	<b>\$324,143,389</b>	<b>\$325,509,508</b>	<b>(\$1,366,119)</b>	<b>(0.420%)</b>

### Financial Highlights – Fiscal Year 2011

- Total assets at year-end were \$324,143,389 and exceeded total liabilities by \$254,160,521. Of this amount \$14,313,737 (unrestricted) may be used to meet the ongoing obligations of the System.
- Restricted assets increased by \$1,683,777 (34.152%) to build cash balances and maintain bonding capacity in future years.
- Long term liabilities decreased by \$6,511,892 (9.693%) due to repayments on borrowings.

**Table 2****Condensed Balance Sheets**

	August 31		Change	
	2010	2009	Dollars	Percent
Current assets	\$ 9,500,666	\$ 13,009,313	(\$3,508,647)	(26.970%)
Capital assets	301,028,028	298,833,004	2,195,024	0.735%
Restricted assets	4,930,281	10,557,106	(5,626,825)	(53.299%)
Long-term investments	9,386,641	8,365,688	1,020,953	12.204%
Deferred charges	663,892	740,779	(76,887)	(10.379%)
<b>Total assets</b>	<b>325,509,508</b>	<b>331,505,890</b>	<b>(5,996,382)</b>	<b>(1.809%)</b>
Current liabilities	9,599,932	13,810,175	(4,210,243)	(30.487%)
Long-term liabilities	67,181,646	73,057,608	(5,875,962)	(8.043%)
<b>Total liabilities</b>	<b>76,781,578</b>	<b>86,867,783</b>	<b>(10,086,205)</b>	<b>(11.611%)</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	238,080,168	233,365,538	4,714,630	2.020%
Restricted for debt service	397,377	216,595	180,782	83.465%
Restricted for capital acquisition	2,454	808,345	(805,891)	(99.696%)
Unrestricted	10,247,931	10,247,629	302	0.003%
<b>Total net assets</b>	<b>248,727,930</b>	<b>244,638,107</b>	<b>4,089,823</b>	<b>1.672%</b>
<b>Total liabilities and net assets</b>	<b>\$325,509,508</b>	<b>\$331,505,890</b>	<b>(\$5,996,382)</b>	<b>(1.809%)</b>

**Financial Highlights – Fiscal Year 2010**

- Total assets at year-end were \$325,509,508 and exceeded total liabilities by \$248,727,930. Of this amount \$10,247,931 (unrestricted) may be used to meet the ongoing obligations of the System.
- Current assets and restricted assets decreased by \$3,508,647 (-26.970%) and \$5,626,825 (-53.299%) respectively as cash balances were used to pay for capital improvement projects.
- Current liabilities decreased by \$4,210,243 (-30.487%) because several capital improvement projects were completed during the year.
- Long term liabilities decreased by \$5,875,962 (8.043%) primarily due to debt service payments made during the year. No new debt has been issued in the fiscal year.

**Table 3**

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

	August 31		Change	
	2011	2010	Dollars	Percent
Operating revenue				
Water revenue	\$27,979,011	\$24,620,902	\$3,358,109	13.639%
Other revenue	580,473	514,225	66,248	12.883%
Total operating revenue	28,559,484	25,135,127	3,424,357	13.624%
Operating expenses				
Supply, pumping and purification	12,886,573	11,701,713	1,184,860	10.126%
Transmission and distribution	8,041,446	7,519,133	522,313	6.946%
Accounting and collecting	1,047,761	927,213	120,548	13.001%
Administrative and general	1,124,293	1,105,592	18,701	1.691%
Total operating expenses	23,100,073	21,253,651	1,846,422	8.688%
Operating income	5,459,411	3,881,476	1,577,935	40.653%
Net nonoperating expenses	(2,088,376)	(1,692,623)	(395,753)	23.381%
Capital contributions	1,902,161	1,900,970	1,191	0.063%
Transfers In	159,395	-	159,395	100.000%
Change in net assets	\$5,432,591	\$4,089,823	\$1,342,768	32.832%

**Financial Highlights – Fiscal Year 2011**

- Operating revenues increased by \$3,424,357 (13.624%) compared to 2010. Effective February 2011, there was a 5% user fee increase. In addition, metered sales were up 7.96% due to a dry fall and spring.
- Operating expenses increased \$1,846,422 (8.688%) compared to 2010 due to increased personnel, energy and chemical costs.
- Net nonoperating expenses increased \$395,753 (23.381%) compared to 2010 as a result of higher interest expense on bonds and lower interest income on cash & investment balances.
- Lincoln Water System reported capital contributions of \$1,902,161.
- Lincoln Water System received \$159,395 of funding from the City's Fast Forward Fund, which funds economic development projects.

**Table 4**

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

	August 31		Change	
	2010	2009	Dollars	Percent
Operating revenue				
Water revenue	\$24,620,902	\$25,052,990	(\$432,088)	(1.725%)
Other revenue	514,225	639,213	(124,988)	(19.553%)
Total operating revenue	<u>25,135,127</u>	<u>25,692,203</u>	<u>(557,076)</u>	<u>(2.168%)</u>
Operating expenses				
Supply, pumping and purification	11,701,713	12,054,539	(352,826)	(2.927%)
Transmission and distribution	7,519,133	7,862,581	(343,448)	(4.368%)
Accounting and collecting	927,213	966,546	(39,333)	(4.069%)
Administrative and general	1,105,592	1,039,312	66,280	6.377%
Total operating expenses	<u>21,253,651</u>	<u>21,922,978</u>	<u>(669,327)</u>	<u>(3.053%)</u>
Operating income	3,881,476	3,769,225	112,251	2.978%
Net nonoperating expenses	(1,692,623)	(1,000,492)	(692,131)	69.179%
Capital contributions	1,900,970	3,274,336	(1,373,366)	(41.943%)
Change in net assets	<u>\$4,089,823</u>	<u>\$6,043,069</u>	<u>(\$1,953,246)</u>	<u>(32.322%)</u>

**Financial Highlights – Fiscal Year 2010**

- Operating revenues decreased by \$557,076 (-2.168%) compared to 2009. Effective February 2010, there was a 5% user fee increase. Total water pumpage for 2010 was 11,338,350,000 gallons, down 5% from water pumpage for 2009, due to a wet summer.
- Operating expenses decreased \$669,327 (-3.053%) compared to 2009 due to decreased electricity and chemical costs from lower water pumpage.
- Net nonoperating expenses increased \$692,131 (69.179%) compared to 2009 as a result of higher interest expense on bonds and lower interest income on cash & investment balances.

### ***Debt Activity***

In connection with its bond issues the System is required, among other things, to maintain certain financial conditions and the System's ability to issue new 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 AA. The credit rating issued by Moody's Rating Services is Aa2.

### ***Commitments and Contingencies***

Lincoln Water System has commitments under major construction contracts in progress of approximately \$572,000 at August 31, 2011.

### ***Forward-Looking Information***

The approved Capital Improvement Program for Fiscal Year 2011/12 -2016/17 identifies the need for \$61,380,100 to fund capital improvements for the Water System. Approximately \$20,575,000 of that total is projected to be funded by revenue bonds. Future user fee increases will be needed to make the necessary improvements possible.

### ***Contact Information***

This financial report is intended to provide users with a general overview of the System's financial performance for 2011 and 2010. 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 10<sup>th</sup> Street, Lincoln, NE 68508.

## LINCOLN WATER SYSTEM

### Balance Sheets

August 31, 2011 and 2010

Assets	2011	2010
Current assets:		
Equity in pooled cash and investments	\$ 1,270,745	1,804,922
Receivables:		
Accounts receivable	2,745,516	2,711,578
Unbilled revenues	3,848,140	3,801,928
Due from other funds	274,293	339,412
Impact fees	39,915	2,454
Total receivables	6,907,864	6,855,372
Inventories	932,633	840,372
Total current assets	9,111,242	9,500,666
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and investments	6,614,058	4,930,281
Investments	9,828,598	9,386,641
Total restricted assets	16,442,656	14,316,922
Utility plant	407,695,172	403,094,580
Less accumulated depreciation	109,692,686	102,066,552
Net utility plant	298,002,486	301,028,028
Unamortized bond issuance costs	587,005	663,892
Total noncurrent assets	315,032,147	316,008,842
Total assets	\$ 324,143,389	325,509,508
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 449,849	665,094
Accrued liabilities	688,527	610,450
Deposits liability	75,344	76,894
Accrued compensated absences	427,699	409,070
Construction contracts	2,169,341	1,394,031
Current maturities of long-term debt	5,380,000	6,310,000
Accrued interest	122,354	134,393
Total current liabilities:	9,313,114	9,599,932
Long-term liabilities:		
Accrued liabilities	196,145	119,104
Accrued compensated absences	395,957	371,633
Construction contracts	193,636	1,227,600
Long-term debt, excluding current maturities	59,884,016	65,463,309
Total long-term liabilities	60,669,754	67,181,646
Total liabilities	69,982,868	76,781,578
Net assets:		
Invested in capital assets, net of related debt	239,387,493	238,080,168
Restricted for debt service	419,376	397,377
Restricted for capital acquisition	39,915	2,454
Unrestricted	14,313,737	10,247,931
Total net assets	254,160,521	248,727,930
Total liabilities and net assets	\$ 324,143,389	325,509,508

See accompanying notes to financial statements.

## LINCOLN WATER SYSTEM

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

Years ended August 31, 2011 and 2010

	2011	2010
Operating revenues:		
Water sales	\$ 27,979,011	24,620,902
Service and materials, net	580,473	514,225
Total operating revenues	28,559,484	25,135,127
Operating expenses:		
Supply, pumping and purification	12,886,573	11,701,713
Transmission and distribution	8,041,446	7,519,133
Accounting and collecting	1,047,761	927,213
Administrative and general	1,124,293	1,105,592
Total operating expenses	23,100,073	21,253,651
Operating income	5,459,411	3,881,476
Nonoperating revenues (expenses):		
Investment income	892,051	523,674
Interest expense	(2,907,198)	(2,139,410)
Amortization of bond costs	(76,887)	(76,887)
Federal grants	3,658	-
Net nonoperating expenses	(2,088,376)	(1,692,623)
Increase in net assets before capital contributions	3,371,035	2,188,853
Capital contributions from:		
Developers	724,190	1,044,304
Impact fees	833,875	570,994
Tap fees	344,096	285,672
Total capital contributions	1,902,161	1,900,970
Transfers In	159,395	-
Increase in net assets	5,432,591	4,089,823
Total net assets - beginning	248,727,930	244,638,107
Total net assets - ending	\$ 254,160,521	248,727,930

See accompanying notes to financial statements.

# LINCOLN WATER SYSTEM

## Statements of Cash Flows

Years ended August 31, 2011 and 2010

	2011	2010
Operating activities:		
Receipts from customers and users	\$ 28,440,323	25,509,445
Payments to suppliers	(7,459,478)	(6,172,812)
Payments to employees	(8,104,984)	(7,643,101)
Net cash provided by operating activities	12,875,861	11,693,532
Noncapital financing activities:		
Repayment from other funds, net	68,777	534,102
Net cash provided by noncapital financing activities:	68,777	534,102
Capital and related financing activities:		
Acquisition and construction of capital assets	(2,816,602)	(11,546,893)
Principal paid on revenue bonds	(6,310,000)	(6,050,000)
Interest paid on revenue bonds	(3,118,530)	(2,349,658)
Net cash used in capital and related financing activities	(12,245,132)	(19,946,551)
Investing activities:		
Purchases of investments	(9,727,504)	(3,203,284)
Proceeds from investment maturities	8,023,611	7,648,621
Interest on investments	470,210	684,210
Net cash provided by (used in) investing activities	(1,233,683)	5,129,547
Net decrease in cash and cash equivalents	(534,177)	(2,589,370)
Cash and cash equivalents at beginning of year	1,804,922	4,394,292
Cash and cash equivalents at end of year	\$ 1,270,745	1,804,922
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 5,459,411	3,881,476
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,645,046	7,162,359
Changes in operating assets and liabilities:		
Accounts receivable	(117,611)	375,868
Inventories	(92,261)	9,307
Accounts payable	(215,245)	133,534
Accrued liabilities and deposit liability	153,568	108,095
Accrued compensated absences	42,953	22,893
Total adjustments	7,416,450	7,812,056
Net cash provided by operating activities	\$ 12,875,861	11,693,532

### Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$724,190 and \$1,044,304 were added to utility plant in 2011 and 2010, respectively.

Accounts payable incurred for utility plant purchases were \$2,362,977 and \$2,621,631 in 2011 and 2010, respectively.

See accompanying notes to financial statements.

# LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

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## (1) Organization and Summary of Significant Accounting Policies

### ***Organization and Nature of Operations***

Lincoln Water System is a public utility accounted for as an enterprise fund by the City of Lincoln, Nebraska (City). Lincoln Water 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 the Lincoln Water System is a part of the City, it is exempt from federal income tax.

### ***Measurement Focus and Basis of Accounting***

The financial statements of the Lincoln Water System are prepared on the accrual basis of accounting using the economic resources measurement focus. Lincoln Water System follows the uniform system of accounts as prescribed by the National Association of Regulatory Utility Commissioners. In reporting financial activity, Lincoln Water 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 Water System and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2011 and 2010, 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 Water 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 Water System's principal ongoing operations. The principal operating revenues of the Lincoln Water System are charges to customers for sales and services. Operating expenses include the cost 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 WATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

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## (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 WATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

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## (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 Water 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 Water 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. Treasury and Agency obligations are carried at fair value as determined based on quoted market price. Investment agreements are carried at contract value.

### ***Capital Contributions***

Developer contributions are water 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 WATER SYSTEM

## Notes to Financial Statements

August 31, 2011 and 2010

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

#### **Revenues**

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

The City Council sets the rate schedule for the Lincoln Water System. The following rates were assessed per one hundred cubic feet of water usage for the years ended August 31, 2011 and 2010:

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	<u>August 31, 2011</u>	<u>August 31, 2010</u>
<u>Water Usage</u>		
Residential:		
100 to 800 cubic feet	\$ 1.28	\$ 1.22
801 to 2,300 cubic feet	1.82	1.735
2,301 and up	2.82	2.69
Nonresidential low volume user:		
100 to 8,000 cubic feet	1.28	1.22
8,001 and up	1.82	1.735
Nonresidential high volume user:		
Base usage which is average water usage for previous three calendar years	1.215 to 1.34	1.155 to 1.28
<u>Service Charge</u>		
Residential: single-family dwelling unit	\$ 3.26	\$ 3.10
Residential: multiple-family dwelling unit	2.00	1.90
Non-residential:	Based on size and number of water meters or number of dwelling units.	

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#### **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 WATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

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## (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 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 Water System accrues for vacation, sick leave and other compensated absences with similar characteristics.

Compensated absences of the Lincoln Water System at August 31, 2011 and 2010 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, 2011	\$780,703	452,023	409,070	823,656	427,699
August 31, 2010	\$757,810	403,714	380,821	780,703	409,070

(Continued)

# LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2011 and 2010

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

### ***Other Post-Employment Benefits***

The Water System recorded a liability for the annual required contribution (ARC) of approximately \$196,000 and \$119,000 as of August 31, 2011 and 2010, 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 Lincoln Water 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 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2011 and 2010

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### (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. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC insured institutions. For interest-bearing cash accounts, the City's cash deposits, including certificates of deposit, are insured up to \$250,000 by the FDIC. Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. 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 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 Water System's investments in U.S. Treasury and U.S. Agency obligations are held in a book entry system in an account designated as a customer account at the Federal Reserve and the custodian's internal records identify the City as owner. Securities pledged as collateral for Lincoln Water System's investments in collateralized investment agreements are held by outside counterparties and the custodian's internal records identify the City as owner.

(Continued)

**LINCOLN WATER SYSTEM**

## Notes to Financial Statements

August 31, 2011 and 2010

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

At August 31, 2011 and 2010, the Lincoln Water System had the following investments and maturities:

Type	August 31, 2011				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury	\$3,295,042	3,295,042	-	-	-
U.S. Government Sponsored Agency	<u>6,533,556</u>	<u>1,001,040</u>	<u>-</u>	<u>1,675,381</u>	<u>3,857,135</u>
	<u>\$9,828,598</u>	<u>4,296,082</u>	<u>-</u>	<u>1,675,381</u>	<u>3,857,135</u>

Type	August 31, 2010				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury	\$3,410,701	-	3,410,701	-	-
U.S. Government Sponsored Agency	1,045,940	-	1,045,940	-	-
Collateralized Investment Agreement	<u>4,930,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,930,000</u>
	<u>\$9,386,641</u>	<u>-</u>	<u>4,456,641</u>	<u>-</u>	<u>4,930,000</u>

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2011 and 2010

### (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 Investors Service (Moody's) with provisions that if the provider is downgraded below AA- by S & P or Aa3 by Moody's the provider must deliver collateral of United States Government Agencies obligations at a margin of 104%, and if the provider is further downgraded below A- by S & P or A3 by Moody's, the issuer will have the right to terminate the agreement and receive all invested amounts plus accrued but unpaid interest without penalty. As of August 31, 2011, the Lincoln Water 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. On August 31, 2010, the United States Government sponsored agency investments were rated AAA by S & P and Aaa by Moody's. The provider of the collateralized investment agreement was rated A- by S & P and A3 by Moody's as of August 31, 2010.

#### Concentration of Credit Risk:

The City's investment policy places various limits on the amount that may be invested in any one issuer or security type. Per the policy, allocation limits do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument. As of August 31, 2011, and 2010, the Lincoln Water System investments in United States Government sponsored agencies obligations constituted 37% and 6% respectively, and on August 31, 2010, the collateralized investment agreement constituted 30%, 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 equity interests in pooled cash and investments at August 31, 2011 and 2010 are:

	<u>2011</u>	<u>2010</u>
Equity in pooled cash and investments	\$7,884,803	6,735,203

#### **Investment Income**

Investment income for the years ended August 31, 2011 and 2010 consisted of:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$452,394	730,839
Net change in fair value of investments	439,657	(207,165)
	<u>\$892,051</u>	<u>523,674</u>

(Continued)

**LINCOLN WATER SYSTEM**

Notes to Financial Statements

August 31, 2011 and 2010

**(3) Inventories**

Balances of the major classes of inventory at August 31, 2011 and 2010, are shown below:

	<b>2011</b>	<b>2010</b>
Heavy materials	\$665,263	598,249
Diesel fuel	96,234	70,368
Water meters and parts	133,060	123,207
Chemicals	38,076	48,548
Total inventories	\$932,633	840,372

(Continued)

**LINCOLN WATER SYSTEM**

Notes to Financial Statements

August 31, 2011 and 2010

**(4) Utility Plant**

Utility plant is summarized by major classification at August 31, 2011 as follows:

Asset Class	Capital Assets			August 31, 2011	Accumulated Depreciation			August 31, 2011	Net Capital Assets
	August 31, 2010	Increases	Decreases		August 31, 2010	Increases	Decreases		August 31, 2011
Airport	\$ 42,172	-	-	42,172	(26,167)	(422)	-	(26,589)	15,583
Structures and improvements	67,219,982	143,449	-	67,363,431	(22,896,770)	(1,502,175)	-	(24,398,945)	42,964,486
Reservoirs	38,370,053	-	-	38,370,053	(10,579,190)	(727,360)	-	(11,306,550)	27,063,503
Other power and production equipment	2,422,720	3,622	-	2,426,342	(1,481,846)	(57,488)	-	(1,539,334)	887,008
Electric pumping equipment	21,162,891	212,006	-	21,374,897	(8,074,323)	(534,635)	-	(8,608,958)	12,765,939
Purification system	28,047,482	864,582	-	28,912,064	(7,826,671)	(958,775)	-	(8,785,446)	20,126,618
Transmission mains	82,667,250	2,571	-	82,669,821	(13,500,174)	(1,254,586)	-	(14,754,760)	67,915,061
Distribution mains and accessories	129,921,473	3,331,575	-	133,253,048	(23,893,349)	(1,478,622)	-	(25,371,971)	107,881,077
Hydrants	4,844,227	-	-	4,844,227	(3,414,497)	(69,942)	-	(3,484,439)	1,359,788
Office furniture and equipment	1,774,770	82,186	(7,987)	1,848,969	(1,510,749)	(108,431)	7,987	(1,611,193)	237,776
Shop equipment	199,383	-	-	199,383	(174,510)	(3,610)	-	(178,120)	21,263
Laboratory equipment	396,815	14,380	-	411,195	(274,904)	(32,087)	-	(306,991)	104,204
Tools and work equipment	295,615	-	-	295,615	(253,704)	(12,542)	-	(266,246)	29,369
Communications system	2,744,693	254,152	-	2,998,845	(375,990)	(149,247)	-	(525,237)	2,473,608
Meters	12,651,017	262,129	-	12,913,146	(6,161,542)	(568,020)	-	(6,729,562)	6,183,584
Vehicles	2,772,508	54,133	(10,925)	2,815,716	(1,622,166)	(187,104)	10,925	(1,798,345)	1,017,371
<b>Total depreciable assets</b>	<b>395,533,051</b>	<b>5,224,785</b>	<b>(18,912)</b>	<b>400,738,924</b>	<b>(102,066,552)</b>	<b>(7,645,046)</b>	<b>18,912</b>	<b>(109,692,686)</b>	<b>291,046,238</b>
Land and land rights	5,444,607	560	-	5,445,167	-	-	-	-	5,445,167
Construction in progress	2,116,922	3,564,673	(4,170,514)	1,511,081	-	-	-	-	1,511,081
<b>Total nondepreciable assets</b>	<b>7,561,529</b>	<b>3,565,233</b>	<b>(4,170,514)</b>	<b>6,956,248</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,956,248</b>
<b>Total capital assets</b>	<b>\$ 403,094,580</b>	<b>8,790,018</b>	<b>(4,189,426)</b>	<b>407,695,172</b>	<b>(102,066,552)</b>	<b>(7,645,046)</b>	<b>18,912</b>	<b>(109,692,686)</b>	<b>298,002,486</b>

During 2011, Lincoln Water System incurred \$3,179,819 of interest cost. Interest capitalized into construction in progress during 2011 was \$73,328. 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 1.91% in 2011.

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2011 and 2010

### (4) 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
Airport	\$ 42,172	-	-	42,172	(25,745)	(422)	-	(26,167)	16,005
Structures and improvements	66,986,924	233,058	-	67,219,982	(21,167,628)	(1,729,142)	-	(22,896,770)	44,323,212
Reservoirs	38,370,053	-	-	38,370,053	(9,851,831)	(727,359)	-	(10,579,190)	27,790,863
Other power and production equipmen	2,286,573	136,147	-	2,422,720	(1,429,577)	(52,269)	-	(1,481,846)	940,874
Electric pumping equipment	20,495,049	680,427	(12,585)	21,162,891	(7,589,642)	(497,266)	12,585	(8,074,323)	13,088,568
Purification system	26,013,736	5,377,366	(3,343,620)	28,047,482	(10,330,274)	(840,017)	3,343,620	(7,826,671)	20,220,811
Transmission mains	56,127,850	26,539,400	-	82,667,250	(12,692,382)	(807,792)	-	(13,500,174)	69,167,076
Distribution mains and accessories	127,531,393	2,390,080	-	129,921,473	(22,466,524)	(1,426,825)	-	(23,893,349)	106,028,124
Hydrants	4,844,227	-	-	4,844,227	(3,344,555)	(69,942)	-	(3,414,497)	1,429,730
Office furniture and equipment	1,959,040	20,100	(204,370)	1,774,770	(1,591,259)	(123,860)	204,370	(1,510,749)	264,021
Shop equipment	199,383	-	-	199,383	(170,643)	(3,867)	-	(174,510)	24,873
Laboratory equipment	450,779	17,331	(71,295)	396,815	(311,357)	(34,842)	71,295	(274,904)	121,911
Tools and work equipment	324,702	20,730	(49,817)	295,615	(289,314)	(14,207)	49,817	(253,704)	41,911
Communications system	1,183,615	1,561,078	-	2,744,693	(298,194)	(77,796)	-	(375,990)	2,368,703
Meters	12,525,156	125,861	-	12,651,017	(5,605,887)	(555,655)	-	(6,161,542)	6,489,475
Vehicles	2,780,509	193,064	(201,065)	2,772,508	(1,610,298)	(201,098)	189,230	(1,622,166)	1,150,342
<b>Total depreciable assets</b>	<b>362,121,161</b>	<b>37,294,642</b>	<b>(3,882,752)</b>	<b>395,533,051</b>	<b>(98,775,110)</b>	<b>(7,162,359)</b>	<b>3,870,917</b>	<b>(102,066,552)</b>	<b>293,466,499</b>
Land and land rights	5,123,119	321,488	-	5,444,607	-	-	-	-	5,444,607
Construction in progress	30,363,834	7,933,962	(36,180,874)	2,116,922	-	-	-	-	2,116,922
<b>Total nondepreciable assets</b>	<b>35,486,953</b>	<b>8,255,450</b>	<b>(36,180,874)</b>	<b>7,561,529</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,561,529</b>
<b>Total capital assets</b>	<b>\$ 397,608,114</b>	<b>45,550,092</b>	<b>(40,063,626)</b>	<b>403,094,580</b>	<b>(98,775,110)</b>	<b>(7,162,359)</b>	<b>3,870,917</b>	<b>(102,066,552)</b>	<b>301,028,028</b>

During 2010, Lincoln Water System incurred \$3,447,142 of interest cost. Interest capitalized into construction in progress during 2010 was \$1,108,439. 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 1.81% in 2010.

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2011 and 2010

### (5) Long-term Liabilities

Long-term debt of the Lincoln Water System at August 31, 2011 and 2010 is summarized below:

#### 2011

Type of Debt	August 31, 2010	Additions	Reductions	August 31, 2011	Due Within One Year
2.75% - 5.00% Water Revenue Bonds, Series 2002, due in annual principal installments on August 15, increasing from \$930,000 in 2012 to the final payment of \$1,465,000 on August 15, 2022.	\$13,735,000	—	895,000	12,840,000	930,000
5% Water Revenue Bonds, Refunding Series 2003, final principal payment of \$2,630,000 due on August 15, 2012.	6,965,000	—	4,335,000	2,630,000	2,630,000
3.00% - 5.00% Water Revenue Bonds, Series 2004, due in annual principal installments on August 15, increasing from \$1,820,000 in 2012 to the final payment of \$3,065,000 on August 15, 2025.	34,110,000	—	1,080,000	33,030,000	1,820,000
2.00% - 4.5% Water Revenue Bonds, Series 2009, due in annual principal installments on August 15, increasing from \$465,000 in 2013 to the final payment of \$1,080,000 on August 15, 2034.	15,420,000	—	—	15,420,000	—
Unamortized premium on bonds	1,809,087	—	335,010	1,474,077	—
Deferred for refunding	(265,778)	—	(135,717)	(130,061)	—
	<u>\$71,773,309</u>	<u>—</u>	<u>6,509,293</u>	<u>65,264,016</u>	<u>5,380,000</u>

(Continued)

**LINCOLN WATER SYSTEM**

Notes to Financial Statements

August 31, 2011 and 2010

**(5) Long-term Liabilities (continued)**

**2010**

Type of Debt	August 31, 2009	Additions	Reductions	August 31, 2010	Due Within One Year
2.75% - 5.00% Water Revenue Bonds, Series 2002, due in annual principal installments on August 15, increasing from \$895,000 in 2011 to the final payment of \$1,465,000 on August 15, 2022.	\$14,600,000	-	865,000	13,735,000	895,000
5% Water Revenue Bonds, Refunding Series 2003, due in annual principal installments on August 15, decreasing from \$4,335,000 in 2011 to the final payment of \$2,630,000 on August 15, 2012.	11,100,000	-	4,135,000	6,965,000	4,335,000
3.00% - 5.00% Water Revenue Bonds, Series 2004, due in annual principal installments on August 15, increasing from \$1,080,000 in 2011 to the final payment of \$3,065,000 on August 15, 2025.	35,160,000	-	1,050,000	34,110,000	1,080,000
2.00% - 4.5% Water Revenue Bonds, Series 2009, due in annual principal installments on August 15, increasing from \$465,000 in 2013 to the final payment of \$1,080,000 on August 15, 2034.	15,420,000	-	-	15,420,000	-
Unamortized premium on bonds Deferred for refunding	2,144,096 (401,494)	- -	335,009 (135,716)	1,809,087 (265,778)	- -
	<u>\$78,022,602</u>	<u>-</u>	<u>6,249,293</u>	<u>71,773,309</u>	<u>6,310,000</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.

(Continued)

**LINCOLN WATER SYSTEM**

## Notes to Financial Statements

August 31, 2011 and 2010

**(5) Long-term Liabilities** (continued)

Maturities and sinking fund requirements on long-term debt at August 31, 2011 are as follows:

Years ending August 31	Principal	Interest	Total
2012	\$ 5,380,000	2,904,640	8,284,640
2013	3,310,000	2,647,265	5,957,265
2014	3,425,000	2,506,275	5,931,275
2015	3,555,000	2,354,275	5,909,275
2016	3,690,000	2,191,387	5,881,387
2017-2021	20,915,000	8,199,398	29,114,398
2022-2026	16,315,000	3,405,698	19,720,698
2027-2031	4,240,000	1,265,994	5,505,994
2032-2034	3,090,000	282,600	3,372,600
<b>Total</b>	<b>\$63,920,000</b>	<b>25,757,532</b>	<b>89,677,532</b>

The City has pledged future revenues derived from the operation of the Lincoln Water System, net of operating and maintenance expenses, to repay all outstanding water revenue bonds. Proceeds from the bonds provided financing for improvements to the water supply system, as well as refunding \$37.8 million of water revenue bonds. The bonds are payable solely from the net earnings of the Water System and are payable through 2034. The total principal and interest remaining to be paid on the bonds is \$89,677,532, with annual payments expected to require 62.6 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$9,501,857 and \$15,174,479, respectively.

Lincoln Water System has entered into a \$15,000,000 loan agreement with Nebraska Department of Environmental Quality (NDEQ). This funding is available to fund certain water system extension and water repairs. 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. No project costs were incurred during Fiscal Year ended August 31, 2011, therefore, the available loan is not reflected on the Lincoln Water System financial statements.

Construction contracts of the Lincoln Water System at August 31, 2011 and 2010 are summarized below:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
August 31, 2011	\$2,621,631	1,135,377	1,394,031	2,362,977	2,169,341
August 31, 2010	\$6,712,111	1,954,420	6,044,900	2,621,631	1,394,031

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2011 and 2010

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### **(6) Commitments and Contingencies**

Lincoln Water System has commitments under major construction contracts in progress of approximately \$572,000 at August 31, 2011.

Lincoln Water System has entered into various agreements with developers to build infrastructure for new developments. These commitments are included in the System's current 6 year Capital Improvement Program or depending on when the commitment is due, will be included in the System's future Capital Improvement Programs. As of August 31, 2011, the System's commitment to these developers is estimated to be approximately \$7,760,000 over the next 10 - 15 years, of which some may be under current contract.

### **(7) 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 \$75,013,000 based on borrowing rates currently available as of August 31, 2011.
- *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 WATER SYSTEM

## Notes to Financial Statements

August 31, 2011 and 2010

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### **(8) Related Party Transactions**

The City billed the Water System approximately \$447,000 and \$496,000 for administrative services during 2011 and 2010, respectively. The Water 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 \$2,830,000 and \$2,340,000 during 2011 and 2010, respectively. Further, the Water System collects payments from customers on behalf of LES. At August 31, 2011, approximately \$253,000 is included in accounts payable for amounts owed to LES for electricity used and customer payments collected. As of August 31, 2011, the Water System owed \$1,091,000 for current liabilities to the City of Lincoln Street Construction fund for work performed related to joint construction projects.

A special revenue fund of the City collects and holds impact fees until they are disbursed in accordance with City ordinance. The Lincoln Water System was due impact fees of \$39,915 and \$2,454 as of August 31, 2011 and 2010, respectively.

The City of Lincoln general fund has borrowed monies from the pooled cash and investment account. The Water System's allocated share of the borrowing was \$274,293 and \$339,412 as of August 31, 2011 and 2010, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the balance sheets.

### **(9) Risk Management**

Lincoln Water 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-insurance 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 Water System had no claims or judgments exceeding the policy limits during each of the last three prior years. Budgeted premium amounts charged to Lincoln Water System are placed in the appropriate fund maintained by the Division. Premium expense was approximately \$317,000 and \$320,000 in 2011 and 2010, respectively.

### **(10) Pension Plan**

Employees of Lincoln Water 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 Water 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% vesting in year seven. All past service costs and vested benefits are fully paid. Contributions made by the System were approximately \$652,000 and \$626,000 for 2011 and 2010, respectively. Contributions made by the plan members were approximately \$352,000 and \$332,000 for 2011 and 2010, respectively.

SUPPLEMENTARY  
INFORMATION

**LINCOLN WATER SYSTEM**

Schedule 1

Summary of Long-Term Debt

August 31, 2011

Due years ending August 31	Series 2002		Series 2003		Series 2004		Series 2009		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2012	\$ 930,000	612,203	2,630,000	131,500	1,820,000	1,571,606	-	589,331	5,380,000	2,904,640	8,284,640
2013	960,000	577,328	-	-	1,885,000	1,480,606	465,000	589,331	3,310,000	2,647,265	5,957,265
2014	1,000,000	539,888	-	-	1,950,000	1,386,356	475,000	580,031	3,425,000	2,506,275	5,931,275
2015	1,045,000	494,888	-	-	2,020,000	1,288,856	490,000	570,531	3,555,000	2,354,275	5,909,275
2016	1,095,000	445,250	-	-	2,095,000	1,187,856	500,000	558,281	3,690,000	2,191,387	5,881,387
2017-2021	6,345,000	1,348,750	-	-	11,790,000	4,284,280	2,780,000	2,566,368	20,915,000	8,199,398	29,114,398
2022-2026	1,465,000	73,250	-	-	11,470,000	1,316,278	3,380,000	2,016,170	16,315,000	3,405,698	19,720,698
2027-2031	-	-	-	-	-	-	4,240,000	1,265,994	4,240,000	1,265,994	5,505,994
2032-2034	-	-	-	-	-	-	3,090,000	282,600	3,090,000	282,600	3,372,600
	\$ 12,840,000	4,091,557	2,630,000	131,500	33,030,000	12,515,838	15,420,000	9,018,637	63,920,000	25,757,532	89,677,532

**LINCOLN WATER SYSTEM**

Schedule 2

**Debt Coverage Ratio**

**Last ten fiscal years**

(Unaudited)

Fiscal Year Ending	Gross Revenue	Direct Operating Expenses	Net Available Balance	Debt Service Requirement			
				Principal	Interest	Total	Coverage
2002	22,894,652	11,474,433	11,420,219	2,880,000	2,110,590	4,990,590	2.29
2003	22,094,721	11,631,496	10,463,225	3,010,000	2,898,489	5,908,489	1.77
2004	24,557,918	12,477,486	12,080,432	3,115,000	2,411,633	5,526,633	2.19
2005	27,153,937	13,145,665	14,008,272	4,895,000	3,517,932	8,412,932	1.67
2006	29,014,999	13,808,214	15,206,785	5,130,000	3,834,301	8,964,301	1.70
2007	29,386,495	14,351,136	15,035,359	5,340,000	3,612,001	8,952,001	1.68
2008	27,257,184	14,425,521	12,831,663	5,555,000	3,376,201	8,931,201	1.44
2009	27,838,187	14,995,077	12,843,110	5,795,000	3,128,414	8,923,414	1.44
2010	26,515,467	14,091,292	12,424,175	6,050,000	3,458,097	9,508,097	1.31
2011	30,629,506	15,455,027	15,174,479	6,310,000	3,191,857	9,501,857	1.60

## Operating Expenses

Years ended August 31, 2011 and 2010

	2011	2010
Lincoln Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 59,631	55,247
Electrical maintenance	-	130
Grounds maintenance	-	2,136
Wellfield maintenance	19,873	16,022
Wellfield operations	562	-
Depreciation of general plant	903	903
<b>Total source of supply</b>	<b>\$ 80,969</b>	<b>74,438</b>
Power and pumping expenses:		
Supervision, management and administrative support	\$ 132,795	102,574
Training and education	12,204	15,334
Data management	9,658	8,425
General operations	205,072	186,412
Structures maintenance	15,855	15,014
Control system maintenance	57,467	58,206
Electrical maintenance	117,791	135,027
Grounds maintenance	331,016	387,130
Main repair/maintenance	13,863	9,765
Customer services	33,777	21,896
Laboratory operations	52	8,195
Pumping and transmission maintenance	149,892	153,220
Pumping and transmission operations	1,859,803	1,770,225
Security maintenance	4,479	831
Depreciation of pumping equipment	434,111	396,438
Depreciation of general plant and improvements	78	156
Depreciation of structures and improvement	945,721	941,173
<b>Total power and pumping</b>	<b>\$ 4,323,634</b>	<b>4,210,021</b>
<b>Total - Lincoln Water Plant</b>	<b>\$ 4,404,603</b>	<b>4,284,459</b>
Ashland Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 143,305	141,241
Control system maintenance	33,763	36,147
Electrical maintenance	30,615	33,608
Grounds maintenance	98,055	105,486
Main repair/maintenance	1,979	1,821
Laboratory operations	12,047	10,628
Security maintenance	5,989	4,621
Wellfield maintenance	206,192	131,933
Wellfield operations	836,236	730,393
Depreciation of transmission mains	260,420	260,420
Depreciation of other production equipment	1,395	1,084
Depreciation of wells and houses	465,350	465,350
<b>Total source of supply</b>	<b>\$ 2,095,346</b>	<b>1,922,732</b>

**LINCOLN WATER SYSTEM**Schedule 3, Cont.**Operating Expenses**

	<b>2011</b>	<b>2010</b>
Power and pumping expenses:		
Supervision, management and administrative support	\$ 127,454	126,234
General operations	1,343	2,455
Structures maintenance	1,309	1,203
Control system maintenance	10,364	11,778
Electrical maintenance	36,085	24,245
Electrical maintenance	122	3,335
Main repair/maintenance	808	1,271
Pumping and transmission maintenance	42,950	35,762
Pumping and transmission operations	535,568	204,218
Depreciation of pumping equipment	377,468	306,320
Depreciation of structures and improvement	159,218	159,218
Depreciation of general plant	161	1,929
Depreciation of transmission mains	533,752	90,822
Depreciation of other production equipment	54,201	49,292
<b>Total power and pumping</b>	<b>\$ 1,880,803</b>	<b>1,018,082</b>
Purification expense:		
Supervision, management and administrative support	\$ 370,097	305,845
Training and education	104,714	94,226
General operations	180,052	193,816
Treatment and process control	183,718	140,074
Structures maintenance	16,179	22,277
Process equipment maintenance	7,788	12,362
Control system maintenance	142,493	115,730
Electrical maintenance	36,141	35,136
Grounds maintenance	530,566	473,074
Laboratory operations	358,858	328,972
Treatment operations	1,023,009	1,092,116
Security maintenance	8,571	2,161
Depreciation of structures and improvements	532,408	763,923
Depreciation of transmission mains	20,076	19,309
Depreciation of purification equipment	958,775	840,017
Depreciation of general plant & equipment	32,376	37,402
<b>Total purification expenses</b>	<b>\$ 4,505,821</b>	<b>4,476,440</b>
<b>Total Ashland Water Plant</b>	<b>\$ 8,481,970</b>	<b>7,417,254</b>
<b>Total supply, pumping and purification</b>	<b>\$ 12,886,573</b>	<b>11,701,713</b>

**LINCOLN WATER SYSTEM**

Schedule 3, Cont.

**Operating Expenses**

	<b>2011</b>	<b>2010</b>
<b>Transmission and distribution expenses:</b>		
Supervision and management	\$ 983,423	859,394
Administrative and support staff	467,377	467,410
Training and education	55,487	61,301
Data management	517,895	396,835
General operations	369,677	290,505
Main repair/maintenance	1,485,399	1,387,057
Contractor services	170,451	136,725
Customer services	1,331,245	1,312,493
Depreciation of structures and improvements	1,033	1,033
Depreciation of transmission mains	438,767	435,670
Depreciation of distribution mains	2,043,098	1,985,942
Depreciation of hydrants and fountains	69,942	69,942
Depreciation of general plant and equipment	107,652	114,826
<b>Total transmission and distribution</b>	<b>\$ 8,041,446</b>	<b>7,519,133</b>
<b>Accounting and collecting expenses:</b>		
Supervision and management	\$ 258,195	180,617
Administrative and support staff	3,694	3,634
Meter reading	131,115	129,096
Billing and accounting	336,240	311,102
Collections	118,725	117,414
Customer services and billing	158,638	151,320
Customer contracts and orders	35,416	33,096
Depreciation of general plant and equipment	5,738	934
<b>Total accounting and collecting</b>	<b>\$ 1,047,761</b>	<b>927,213</b>
<b>Administrative and general expenses:</b>		
Supervision and management	\$ 989,056	959,938
Administrative and support staff	119,938	126,496
Depreciation of general plant and equipment	15,299	19,158
<b>Total administrative and general</b>	<b>\$ 1,124,293</b>	<b>1,105,592</b>

LINCOLN WATER SYSTEM

Schedule 4

Utility Plant in Service

August 31, 2011

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2010	Increases	Decreases	August 31, 2011	August 31, 2010	Increases	Decreases	August 31, 2011	August 31, 2011
Lincoln Water Plant:									
Airport	\$ 42,172	-	-	42,172	(26,167)	(422)	-	(26,589)	15,583
Structures and improvements	14,921,280	143,449	-	15,064,729	(7,287,165)	(381,799)	-	(7,668,964)	7,395,765
Reservoirs	26,086,436	-	-	26,086,436	(8,174,332)	(550,099)	-	(8,724,431)	17,362,005
Other power and production equipment	37,856	-	-	37,856	(2,839)	(1,893)	-	(4,732)	33,124
Electric pumping equipment	15,040,733	212,006	-	15,252,739	(3,348,106)	(388,490)	-	(3,736,596)	11,516,143
Purification system	-	-	-	-	1,072	-	-	1,072	-
Transmission mains	33,680,727	87	-	33,680,814	(6,854,957)	(440,338)	-	(7,295,295)	26,385,519
Distribution mains and accessories	129,921,473	3,331,575	-	133,253,048	(23,893,349)	(1,478,622)	-	(25,371,971)	107,881,077
Hydrants	4,844,227	-	-	4,844,227	(3,414,497)	(69,942)	-	(3,484,439)	1,359,788
Office furniture and equipment	1,467,713	82,186	(7,987)	1,541,912	(1,228,434)	(107,410)	7,987	(1,327,857)	214,055
Shop equipment	181,432	-	-	181,432	(156,559)	(3,610)	-	(160,169)	21,263
Laboratory equipment	7,959	-	-	7,959	(2,078)	(796)	-	(2,874)	5,085
Tools and work equipment	195,403	-	-	195,403	(153,837)	(12,317)	-	(166,154)	29,249
Communications system	1,183,615	5,145	-	1,188,760	(356,477)	(58,585)	-	(415,062)	773,698
Meters	12,651,017	262,129	-	12,913,146	(6,161,542)	(568,020)	-	(6,729,562)	6,183,584
Lincoln depreciable assets	240,262,043	4,036,577	(7,987)	244,290,633	(61,059,267)	(4,062,343)	7,987	(65,113,623)	179,177,010
Land and land rights	1,546,042	79	-	1,546,121	-	-	-	-	1,546,121
Lincoln nondepreciable assets	1,546,042	79	-	1,546,121	-	-	-	-	1,546,121
Total Lincoln plant	241,808,085	4,036,656	(7,987)	245,836,754	(61,059,267)	(4,062,343)	7,987	(65,113,623)	180,723,131
Ashland Water Plant:									
Structures and improvements	52,298,702	-	-	52,298,702	(15,609,605)	(1,120,376)	-	(16,729,981)	35,568,721
Reservoirs	12,283,617	-	-	12,283,617	(2,404,858)	(177,261)	-	(2,582,119)	9,701,498
Transmission mains	48,986,523	2,484	-	48,989,007	(6,645,217)	(814,248)	-	(7,459,465)	41,529,542
Office furniture and equipment	307,057	-	-	307,057	(282,315)	(1,021)	-	(283,336)	23,721
Shop equipment	17,951	-	-	17,951	(17,951)	-	-	(17,951)	-
Laboratory equipment	388,856	14,380	-	403,236	(272,826)	(31,291)	-	(304,117)	99,119
Other power and production equipment	2,384,864	3,622	-	2,388,486	(1,479,007)	(55,595)	-	(1,534,602)	853,884
Electric pumping equipment	6,122,158	-	-	6,122,158	(4,726,217)	(146,145)	-	(4,872,362)	1,249,796
Purification system	28,047,482	864,582	-	28,912,064	(7,827,743)	(958,775)	-	(8,786,518)	20,125,546
Communications Systems	1,561,078	249,007	-	1,810,085	(19,513)	(90,662)	-	(110,175)	1,699,910
Tools and work equipment	100,212	-	-	100,212	(99,867)	(225)	-	(100,092)	120
Ashland depreciable assets	152,498,500	1,134,075	-	153,632,575	(39,385,119)	(3,395,599)	-	(42,780,718)	110,851,857
Land and land rights	3,898,565	481	-	3,899,046	-	-	-	-	3,899,046
Ashland nondepreciable assets	3,898,565	481	-	3,899,046	-	-	-	-	3,899,046
Total Ashland plant	156,397,065	1,134,556	-	157,531,621	(39,385,119)	(3,395,599)	-	(42,780,718)	114,750,903
Vehicles and work equipment (all location)	2,772,508	54,133	(10,925)	2,815,716	(1,622,166)	(187,104)	10,925	(1,798,345)	1,017,371
Utility plant in service	\$ 400,977,658	5,225,345	(18,912)	406,184,091	(102,066,552)	(7,645,046)	18,912	(109,692,686)	296,491,405
Construction in progress	2,116,922	3,564,673	(4,170,514)	1,511,081	-	-	-	-	1,511,081
Total capital assets	\$ 403,094,580	8,790,018	(4,189,426)	407,695,172	(102,066,552)	(7,645,046)	18,912	(109,692,686)	298,002,486

**GENERAL STATISTICS**

**Year Ended August 31, 2011**

(Unaudited)

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Altitude of Lincoln, Nebraska .....	1,167 Feet
Area of Lincoln, Nebraska .....	90.80 Square Miles
Population .....	262,672 Estimate
Source of Water Supply .....	Wells
Location of Supply - Platte River, Ashland, Nebraska	
Well Capacity - Ashland .....	110 Million Gallons
Treatment of Water - Ashland West Plant .....	Aeration; Chlorination; Detention; Rapid Sand Filtration; and Chloramination
Treatment of Water - Ashland East Plant .....	Ozonation; Rapid Sand Filtration; and Chloramination
Rainfall for Year Ended August 31, 2011 .....	29.74
Kind and Size of Main Used .....	Cast Iron/Ductile Iron/PVC 4 Inches to 60 Inches
Kind and Size of Transmission Mains	
from Ashland to Lincoln .....	36-Inch Cast Iron 48-Inch Reinforced Concrete 54 / 60-Inch Steel
Length of Transmission Mains	
from Ashland to Lincoln .....	25.1 Miles
Total Miles of Distribution Mains in Use:	
Miles in use September 1, 2010	1,236.9
Estimated Added During Year	6.0
Estimated Removed During Year	0.3
Total as of August 31, 2011 .....	1,242.6 Miles
Amount of Water Pumped During Year Ended August 31, 2011 .....	11,686,050,000 gallons
Average Daily Consumption of Water .....	32,016,575 gallons
Average Daily Consumption Per Capita .....	121 gallons
Total Number of Active Residential Water Customers	
End of Fiscal Year .....	74,547
Total Number of Active Non-Residential Water Customers	
End of Fiscal Year .....	4,637
Bonded Debt of Lincoln Water System at August 31, 2011 .....	\$63,920,000

**LINCOLN WATER SYSTEM**

Schedule 6

**TOP TEN CUSTOMERS****Year Ended August 31, 2011**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	436,730	\$822,260
2. Archer-Daniels Midland Company	314,733	380,018
3. State of Nebraska	302,283	557,921
4. City of Lincoln	251,202	475,975
5. University of Nebraska Foundation	180,818	218,048
6. Veyance Technologies, Inc.	175,159	216,597
7. BryanLGH Medical Center	146,419	277,777
8. Pfizer Animal Health	134,208	236,525
9. Lincoln Public Schools	133,654	255,260
10. Lincoln Plating Company	109,179	199,930
<b>Top Ten Users Totals</b>	<b>2,184,385</b>	<b>\$3,640,311</b>



A86439

11R-181

Introduce: 8-1-11

RESOLUTION NO. A- 86439

1 WHEREAS, the City Council of Lincoln, Nebraska, is authorized under Section 17.22.010  
2 of the Lincoln Municipal Code to establish water use charges for all customers of the Lincoln Water  
3 System.

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

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

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

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

14 Effective with the "H" billing cycle commencing in November 2011, the following schedule  
15 of water use charges is hereby established and adopted:

SCHEDULE A

17 The following rate schedule shall apply to all residential property. "Residential Property"  
18 shall be defined as property consisting of dwelling units. If there is more than one use per master  
19 meter on any one property including the residential use, the schedule to be used will be determined  
20 as residential, if the residential portion is 50 percent or more of the area of the building.

1 134.4 cents per 100 cubic feet for the first 800 cubic feet of water used per dwelling unit  
2 each month.

3 191.1 cents per 100 cubic feet for the next 1500 cubic feet of water used per dwelling unit  
4 each month.

5 296.1 cents per 100 cubic feet for all additional water used each month.

6 The monthly Service Charge shall be as hereinafter provided.

7 SCHEDULE B

8 The following rate schedule shall apply for the current calendar year to all non-residential  
9 property that used less than 12,000,000 cubic feet of water in the previous calendar year:

10 134.4 cents per 100 cubic feet for the first 8000 cubic feet of water used per month.

11 191.1 cents per 100 cubic feet for all additional water used each month.

12 The minimum monthly Service Charge shall be as hereinafter provided.

13 SCHEDULE C

14 The following rate schedule shall apply for the current year to all non-residential property  
15 that used more than 12,000,000 cubic feet of water in the previous calendar year. On a calendar year  
16 basis, a "base usage" of each high user customer will be determined. The base usage is an average  
17 of the water usage of each high user customer for the previous three (3) calendar years.

18 The following fees would apply:

19 127.6 cents per 100 cubic feet for water usage less than base to 5% above base.

20 132.3 cents per 100 cubic feet for water usage 5% - 15% above base.

21 136.5 cents per 100 cubic feet for water usage 15% - 25% above base.

22 140.7 cents per 100 cubic feet for water usage for all water usage over 25% above base.

23 The minimum monthly Service Charge shall be as hereinafter provided.

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SCHEDULE D - PROVISIONS APPLICABLE -  
TO ALL TYPES OF WATER SERVICE

Service Charge. There shall be a Service Charge per month to each property using the Lincoln Water System, determined by the number and size of the water meter, or meters, serving such property, to-wit:

WATER METER SIZE	SERVICE CHARGE FOR WATER METER
5/8 inch	\$ 3.42
3/4 inch	3.42
1 inch	3.42
1-1/2 inch	6.84
2 inch	13.66
3 inch	30.73
4 inch	54.64
6 inch	122.88
8 inch	218.51
10 inch	341.39

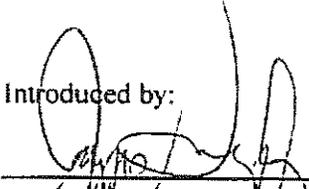
The Service Charge for a multiple dwelling unit or mobile home shall be at least \$2.10 per dwelling unit or mobile home hookup space per month. In those instances where fire protection considerations dictate that a water meter larger than 1-inch service a single-family dwelling unit located on a single lot, the monthly service charge shall be \$3.42 per dwelling unit. A dwelling unit shall, for the purpose of this schedule, be defined as a room or rooms in which kitchen facilities are provided, located in the building or structure used by a facility or household as a home or residence of the family or household.

WATER RATES TO CUSTOMERS OUTSIDE  
THE CITY LIMITS

Customers located outside the City Limits of Lincoln and served by the water system of the City of Lincoln shall pay no less than the water rates charged to customers within the City Limits of Lincoln for water furnished them by the water system of the City of Lincoln.

1 BE IT FURTHER RESOLVED that Resolution No. A-85979, adopted by the City Council  
2 on August 23, 2010, is hereby superseded.

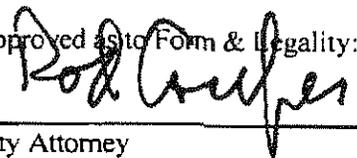
Introduced by:



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A YES: Camp, Carroll, Cook,  
Emery, Eskridge, Snyder;  
NAYS: Hornung.

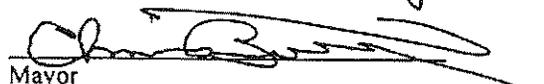
Approved as to Form & Legality:



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City Attorney

Approved this 11<sup>th</sup> day of Aug., 2011:



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Mayor

**ADOPTED**  
AUG 08 2011  
**BY CITY COUNCIL**

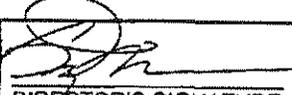
<h1 style="margin: 0;">CITY OF LINCOLN</h1> <p style="margin: 0;">Request for:   <input type="checkbox"/> Ordinance  <input checked="" type="checkbox"/> Resolution</p>	(Do Not Write in this Space)
	Bill Control No. <u>11R-181</u> Date: <u>7/25</u>
	Docketing Date <u>8/1</u> ;    PH: <u>88-11</u>
	(To Be Entered by City Clerk)

DATE July 25, 2011	REQUEST MADE BY Greg MacLean	DEPARTMENT Public Works/Utilities
DESIRED DOCKET DATE:    8-1; PH 8-8-11	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 water use charges to increase revenues for the Lincoln Water 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. 2011-12.

**FILED**  
 CITY CLERK'S OFFICE  
 2011 JUL 25 AM 11 03  
 CITY OF LINCOLN  
 NEBRASKA

<b>REQUESTOR</b> <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>7-25-11</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 1, 2011

Bill Number 11R-181

Public Hearing: August 8, 2011

### FACT SHEET

**TITLE:** Proposed Resolution to increase Water 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 water use charges to increase revenues for the Lincoln Water 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. 2011-12.

### DISCUSSION

The Public Works/Utilities Department recommends that the current schedule of water use charges be increased by 5% as shown below. This results in an 94¢ monthly increase to the average residential water bill. The Lincoln Water System is proposing to implement these increases with the "H" billing cycle commencing in November 2011, and ending in January 2012.

<u>Current Schedule</u>	<u>New Schedule</u>
<b>Residential Property:</b>	
128.0¢/HCF for the first 800 C.F. of water per dwelling unit per month	134.4¢
182.0¢/HCF for the next 1,500 C.F. of water per dwelling unit per month	191.1¢
282.0¢/HCF for all additional water used each month	296.1¢
<b>Schedule B Customers:</b>	
128.0¢/HCF for the first 8,000 C.F. of water used each month	134.4¢
182.0¢/HCF for all additional water used each month	191.1¢
<b>Schedule C Customers:</b>	
121.5¢/HCF for water usage less than base to 5% above base	127.6¢
126.0¢/HCF for water usage 5% - 15% above base	132.3¢
130.0¢/HCF for water usage 15% - 25% above base	136.5¢
134.0¢/HCF for water usage for all water usage over 25% above base	140.7¢

**FACT SHEET PREPARED BY:**

Business Manager of Public Works/Utilities

**REVIEWED BY:**



*Fran Meyer*

Director of Public Works/Utilities

**LINCOLN WATER SYSTEM**

Schedule 8

**Quantitative Statistics**

**Years ended August 31, 2011 and 2010**

(Unaudited)

	2011	2010	Increase (Decrease)
Water pumpage in one hundred cubic feet: (H.C.F.) by month			
September	1,566,845	1,442,286	124,559
October	1,599,840	1,092,955	506,885
November	1,080,722	932,219	148,503
December	913,061	912,152	909
January	900,722	999,291	(98,570)
February	827,968	923,182	(95,214)
March	973,971	1,011,805	(37,834)
April	1,010,668	1,147,005	(136,337)
May	1,340,053	1,282,326	57,727
June	1,491,818	1,411,778	80,040
July	2,095,481	1,717,099	378,382
August	1,821,912	2,286,123	(464,211)
	<b>15,623,061</b>	<b>15,158,221</b>	<b>464,840</b>
H.C.F sold and donated			
Customer metered sales	15,211,581	14,327,979	883,602
Used in new building construction (estimated)	10,000	10,000	-
Used in flushing on new sewer, water main construction, etc. (estimated)	5,500	5,500	-
Hydrant permits	27,344	21,289	6,055
Used for testing meters (estimated)	250	250	-
Used by Fire Department (estimated)	3,200	3,200	-
Lawn sprinkling and service shop water (estimated)	100	100	-
Total Water accounted for	<b>15,257,975</b>	<b>14,368,318</b>	<b>889,657</b>
Total H.C.F unaccounted for	<b>365,086</b>	<b>789,903</b>	<b>(424,817)</b>
Percent of H.C.F. unaccounted for	<b>2.34%</b>	<b>5.21%</b>	

**LINCOLN WATER SYSTEM**

Schedule 9

**COMPARATIVE PUMPING REPORT**

For Fiscal Years as Shown by Gallons

(Unaudited)

MONTH	August 31, 2011	August 31, 2010	August 31, 2009	August 31, 2008	August 31, 2007
September	1,172,000,000	1,078,830,000	1,122,830,000	1,336,190,000	1,116,800,000
October	1,196,680,000	817,530,000	952,000,000	971,640,000	1,028,340,000
November	808,380,000	697,300,000	759,790,000	848,660,000	846,820,000
December	682,970,000	682,290,000	789,130,000	796,270,000	781,050,000
January	673,740,000	747,470,000	847,930,000	818,900,000	808,400,000
February	619,320,000	690,540,000	698,790,000	783,230,000	734,120,000
March	728,530,000	756,830,000	819,680,000	780,350,000	816,570,000
April	755,980,000	857,960,000	798,590,000	773,220,000	831,440,000
May	1,002,360,000	959,180,000	1,231,090,000	893,870,000	983,130,000
June	1,115,880,000	1,056,010,000	1,087,110,000	890,790,000	1,302,680,000
July	1,567,420,000	1,284,390,000	1,502,970,000	1,374,170,000	2,084,000,000
August	1,362,790,000	1,710,020,000	1,331,280,000	1,716,280,000	1,462,500,000
<b>TOTAL</b>	<b>11,686,050,000</b>	<b>11,338,350,000</b>	<b>11,941,190,000</b>	<b>11,983,570,000</b>	<b>12,795,850,000</b>

**LINCOLN WATER SYSTEM**  
**ANNUAL RAINFALL FOR THE PERIOD OF**  
September 1, 2010 to August 31, 2011  
(Unaudited)

	Inches of <u>Rainfall</u>
September .....	3.73
October .....	0.13
November .....	1.97
December .....	0.24
January .....	1.07
February .....	0.79
March .....	0.66
April .....	3.27
May .....	6.00
June .....	3.44
July .....	1.55
August .....	<u>6.89</u>
<b>TOTAL INCHES FOR FISCAL YEAR</b>	<u><b>29.74</b></u>

**LINCOLN WATER SYSTEM**

WATER ANALYSIS

(All Results in Parts Per Million)  
(Collected September 12, 2011)  
(Unaudited)

550 W. Cornhusker Hwy.

Hydrogen Ion Concentration (pH) .....	7.49
Total Dissolved Solids .....	391 ppm.
Total Iron (Fe) .....	<0.050 ppm.
Manganese (Mn) .....	1.40 ppb.
Calcium (as Ca) .....	64.7 ppm.
Total Alkalinity (CaCO <sub>3</sub> ) .....	176 ppm.
Chloride (Cl) .....	25.2 ppm.
Fluoride (F) .....	0.91 ppm.
Nitrate (+Nitrite) .....	0.459 ppm.
Sodium (Na) .....	40.5 ppm.
Hardness as (CaCO <sub>2</sub> ) Total Hardness .....	220 ppm.

(All above analysis made in accordance with Standard Methods for Water and Wastewater,  
20th Ed.)

## Lincoln Water System

## Summary of Insurance Coverage

August 31, 2011

(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	SEL30117303 & SEL30117401
Automobile Fleet Physical Damage**	Self-Insured	Actual cash value	2,500	2,500		
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	CCP003059514
Water Distribution	Water distribution center	25,000,000	50,000	10,000	FM Global	FM618
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FM618
Equipment Floater (911)	Radio tower floater	Replacement cost	50,000	2,500	FM Global	FM618
Equipment Floater (NON-LIC)	Nonlicensed scheduled equipment	Actual Cash Value	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	SEL30117303 & SEL30117401
Public Employee Blanket Bond	Employees blanket bond coverage	1,000,000	25,000	10,000	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	SEL30117303 & SEL30117401
Workers' Compensation Excess	Statutory	Statutory	750,000	0	Midwest Employers Casualty (MECC)	EWC007744

\*\* Self-insured for both comp &amp; collision.

\*\*\* Public Entity Policy

## LINCOLN WATER SYSTEM

### Summary of Insurance Coverage

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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, radio towers, and nonlicensed equipment.

#### **WATER DISTRIBUTION SYSTEM**

Provides coverage for underground pipeline between Lincoln and Ashland.

#### **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 Water System  
Lincoln, Nebraska

We have audited the financial statements of Lincoln Water System as of and for the year ended August 31, 2011, and have issued our report thereon dated November 30, 2011. 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 Water 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 Water System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lincoln Water 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 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 Water 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 Water 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*.

We noted certain matters that we reported to Lincoln Water System's management in a separate letter dated November 30, 2011.

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

November 30, 2011

BKΔ,LLF