

LINCOLN WATER SYSTEM



A new horizontal collector well being built in Ashland.

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

ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS/UTILITIES

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WATER SYSTEM

Miki Esposito Director of Public Works/Utilities

Lincoln Water System
August 31, 2013 and 2012

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Independent Auditor's Report on Financial Statements and Supplementary Information

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of Lincoln Water System, which comprise the balance sheets as of August 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lincoln Water System as of August 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

As discussed in Note 1, the financial statements of Lincoln 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, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information, except for that portion marked "Unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, except for that portion marked "Unaudited", on which we express no opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2013, on our consideration of Lincoln 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* in considering Lincoln Water System's internal control over financial reporting and compliance.

BKD, LLP

Lincoln, Nebraska
November 27, 2013

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, 2013 and 2012. Please read this information in conjunction with the accompanying basic financial statements and notes to the financial statements.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The System's Net Position

The System's net position is the difference between its assets plus deferred outflows of resources and liabilities plus deferred inflows of resources reported in the Balance Sheet. The System's net position increased by \$9,557,354 in 2013 over 2012 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, 2013, 2012, and 2011.

Table 1

Condensed Balance Sheets

	August 31		Change	
	2013	2012	Dollars	Percent
Current assets	\$ 26,162,545	\$ 20,220,886	\$ 5,941,659	29.38%
Capital assets	302,925,239	296,794,471	6,130,768	2.07%
Noncurrent assets	17,619,038	14,943,168	2,675,870	17.91%
Deferred outflows of resources	852,436	—	852,436	100.00%
Total assets and deferred outflows of resources	347,559,258	331,958,525	15,600,733	4.70%
Current liabilities	9,873,880	7,528,808	2,345,072	31.15%
Long-term liabilities	63,382,980	59,662,325	3,720,655	6.24%
Deferred inflows of resources	—	22,348	(22,348)	(100.00%)
Total liabilities and deferred inflows of resources	73,256,860	67,213,481	6,043,379	8.99%
Net position				
Net investment in capital assets	238,693,102	238,567,894	125,208	0.05%
Restricted for debt service	153,543	149,097	4,445	2.98%
Restricted for capital acquisition	195,924	299,582	(103,658)	(34.60%)
Unrestricted	35,259,829	25,728,471	9,531,359	37.05%
Total net position	274,302,398	264,745,044	9,557,354	3.61%
Total liabilities, deferred inflows of resources, and net position	\$347,559,258	\$331,958,525	\$15,600,733	4.70%

Financial Highlights – Fiscal Year 2013

- Current assets increased in 2013 primarily due to increased cash and investments and as a result of a receivable due from the Nebraska Department of Environmental Quality (NDEQ).
- Capital assets increased due to the completion of several construction projects funded by the Nebraska Department of Environmental Quality (NDEQ). (See Note 5)
- Noncurrent assets increased in 2013 primarily due to increased cash and investments.
- Deferred outflows of resources consists of the deferred loss on refunded debt. The Lincoln Water System refunded \$31,210,000 of Water Revenue Bonds, Series 2004 resulting in a deferred loss. (See Note 5)

- Current liabilities increased due to an increase in construction projects and timing of when invoices are paid and received.
- Long-term liabilities increased due to the increase in the loan balance with the Nebraska Department of Environmental Quality (NDEQ).

Table 2

Condensed Balance Sheets

	August 31		Change	
	2012	2011	Dollars	Percent
Current assets	\$ 20,220,886	\$ 9,111,242	\$11,109,644	121.93%
Capital assets	296,794,471	298,002,486	(1,208,015)	(0.41%)
Noncurrent assets	14,943,168	17,029,661	(2,086,493)	(12.25%)
Deferred outflows of resources	–	130,061	(130,061)	(100.00%)
Total assets and deferred outflows of resources	331,958,525	324,273,450	7,685,075	2.37%
Current liabilities	7,528,808	9,313,114	(1,784,306)	(19.16%)
Long-term liabilities	59,662,325	60,799,815	(1,137,490)	(1.87%)
Deferred inflows of resources	22,348	–	22,348	100.00%
Total liabilities and deferred inflows of resources	67,213,481	70,112,929	(2,899,448)	(4.14%)
Net position				
Net investment in capital assets	238,567,894	239,387,493	(819,599)	(0.34%)
Restricted for debt service	149,097	419,376	(270,279)	(64.45%)
Restricted for capital acquisition	299,582	39,915	259,667	650.55%
Unrestricted	25,728,471	14,313,737	11,414,734	79.75%
Total net position	264,745,044	254,160,521	10,584,523	4.16%
Total liabilities, deferred inflows of resources, and net position	\$331,958,525	\$324,273,450	\$ 7,685,075	2.37%

Financial Highlights – Fiscal Year 2012

- Current assets increased in 2012 primarily due to the increase in cash and accounts receivable balances at year end.
- Noncurrent assets decreased primarily due to a decrease in investment balances.
- Current liabilities decreased because the final payment was made on the Series 2003 Bonds.
- Deferred inflows of resources consists of the deferred gain on refunded debt. In June 2012, the Lincoln Water System issued \$10,895,000 in Water Revenue Refunding Bonds, Series 2002 resulting in a deferred gain. (See Note 5)

Table 3

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

	August 31		Change	
	2013	2012	Dollars	Percent
Operating revenues				
Water revenue	\$31,051,639	\$33,527,885	(\$2,476,246)	(7.39%)
Other revenue	930,094	622,407	307,687	49.44%
Total operating revenues	<u>31,981,733</u>	<u>34,150,292</u>	<u>(2,168,559)</u>	<u>(6.35%)</u>
Operating expenses				
Supply, pumping and purification	12,876,786	12,923,017	(46,231)	(0.36%)
Transmission and distribution	8,814,582	8,206,260	608,322	7.41%
Accounting and collecting	850,068	978,437	(128,369)	(13.12%)
Administrative and general	1,021,684	1,057,752	(36,068)	(3.41%)
Total operating expenses	<u>23,563,120</u>	<u>23,165,466</u>	<u>397,654</u>	<u>1.72%</u>
Operating income	8,418,613	10,984,826	(2,566,213)	(23.36%)
Net nonoperating expenses	(1,595,616)	(2,212,360)	616,744	(27.88%)
Capital contributions	3,539,430	1,791,452	1,747,978	97.57%
Transfers in (out)	(805,073)	20,605	(825,678)	(4007.17%)
Change in net position	<u>\$ 9,557,354</u>	<u>\$10,584,523</u>	<u>(\$1,027,169)</u>	<u>(9.70%)</u>

Financial Highlights – Fiscal Year 2013

- Total operating revenues decreased due to lower demand for water. Pumpage decreased by 6.7% in 2013.
- Total operating expenses increased primarily due to higher personnel costs and a slight increase in other operating costs.
- Capital contributions increased in 2013 because of increased development activity during the year.

Table 4

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

	August 31		Change	
	2012	2011	Dollars	Percent
Operating revenues				
Water revenue	\$33,527,885	\$27,979,011	\$5,548,874	19.83%
Other revenue	622,407	580,473	41,934	7.22%
Total operating revenues	<u>34,150,292</u>	<u>28,559,484</u>	<u>5,590,808</u>	<u>19.58%</u>
Operating expenses				
Supply, pumping and purification	12,923,017	12,886,573	36,444	0.28%
Transmission and distribution	8,206,260	8,041,446	164,814	2.05%
Accounting and collecting	978,437	1,047,761	(69,324)	(6.62%)
Administrative and general	1,057,752	1,124,293	(66,541)	(5.92%)
Total operating expenses	<u>23,165,466</u>	<u>23,100,073</u>	<u>65,393</u>	<u>0.28%</u>
Operating income	10,984,826	5,459,411	5,525,415	101.21%
Net nonoperating expenses	(2,212,360)	(2,088,376)	(123,984)	5.94%
Capital contributions	1,791,452	1,902,161	(110,709)	(5.82%)
Transfers in	20,605	159,395	(138,790)	(87.07%)
Change in net position	<u>\$10,584,523</u>	<u>\$ 5,432,591</u>	<u>\$5,151,932</u>	<u>94.83%</u>

Financial Highlights – Fiscal Year 2012

- Total operating revenues increased due to the severe drought conditions experienced by Nebraska in 2012. Water pumpage was up 20% from 2011. In July 2012 the Mayor of the City of Lincoln asked the customers of the System to voluntarily comply with alternate day watering restrictions, which became mandatory in August 2012.
- Total operating expenses increased marginally due to cost cutting efforts made by the System.

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.

In July 2011, the Lincoln Water System entered into a \$15,000,000 loan agreement with the Nebraska Department of Environmental Quality (NDEQ) to fund certain water system extension and water repairs.

In June 2012, the Lincoln Water System issued \$10,895,000 in Water Revenue Refunding Bonds at an average interest rate of 3.55% to refund \$11,910,000 of Water Revenue Bonds, Series 2002, with interest rates ranging from 3.75% to 5.0%. The System completed the advance refunding to reduce its total debt service payments over the next 10 years by \$3,119,197, for an economic gain of \$1,947,399.

In June 2013, the Lincoln Water System issued \$28,595,000 in Water Revenue Refunding Bonds at an average interest rate of 3.42% to refund \$31,210,000 of Water Revenue Bonds, Series 2004, with interest rates ranging from 4.25% to 5.00%. The System completed the advance refunding to reduce its total debt service payments over the next 12 years by \$5,748,864 for an economic gain of \$3,315,926.

System Credit and Bond Ratings

The outstanding revenue bonds of the System are currently rated by Standard & Poor's and Moody's. This rating takes into account the amount of unrestricted net position maintained by the System, to which the revenue bonds' obligation of the System is pledged. Currently, the credit rating received from Standard & Poor's Rating Services is AA. The credit rating issued by Moody's Rating Services is Aa1.

Commitments and Contingencies

Lincoln Water System has commitments under major construction contracts in progress of approximately \$6,600,000 at August 31, 2013.

Forward-Looking Information

The approved Capital Improvement Program for Fiscal Year 2012/13 -2017/18 identifies the need for \$76,600,000 to fund capital improvements for the Water System. Approximately \$8,800,000 of that total is projected to be funded by revenue bonds. Future user fee increases will be needed to make the necessary improvements possible.

In August 2012, the Lincoln City Council approved the budget allowing for revenue increases for the next two years, which will be attained through increases in the various service charges. (See Note 1)

Contact Information

This financial report is intended to provide users with a general overview of the System's financial performance for 2013 and 2012. If you have questions about this report or need additional financial information, please contact the Business Office of the Public Works & Utilities Department at 555 South 10th Street, Lincoln, NE 68508.

LINCOLN WATER SYSTEM

Balance Sheets

August 31, 2013 and 2012

Assets and Deferred Outflows of Resources	2013	2012
Current assets:		
Equity in pooled cash and investments	\$ 12,478,713	8,205,819
Receivables:		
Accounts receivable	3,327,419	4,159,867
Unbilled revenues	4,610,645	5,038,847
Due from other governments	3,618,166	1,500,956
Due from other funds	195,924	299,582
Impact fees	867,183	73,164
Total receivables	12,619,337	11,072,416
Inventories	1,064,495	942,651
Total current assets	26,162,545	20,220,886
Noncurrent assets:		
Equity in pooled cash and investments	10,386,865	7,141,068
Restricted assets:		
Equity in pooled cash and investments	268,490	314,670
Investments	6,364,074	6,948,305
Total restricted assets	6,632,564	7,262,975
Utility plant	426,959,823	413,465,558
Less accumulated depreciation	124,034,584	116,671,087
Net utility plant	302,925,239	296,794,471
Costs recoverable from future billings	599,609	539,125
Total noncurrent assets	320,544,277	311,737,639
Total assets	346,706,822	331,958,525
Deferred outflows of resources:		
Deferred loss on refunding	852,436	-
Total assets and deferred outflows of resources	\$ 347,559,258	331,958,525
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities:		
Accounts payable	\$ 761,691	816,353
Accrued liabilities	842,757	950,932
Deposits liability	107,150	104,850
Accrued compensated absences	465,257	428,112
Construction contracts	3,899,892	1,758,562
Current maturities of long-term debt	3,685,000	3,360,000
Accrued interest	112,133	109,999
Total current liabilities	9,873,880	7,528,808
Long-term liabilities:		
Accrued liabilities	321,582	235,233
Accrued compensated absences	485,117	371,425
Construction contracts	168,713	190,638
Long-term debt, excluding current maturities	62,407,568	58,865,029
Total long-term liabilities	63,382,980	59,662,325
Total liabilities	73,256,860	67,191,133
Deferred inflows of resources:		
Deferred gain on refunding	-	22,348
Net position:		
Net investment in capital assets	238,693,102	238,567,894
Restricted for debt service	153,543	149,097
Restricted for capital acquisition	195,924	299,582
Unrestricted	35,259,829	25,728,471
Total net position	274,302,398	264,745,044
Total liabilities, deferred inflows of resources and net position	\$ 347,559,258	331,958,525

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Position

Years ended August 31, 2013 and 2012

	2013	2012
Operating revenues:		
Water sales	\$ 31,051,639	33,527,885
Service and materials, net	930,094	622,407
Total operating revenues	31,981,733	34,150,292
Operating expenses:		
Supply, pumping and purification	12,876,786	12,923,017
Transmission and distribution	8,814,582	8,206,260
Accounting and collecting	850,068	978,437
Administrative and general	1,021,684	1,057,752
Total operating expenses	23,563,120	23,165,466
Operating income	8,418,613	10,984,826
Nonoperating revenues (expenses):		
Investment income (loss)	(468,499)	530,761
Interest expense	(1,893,857)	(2,666,166)
Net costs recoverable	(42,444)	(76,955)
Settlement proceeds	809,184	-
Net nonoperating expenses	(1,595,616)	(2,212,360)
Increase in net position before capital contributions	6,822,997	8,772,466
Capital contributions from:		
Developers	1,620,034	487,614
Impact fees	1,383,528	921,837
Tap fees	535,868	382,001
Total capital contributions	3,539,430	1,791,452
Transfers In (Out)	(805,073)	20,605
Increase in net position	9,557,354	10,584,523
Total net position - beginning	264,745,044	254,160,521
Total net position - ending	\$ 274,302,398	264,745,044

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2013 and 2012

	2013	2012
Operating activities:		
Receipts from customers and users	\$ 32,450,665	31,541,491
Payments to suppliers	(7,782,378)	(6,854,824)
Payments to employees	(8,378,508)	(8,147,810)
Net cash provided by operating activities	16,289,779	16,538,857
Noncapital financing activities:		
Settlement proceeds	809,184	-
Transfer to other funds	(750,000)	-
Repayment from (advance to) other funds, net	103,658	(25,289)
Net cash provided by (used in) noncapital financing activities	162,842	(25,289)
Capital and related financing activities:		
Acquisition and construction of capital assets	(7,728,257)	(4,922,677)
Principal paid on revenue bonds	(1,850,000)	(5,380,000)
Proceeds from NDEQ loan	4,693,992	1,127,435
System funds used for bond refunding	(1,866,014)	(74,312)
Interest paid on revenue bonds	(2,345,563)	(2,898,314)
Net cash used in capital and related financing activities	(9,095,842)	(12,147,868)
Investing activities:		
Purchases of investments	(27,415,533)	(25,752,723)
Proceeds from sales and investment maturities	21,329,159	20,631,982
Interest on investments	284,650	452,942
Net cash used in investing activities	(5,801,724)	(4,667,799)
Net increase (decrease) in cash and cash equivalents	1,555,055	(302,099)
Cash and cash equivalents at beginning of year	968,646	1,270,745
Cash and cash equivalents at end of year	\$ 2,523,701	968,646
Composition of equity in pooled cash and investments (current)		
Cash and cash equivalents	\$ 2,523,701	968,646
Investments	9,955,012	7,237,173
Total equity in pooled cash and investments (current)	\$ 12,478,713	8,205,819
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 8,418,613	10,984,826
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,449,730	7,528,972
Changes in operating assets and liabilities:		
Accounts receivable	466,631	(2,638,307)
Inventories	(121,844)	(10,018)
Accounts payable	(54,662)	366,504
Accrued liabilities and deposit liability	(19,526)	330,999
Accrued compensated absences	150,837	(24,119)
Total adjustments	7,871,166	5,554,031
Net cash provided by operating activities	\$ 16,289,779	16,538,857

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$1,620,034 and \$487,614 were added to utility plant in 2013 and 2012, respectively.

Accounts payable incurred for utility plant purchases were \$4,068,605 and \$1,949,200, in 2013 and 2012, respectively.

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

(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 including the regulated operations provisions of GASB Statement No. 62, which permits an entity with cost based rates to defer certain costs or income that would be otherwise recognized when incurred to the extent the rate-regulated entity is recovering or expecting to recover such amounts in rates charged to its customers.

The financial statements referred to above present only the Lincoln 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, 2013 and 2012, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Operating Revenues and Expenses

As an enterprise fund, the Lincoln 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.

Accounts Receivable and Unbilled Revenues

Water revenues are recorded based on the related period of customer usage. Billings for water revenues are rendered on a cycle basis bi-monthly. Unbilled revenues, representing estimated consumer usage for the period between the last billing date and the end of the period, are accrued in the period of consumption. Management does not believe an allowance for doubtful accounts is necessary at August 31, 2013 or 2012.

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

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

Utility Plant (Capital Assets)

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

Depreciation expense is calculated on the straight-line method over the estimated useful lives of the assets. The following estimated useful lives are being used by the System:

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

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

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

Deposits and Investments

The City Treasurer is responsible for the safekeeping of cash and invested funds of Lincoln 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 prices.

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, 2013 and 2012

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

The following rates were assessed per one hundred cubic feet of water usage for the years ended August 31, 2013 and 2012:

	<u>August 31, 2013</u>	<u>August 31, 2012</u>
<u>Water Usage</u>		
Residential:		
100 to 800 cubic feet	\$1.344	\$1.344
801 to 2,300 cubic feet	1.911	1.911
2,301 and up	2.961	2.961
Nonresidential low volume user:		
100 to 8,000 cubic feet	1.344	1.344
8,001 and up	1.911	1.911
Nonresidential high volume user:		
Base usage which is average water usage for previous three calendar years	1.276 to 1.407	1.276 to 1.407
<u>Service Charge</u>		
Prior to November 2012:		
Residential: single-family dwelling unit		\$3.42
Residential: multiple-family dwelling unit		2.10
Non-residential:		Based on size and number of water meters or dwelling units.
Effective November 2012:		
5/8 inch	\$ 3.60	
5/8 x 3/4 inch	4.55	
3/4 inch	4.55	
1 inch	7.60	
1 ½ inch	15.15	
2 inch	24.25	
3 inch	45.50	
4 inch	75.85	
6 inch	151.65	
8 inch	242.65	
10 inch	348.85	

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

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

Costs Recoverable from Future Billings

Certain income and expense items which would be recognized during the current period are deferred and not included in the determination of the change in net position until such costs are expected to be recovered through rates, in accordance with the regulated operations provisions of GASB Statement No. 62. Costs recoverable from future billings are comprised of charges incurred in relation to the System's bond issuances.

Net Position Classification

Net position is required to be classified into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets - consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

Restricted - consists of restricted assets, reduced by liabilities related to those assets, with constraints placed on their use either by a) external groups such as creditors (such as through debt covenants), contributors, or laws or regulations of other governments or b) law through constitutional provisions or enabling legislation.

Unrestricted - consists of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the net investment in capital assets or restricted component of net position.

When both restricted and unrestricted resources are available for use, it is System's policy to use restricted resources first, then unrestricted as they are needed.

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

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

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, 2013 and 2012 are summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
August 31, 2013	\$799,537	578,949	428,112	950,374	465,257
August 31, 2012	\$823,656	403,580	427,699	799,537	428,112

Other Post-Employment Benefits

The Water System recorded a liability for the annual required contribution (ARC) of approximately \$322,000 and \$235,000 as of August 31, 2013 and 2012, respectively, in connection with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The complete disclosures required by GASB 45 are included in the City of Lincoln Comprehensive Annual Financial Report (CAFR).

Use of Estimates

Management of Lincoln Water System has made a number of estimates and assumptions relating to the reporting of balance sheet amounts and the disclosure of contingent items to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net position.

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

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

Implementation of New Accounting Principles

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

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

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

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

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

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

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

State statutes require banks either to give bond, provide Federal Home Loan Bank letter of credit, or to pledge government securities to the City Treasurer in the amount of the City's deposits. The System has been allocated a portion of the City's pooled cash and investments. The City's cash deposits, including certificates of deposit, are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits are covered by collateral held in a Federal Reserve Bank pledge account or by an agent for the City and thus no custodial risk exists. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Investments

The City may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. Government Sponsored agencies and instrumentalities and in bank repurchase agreements. It may also invest to 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. Government Sponsored Agency obligations are held in a book entry system in an account designated as a customer account at the Federal Reserve Bank and the custodian's internal records identify the City as owner.

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

Type	August 31, 2013				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Government Sponsored Agency	<u>\$6,364,074</u>	<u>-</u>	<u>-</u>	<u>2,758,116</u>	<u>3,605,958</u>
Type	August 31, 2012				
	Carrying Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Government Sponsored Agency	<u>\$6,948,305</u>	<u>-</u>	<u>-</u>	<u>2,989,366</u>	<u>3,958,939</u>

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

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

Interest Rate Risk:

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits current operating funds to be invested with maturities of no longer than twenty-four months. Fixed income investments in construction funds, operating funds, and other non-operating funds are limited to ten year maturities.

Credit Risk:

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy establishes requirements for certain investment securities to be rated at certain rates or higher without having collateral pledged to the City. The following investment types must be rated at the minimum rates noted below:

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

As of August 31, 2013 and 2012, the Lincoln Water System investments in United States government sponsored agencies not directly guaranteed by the United States government were rated AA+ by Standard & Poor's (S & P) and Aaa by Moody's Investors Service (Moody's).

Concentration of Credit Risk:

Concentration of credit risk is the risk associated with the amount of investments the System has with any one issuer that exceeds 5% or more of its total investments. The City's Investment Policy places various limits on the amount that may be invested in any one issuer or security type. Per the policy, allocation limits do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument. The investment concentrations mentioned below were made with funds from the bond debt reserve funds established. Concentrations greater than 5% at August 31 are shown below:

	<u>2013</u>	<u>2012</u>
U.S. Government Agency Obligations		
Federal Farm Credit Bank	17.8%	25.6%
Federal Home Loan Bank	—	5.2%

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

	<u>2013</u>	<u>2012</u>
Equity in pooled cash and investments	<u>\$23,134,068</u>	<u>15,661,557</u>

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

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

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

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 293,981	418,549
Net change in fair value of investments	<u>(762,480)</u>	<u>112,212</u>
	<u><u>\$(468,499)</u></u>	<u><u>530,761</u></u>

(3) Inventories

Balances of the major classes of inventory at August 31, 2013 and 2012, are shown below:

	<u>2013</u>	<u>2012</u>
Heavy materials	\$827,262	707,025
Diesel fuel	87,745	95,836
Water meters and parts	109,200	104,735
Chemicals	40,288	35,055
Total inventories	<u><u>\$1,064,495</u></u>	<u><u>942,651</u></u>

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

(4) Utility Plant

Utility plant is summarized by major classification at August 31, 2013 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2012	Increases	Decreases	August 31, 2013	August 31, 2012	Increases	Decreases	August 31, 2013	August 31, 2013
Airport	\$ 42,172	-	-	42,172	(27,011)	(422)	-	(27,433)	14,739
Structures and improvements	67,727,299	275,445	-	68,002,744	(25,778,198)	(1,230,986)	-	(27,009,184)	40,993,560
Reservoirs	38,370,053	847,228	-	39,217,281	(12,033,910)	(722,139)	-	(12,756,049)	26,461,232
Other power and production equipment	2,450,440	5,552	-	2,455,992	(1,598,123)	(58,977)	-	(1,657,100)	798,892
Electric pumping equipment	21,375,889	2,309,575	-	23,685,464	(9,144,928)	(542,226)	-	(9,687,154)	13,998,310
Purification system	28,912,064	32,762	-	28,944,826	(9,740,633)	(950,417)	-	(10,691,050)	18,253,776
Transmission mains	82,670,216	-	-	82,670,216	(16,009,354)	(1,249,221)	-	(17,258,575)	65,411,641
Distribution mains and accessories	135,384,116	8,132,666	-	143,516,782	(26,894,547)	(1,588,858)	-	(28,483,405)	115,033,377
Hydrants	4,844,227	-	-	4,844,227	(3,554,381)	(69,942)	-	(3,624,323)	1,219,904
Office furniture and equipment	1,484,779	234,226	-	1,719,005	(1,235,260)	(41,791)	-	(1,277,051)	441,954
Shop equipment	199,383	-	-	199,383	(181,656)	(3,536)	-	(185,192)	14,191
Laboratory equipment	405,221	-	-	405,221	(328,593)	(24,717)	-	(353,310)	51,911
Tools and work equipment	295,615	30,473	-	326,088	(273,566)	(9,919)	-	(283,485)	42,603
Communications system	3,142,334	17,330	-	3,159,664	(682,137)	(157,876)	-	(840,013)	2,319,651
Meters	13,222,612	126,963	-	13,349,575	(7,313,858)	(584,685)	-	(7,898,543)	5,451,032
Vehicles	3,088,744	280,789	(99,125)	3,270,408	(1,874,932)	(214,018)	86,233	(2,002,717)	1,267,691
Total depreciable assets	403,615,164	12,293,009	(99,125)	415,809,048	(116,671,087)	(7,449,730)	86,233	(124,034,584)	291,774,464
Land and land rights	5,449,698	2,049	-	5,451,747	-	-	-	-	5,451,747
Construction in progress	4,400,696	11,585,123	(10,286,791)	5,699,028	-	-	-	-	5,699,028
Total nondepreciable assets	9,850,394	11,587,172	(10,286,791)	11,150,775	-	-	-	-	11,150,775
Total capital assets	\$ 413,465,558	23,880,181	(10,385,916)	426,959,823	(116,671,087)	(7,449,730)	86,233	(124,034,584)	302,925,239

During 2013, Lincoln Water System incurred \$2,347,697 of interest cost. Interest capitalized into construction in progress during 2013 was \$248,479. 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 1.79% in 2013.

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

(4) Utility Plant

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

Asset Class	Capital Assets			August 31, 2012	Accumulated Depreciation			August 31, 2012	Net Capital Assets
	August 31, 2011	Increases	Decreases		August 31, 2011	Increases	Decreases		August 31, 2012
Airport	\$ 42,172	-	-	42,172	(26,589)	(422)	-	(27,011)	15,161
Structures and improvements	67,363,431	363,868	-	67,727,299	(24,398,945)	(1,379,253)	-	(25,778,198)	41,949,101
Reservoirs	38,370,053	-	-	38,370,053	(11,306,550)	(727,360)	-	(12,033,910)	26,336,143
Other power and production equipmen	2,426,342	24,098	-	2,450,440	(1,539,334)	(58,789)	-	(1,598,123)	852,317
Electric pumping equipment	21,374,897	992	-	21,375,889	(8,608,958)	(535,970)	-	(9,144,928)	12,230,961
Purification system	28,912,064	-	-	28,912,064	(8,785,446)	(955,187)	-	(9,740,633)	19,171,431
Transmission mains	82,669,821	395	-	82,670,216	(14,754,760)	(1,254,594)	-	(16,009,354)	66,660,862
Distribution mains and accessories	133,253,048	2,131,068	-	135,384,116	(25,371,971)	(1,522,576)	-	(26,894,547)	108,489,569
Hydrants	4,844,227	-	-	4,844,227	(3,484,439)	(69,942)	-	(3,554,381)	1,289,846
Office furniture and equipment	1,848,969	52,887	(417,077)	1,484,779	(1,611,193)	(41,144)	417,077	(1,235,260)	249,519
Shop equipment	199,383	-	-	199,383	(178,120)	(3,536)	-	(181,656)	17,727
Laboratory equipment	411,195	-	(5,974)	405,221	(306,991)	(27,576)	5,974	(328,593)	76,628
Tools and work equipment	295,615	-	-	295,615	(266,246)	(7,320)	-	(273,566)	22,049
Communications system	2,998,845	143,489	-	3,142,334	(525,237)	(156,900)	-	(682,137)	2,460,197
Meters	12,913,146	309,466	-	13,222,612	(6,729,562)	(584,296)	-	(7,313,858)	5,908,754
Vehicles	2,815,716	419,313	(146,285)	3,088,744	(1,798,345)	(204,107)	127,520	(1,874,932)	1,213,812
Total depreciable assets	400,738,924	3,445,576	(569,336)	403,615,164	(109,692,686)	(7,528,972)	550,571	(116,671,087)	286,944,077
Land and land rights	5,445,167	4,531	-	5,449,698	-	-	-	-	5,449,698
Construction in progress	1,511,081	5,123,328	(2,233,713)	4,400,696	-	-	-	-	4,400,696
Total nondepreciable assets	6,956,248	5,127,859	(2,233,713)	9,850,394	-	-	-	-	9,850,394
Total capital assets	\$ 407,695,172	8,573,435	(2,803,049)	413,465,558	(109,692,686)	(7,528,972)	550,571	(116,671,087)	296,794,471

During 2012, Lincoln Water System incurred \$2,942,846 of interest cost. Interest capitalized into construction in progress during 2012 was \$56,888. 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 1.87% in 2012.

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

(5) Long-term Liabilities

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

2013

Type of Debt	August 31, 2012	Additions	Reductions	August 31, 2013	Due Within One Year
3.00% - 5.00% Water Revenue Bonds, Series 2004, refunded in 2013.	31,210,000	—	31,210,000	—	—
2.00% - 4.50% Water Revenue Bonds, Series 2009. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2014 through 2034. Redeemable at par on or after August 15, 2019.	15,420,000	—	465,000	14,955,000	475,000
1.00% - 4.00% Water Revenue Bonds, Refunding Series 2012. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2014 through 2022.	10,895,000	—	1,010,000	9,885,000	1,025,000
1.00% - 5.00% Water Revenue Bonds, Refunding Series 2013. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2014 through 2025. Redeemable at par on or after August 15, 2023.	—	28,595,000	375,000	28,220,000	2,185,000
3.25% Nebraska Department of Environmental Quality (NDEQ) 2011 project loan payable. Interest due semi-annually on June 15 and December 15. Principal due semi-annually on June 15 and December 15 after construction is complete.	2,628,391	6,811,202	—	9,439,593	—
Unamortized premium on bonds	<u>2,071,638</u>	<u>2,719,106</u>	<u>1,197,769</u>	<u>3,592,975</u>	<u>—</u>
Total long-term debt	<u>\$62,225,029</u>	<u>38,125,308</u>	<u>34,257,769</u>	<u>66,092,568</u>	<u>3,685,000</u>

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

(5) Long-term Liabilities (continued)

2012

Type of Debt	August 31, 2011	Additions	Reductions	August 31, 2012	Due Within One Year
2.75% - 5.00% Water Revenue Bonds, Series 2002, refunded in 2012.	\$12,840,000	-	12,840,000	-	-
5.00% Water Revenue Bonds, Refunding Series 2003, final principal payment of \$2,630,000 paid on August 15, 2012.	2,630,000	-	2,630,000	-	-
3.00% - 5.00% Water Revenue Bonds, Series 2004. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2013 through 2025. Redeemable at par on or after August 15, 2014.	33,030,000	-	1,820,000	31,210,000	1,885,000
2.00% - 4.50% Water Revenue Bonds, Series 2009. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2013 through 2034. Redeemable at par on or after August 15, 2019.	15,420,000	-	-	15,420,000	465,000
1.00% - 4.00% Water Revenue Bonds, Refunding Series 2012. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2013 through 2022.	-	10,895,000	-	10,895,000	1,010,000
3.25% Nebraska Department of Environmental Quality (NDEQ) 2011 project loan payable. Interest due semi-annually on June 15 and December 15. Principal due semi-annually on June 15 and December 15 after construction is complete.	-	2,628,391	-	2,628,391	-
Unamortized premium on bonds	<u>1,474,077</u>	<u>1,093,705</u>	<u>496,144</u>	<u>2,071,638</u>	-
Total long-term debt	<u>\$65,394,077</u>	<u>14,617,096</u>	<u>17,786,144</u>	<u>62,225,029</u>	<u>3,360,000</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, 2013 and 2012

(5) Long-term Liabilities (continued)

Maturities and sinking fund requirements on long-term debt at August 31, 2013 are as follows:

Years ending August 31	Principal	Interest	Total
2014	\$ 3,685,000	1,754,556	5,439,556
2015	4,059,817	1,990,174	6,049,991
2016	4,100,457	1,918,984	6,019,441
2017	4,161,421	1,846,921	6,008,342
2018	4,267,718	1,711,174	5,978,892
2019 - 2023	21,910,449	6,131,351	28,041,800
2024 - 2028	11,119,105	2,757,467	13,876,572
2029 - 2033	7,497,496	1,224,511	8,722,007
2034	1,698,130	62,630	1,760,760
Total	\$62,499,593	19,397,768	81,897,361

In June 2012, the Lincoln Water System issued \$10,895,000 in Water Revenue Refunding Bonds at an average interest rate of 3.55% to refund \$11,910,000 of Water Revenue Bonds, Series 2002 with interest rates ranging from 3.75% to 5.00%. The System completed the advance refunding to reduce its total debt service payments over the next 10 years by \$3,119,197, for an economic gain of \$1,947,399.

In June 2013, the Lincoln Water System issued \$28,595,000 in Water Revenue Refunding Bonds at an average interest rate of 3.42% to refund \$31,210,000 of Water Revenue Bonds, Series 2004 with interest rates ranging from 4.25% to 5.00%. The System completed the advance refunding to reduce its total debt service payments over the next 12 years by \$5,748,864 for an economic gain of \$3,315,926.

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 and loan provided financing for improvements to the water supply system, as well as refunding prior 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 and loan is \$81,897,361, with annual payments expected to require 23 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$4,195,562 and \$18,128,425, 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. During the year ended August 31, 2013, Lincoln Water System incurred project costs totaling \$7,383,648 resulting in the recognition of a project payable of \$9,439,593. The remaining available funds totaling \$5,560,407 are not reflected in the Lincoln Water System financial statements.

Construction contracts of the Lincoln Water System at August 31, 2013 and 2012 are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
August 31, 2013	\$1,949,200	3,877,967	1,758,562	4,068,605	3,899,892
August 31, 2012	\$2,362,977	1,755,564	2,169,341	1,949,200	1,758,562

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2013 and 2012

(6) Commitments and Contingencies

Lincoln Water System has commitments under major construction contracts in progress of approximately \$6,600,000 at August 31, 2013.

(7) Related Party Transactions

The City billed the Water System approximately \$580,000 and \$535,000 for administrative services during 2013 and 2012, 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 \$2,885,000 and \$2,925,000 during 2013 and 2012, respectively. Further, the Water System collects payments from customers on behalf of LES. At August 31, 2013 and 2012, approximately \$315,000 and \$542,000, respectively are included in accounts payable for amounts owed to LES for electricity used and customer payments collected.

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 \$867,183 and \$73,164 as of August 31, 2013 and 2012, 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 \$195,924 and \$299,582 as of August 31, 2013 and 2012, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the balance sheets.

(8) 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 \$288,400 and \$249,000 in 2013 and 2012, respectively.

(9) 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. Contributions made by the System were approximately \$619,000 and \$642,000 for 2013 and 2012, respectively. Contributions made by the plan members were approximately \$344,000 and \$352,000 for 2013 and 2012, respectively.

SUPPLEMENTARY
INFORMATION

LINCOLN WATER SYSTEM

Schedule 1

Summary of Long-Term Debt

August 31, 2013

Due years ending August 31	Series 2009		Series 2012		Series 2013		NDEQ Loan (D311548) 2011		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2014	475,000	580,031	1,025,000	317,400	2,185,000	857,125	-	-	3,685,000	1,754,556	5,439,556
2015	490,000	570,531	1,040,000	302,025	2,180,000	835,275	349,817	282,343	4,059,817	1,990,174	6,049,991
2016	500,000	558,281	1,055,000	286,425	2,185,000	802,575	360,457	271,703	4,100,457	1,918,984	6,019,441
2017	520,000	545,781	1,075,000	270,600	2,195,000	769,800	371,421	260,740	4,161,421	1,846,921	6,008,342
2018	535,000	530,181	1,115,000	227,600	2,235,000	703,950	382,718	249,443	4,267,718	1,711,174	5,978,892
2019-2023	2,990,000	2,375,594	4,575,000	447,000	12,250,000	2,243,400	2,095,449	1,065,357	21,910,449	6,131,351	28,041,800
2024-2028	3,695,000	1,739,770	-	-	4,990,000	291,000	2,434,105	726,697	11,119,105	2,757,467	13,876,572
2029-2033	4,670,000	891,206	-	-	-	-	2,827,496	333,305	7,497,496	1,224,511	8,722,007
2034	1,080,000	48,600	-	-	-	-	618,130	14,030	1,698,130	62,630	1,760,760
	14,955,000	7,839,975	9,885,000	1,851,050	28,220,000	6,503,125	9,439,593	3,203,618	62,499,593	19,397,768	81,897,361

LINCOLN WATER SYSTEM

Schedule 2

Debt Coverage Ratio

Last ten fiscal years

Fiscal Year Ending	Gross Revenue	Direct Operating Expenses	Net Available Balance	Debt Service Requirement on Revenue Bonds				Debt Service Requirement for all Debt			
				Principal	Interest	Total	Coverage	Principal	Interest	Total	Coverage
2004	24,557,918	12,477,486	12,080,432	3,115,000	2,411,633	5,526,633	2.19	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	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	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	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	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	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	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	6,310,000	3,191,857	9,501,857	1.60
2012	35,984,891	15,636,494	20,348,397	5,380,000	2,953,765	8,333,765	2.44	5,380,000	2,955,202	8,335,202	2.44
2013	34,241,815	16,113,390	18,128,425	1,850,000	2,253,368	4,103,368	4.42	1,850,000	2,345,562	4,195,562	4.32

LINCOLN WATER SYSTEM

Schedule 3

Operating Expenses

Years ended August 31, 2013 and 2012

	2013	2012
Lincoln Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 63,089	62,038
Electrical maintenance	813	430
Control System Maintenance	228	186
Wellfield maintenance	16,745	40,377
Wellfield operations	1,069	-
Depreciation of general plant	903	903
Total source of supply	\$ 82,847	103,934
Power and pumping expenses:		
Supervision, management and administrative support	\$ 125,837	116,680
Training and education	14,813	16,195
Data management	4,003	6,171
General operations	198,880	169,159
Structures maintenance	18,842	34,996
Control system maintenance	40,803	53,672
Electrical maintenance	171,536	136,819
Grounds maintenance	340,632	281,711
Main repair/maintenance	3,424	9,857
Customer services	68,028	60,013
Pumping and transmission maintenance	153,212	137,981
Pumping and transmission operations	1,736,722	1,846,011
Security maintenance	6,229	6,698
Depreciation of pumping equipment	427,917	435,444
Depreciation of general plant and improvements	1,886	-
Depreciation of structures and improvement	928,419	928,833
Total power and pumping	\$ 4,241,183	4,240,240
Total - Lincoln Water Plant	\$ 4,324,030	4,344,174
Ashland Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 157,785	151,079
Training and education	597	-
Control system maintenance	20,809	29,654
Electrical maintenance	32,551	46,685
Grounds maintenance	101,070	107,948
Main repair/maintenance	1,093	5,686
Laboratory operations	6,231	8,123
Security maintenance	131	3,270
Wellfield maintenance	192,626	172,851
Wellfield operations	1,074,318	990,692
Depreciation of transmission mains	260,420	260,420
Depreciation of other production equipment	2,884	2,698
Depreciation of wells and houses	465,350	465,350
Total source of supply	\$ 2,315,865	2,244,456

LINCOLN WATER SYSTEM

Schedule 3, Cont.

Operating Expenses

	2013	2012
Power and pumping expenses:		
Supervision, management and administrative support	\$ 136,312	140,404
General operations	1,035	1,106
Structures maintenance	-	865
Control system maintenance	17,037	17,517
Electrical maintenance	35,827	30,111
Grounds maintenance	-	541
Main repair/maintenance	800	236
Pumping and transmission maintenance	73,230	78,050
Pumping and transmission operations	864,635	869,219
Depreciation of pumping equipment	399,882	385,121
Depreciation of structures and improvement	159,218	159,218
Depreciation of transmission mains	533,748	533,748
Depreciation of other production equipment	54,201	54,200
Total power and pumping	\$ 2,275,925	2,270,336
Purification expense:		
Supervision, management and administrative support	\$ 361,640	345,446
Training and education	229,367	178,946
General operations	179,956	165,320
Treatment and process control	118,480	132,889
Structures maintenance	44,973	27,337
Process equipment maintenance	19,592	7,744
Control system maintenance	158,588	143,939
Electrical maintenance	31,385	43,433
Grounds maintenance	475,538	461,717
Laboratory operations	398,749	372,831
Treatment operations	664,216	747,876
Security maintenance	9,703	7,058
Depreciation of structures and improvements	273,300	426,375
Depreciation of transmission mains	20,088	20,088
Depreciation of purification equipment	950,417	955,188
Depreciation of general plant & equipment	24,974	27,864
Total purification expenses	\$ 3,960,966	4,064,051
Total Ashland Water Plant	\$ 8,552,756	8,578,843
Total supply, pumping and purification	\$ 12,876,786	12,923,017

LINCOLN WATER SYSTEM

Schedule 3, Cont.

Operating Expenses

	2013	2012
Transmission and distribution expenses:		
Supervision and management	\$ 985,747	777,419
Administrative and support staff	481,008	471,207
Training and education	85,960	58,705
Data management	651,443	637,274
General operations	365,493	329,588
Main repair/maintenance	1,674,568	1,663,491
Contractor services	302,697	223,611
Customer services	1,567,055	1,399,836
Depreciation of structures and improvements	1,033	1,033
Depreciation of transmission mains	433,394	438,768
Depreciation of distribution mains	2,167,886	2,101,213
Depreciation of hydrants and fountains	69,942	69,942
Depreciation of general plant and equipment	28,356	34,173
Total transmission and distribution	\$ 8,814,582	8,206,260
Accounting and collecting expenses:		
Supervision and management	\$ 191,948	189,710
Administrative and support staff	2,817	3,607
Meter reading	130,302	142,693
Billing and accounting	258,058	325,151
Collections	95,410	118,524
Customer services and billing	133,086	148,972
Customer contracts and orders	30,797	42,130
Depreciation of general plant and equipment	7,650	7,650
Total accounting and collecting	\$ 850,068	978,437
Administrative and general expenses:		
Supervision and management	\$ 873,164	913,914
Administrative and support staff	124,676	127,202
Depreciation of general plant and equipment	23,844	16,636
Total administrative and general	\$ 1,021,684	1,057,752

LINCOLN WATER SYSTEM

Schedule 4

Utility Plant in Service

August 31, 2013

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2012	Increases	Decreases	August 31, 2013	August 31, 2012	Increases	Decreases	August 31, 2013	August 31, 2013
Lincoln Water Plant:									
Airport	\$ 42,172	-	-	42,172	(27,011)	(422)	-	(27,433)	14,739
Structures and improvements	15,428,597	270,047	-	15,698,644	(8,033,874)	(369,717)	-	(8,403,591)	7,295,053
Reservoirs	26,086,436	847,228	-	26,933,664	(9,274,530)	(544,878)	-	(9,819,408)	17,114,256
Other power and production equipment	37,856	-	-	37,856	(6,625)	(1,893)	-	(8,518)	29,338
Electric pumping equipment	15,253,731	(38,420)	-	15,215,311	(4,126,420)	(382,296)	-	(4,508,716)	10,706,595
Purification system	-	-	-	-	-	1,072	-	1,072	-
Transmission mains	33,680,814	-	-	33,680,814	(7,735,633)	(434,965)	-	(8,170,598)	25,510,216
Distribution mains and accessories	135,384,116	8,132,666	-	143,516,782	(26,894,547)	(1,588,858)	-	(28,483,405)	115,033,377
Hydrants	4,844,227	-	-	4,844,227	(3,554,381)	(69,942)	-	(3,624,323)	1,219,904
Office furniture and equipment	1,385,851	234,226	-	1,620,077	(1,159,033)	(40,770)	-	(1,199,803)	420,274
Shop equipment	181,432	-	-	181,432	(163,705)	(3,536)	-	(167,241)	14,191
Laboratory equipment	7,959	-	-	7,959	(3,670)	(796)	-	(4,466)	3,493
Tools and work equipment	195,403	30,473	-	225,876	(173,410)	(9,887)	-	(183,297)	42,579
Communications system	1,188,760	-	-	1,188,760	(473,647)	(58,585)	-	(532,232)	656,528
Meters	13,222,612	126,963	-	13,349,575	(7,313,858)	(584,685)	-	(7,898,543)	5,451,032
Lincoln depreciable assets	246,939,966	9,603,183	-	256,543,149	(68,939,272)	(4,091,230)	-	(73,030,502)	183,512,647
Land and land rights	1,546,172	2,049	-	1,548,221	-	-	-	-	1,548,221
Lincoln nondepreciable assets	1,546,172	2,049	-	1,548,221	-	-	-	-	1,548,221
Total Lincoln plant	248,486,138	9,605,232	-	258,091,370	(68,939,272)	(4,091,230)	-	(73,030,502)	185,060,868
Ashland Water Plant:									
Structures and improvements	52,298,702	5,398	-	52,304,100	(17,744,324)	(861,269)	-	(18,605,593)	33,698,507
Reservoirs	12,283,617	-	-	12,283,617	(2,759,380)	(177,261)	-	(2,936,641)	9,346,976
Transmission mains	48,989,402	-	-	48,989,402	(8,273,721)	(814,256)	-	(9,087,977)	39,901,425
Office furniture and equipment	98,928	-	-	98,928	(76,227)	(1,021)	-	(77,248)	21,680
Shop equipment	17,951	-	-	17,951	(17,951)	-	-	(17,951)	-
Laboratory equipment	397,262	-	-	397,262	(324,923)	(23,921)	-	(348,844)	48,418
Other power and production equipment	2,412,584	5,552	-	2,418,136	(1,591,498)	(57,084)	-	(1,648,582)	769,554
Electric pumping equipment	6,122,158	2,347,995	-	8,470,153	(5,018,508)	(159,930)	-	(5,178,438)	3,291,715
Purification system	28,912,064	32,762	-	28,944,826	(9,741,705)	(950,417)	-	(10,692,122)	18,252,704
Communications Systems	1,953,574	17,330	-	1,970,904	(208,490)	(99,291)	-	(307,781)	1,663,123
Tools and work equipment	100,212	-	-	100,212	(100,156)	(32)	-	(100,188)	24
Ashland depreciable assets	153,586,454	2,409,037	-	155,995,491	(45,856,883)	(3,144,482)	-	(49,001,365)	106,994,126
Land and land rights	3,903,526	-	-	3,903,526	-	-	-	-	3,903,526
Ashland nondepreciable assets	3,903,526	-	-	3,903,526	-	-	-	-	3,903,526
Total Ashland plant	157,489,980	2,409,037	-	159,899,017	(45,856,883)	(3,144,482)	-	(49,001,365)	110,897,652
Vehicles and work equipment (all locations)	3,088,744	280,789	(99,125)	3,270,408	(1,874,932)	(214,018)	86,233	(2,002,717)	1,267,691
Utility plant in service	\$ 409,064,862	12,295,058	(99,125)	421,260,795	(116,671,087)	(7,449,730)	86,233	(124,034,584)	297,226,211
Construction in progress	4,400,696	11,585,123	(10,286,791)	5,699,028	-	-	-	-	5,699,028
Total capital assets	\$ 413,465,558	23,880,181	(10,385,916)	426,959,823	(116,671,087)	(7,449,730)	86,233	(124,034,584)	302,925,239

GENERAL STATISTICS

Year Ended August 31, 2013

(Unaudited)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	92.05 Square Miles
Population	268,808 Estimate
Source of Water Supply	Wells
Location of Supply - Platte River, Ashland, Nebraska	
Well Capacity - Ashland	120 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, 2013	25.75
Kind and Size of Mains 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, 2012	1,250.3
Estimated Added During Year	11.8
Estimated Removed During Year	3.2
Total as of August 31, 2013	1,258.90 Miles
Amount of Water Pumped During Year Ended August 31, 2013	13,093,510,000 gallons
Average Daily Consumption of Water	35,872,630 gallons
Average Daily Consumption Per Capita	133 gallons
Total Number of Active Residential Water Customers	
End of Fiscal Year	75,640
Total Number of Active Non-Residential Water Customers	
End of Fiscal Year	4,778
Total Debt of Lincoln Water System at August 31, 2013	\$62,499,593

LINCOLN WATER SYSTEM

Schedule 6

TOP TEN CUSTOMERS**Year Ended August 31, 2013**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	445,808	\$823,075
2. City of Lincoln	307,507	634,841
3. Archer-Daniels Midland Company	302,504	388,834
4. State of Nebraska	288,334	573,743
5. University of Nebraska Foundation	165,365	213,292
6. Veyance Technologies, Inc.	147,375	195,900
7. BryanLGH Medical Center	139,861	285,820
8. Lincoln Public Schools	136,813	290,453
9. Pfizer Animal Health	133,595	176,291
10. Lincoln Plating Company	104,093	202,567
Top Ten Users Totals	2,171,255	\$3,784,816

1 Property" shall be defined as property consisting of dwelling units. If there is more than one
 2 use per master meter on any one property including the residential use, the schedule to be
 3 used will be determined as residential, if the residential portion is 50 percent or more of the
 4 area of the building.

	Effective November, 2012	Effective November, 2013
5 100 to 800 cubic feet	\$1.344	\$1.344
6 801 to 2,300 cubic feet	1.911	1.911
7 2,301 cubic feet and up	2.961	2.961

8 SCHEDULE B

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

	Effective November, 2012	Effective November, 2013
12 100 to 8,000 cubic feet	\$1.344	\$1.344
13 8,001 cubic feet and up	1.911	1.911

14 SCHEDULE C

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

1 The following fees would apply:

	Effective November, 2012	Effective November, 2013
2 Base and below (per 100 cubic 3 feet)	127.6	127.6
4 Water usage 5%- 15% above 5 base (per 100 cubic feet)	132.3	132.3
6 Water usage 15% - 25% above 7 base (per 100 cubic feet)	136.5	136.5
8 Water usage over 25% above 9 base (per 100 cubic feet)	140.7	140.7

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

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

	Effective November, 2012	Effective November, 2013
15 Water Meter Size	Service Charge	Service Charge
16 5/8 inch	\$3.60	\$3.80
17 5/8 x 3/4 inch	4.55	5.75
18 3/4 inch	4.55	5.75
19 1 inch	7.60	9.60
20 1-1/2 inch	15.15	19.15
21 2 inch	24.25	30.65
22 3 inch	45.50	57.50
23 4 inch	75.85	95.85
24 6 inch	151.65	191.65
25 8 inch	242.65	306.65
26 10 inch	348.85	440.85

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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.

BE IT FURTHER RESOLVED that Resolution No. A-86439, adopted by the City Council on August 8, 2011, is hereby superseded.

Introduced by:

Jon A. Camp

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

Approved as to Form & Legality:

D. Couper
City Attorney

Approved this 10th day of Aug., 2012:
Chris Brown
Mayor

ADOPTED
AUG - 8 2012
BY CITY COUNCIL

<h1 style="margin: 0;">CITY OF LINCOLN</h1> <p style="margin: 5px 0;">Request for: <input type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution</p>	(Do Not Write in this Space)
	Bill Control No. <u>12R-176</u> Date: <u>7/24</u>
	Docketing Date <u>7/30; PH. 8-6-12</u>
	(To Be Entered by City Clerk)

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

REASONS OR JUSTIFICATION FOR PROPOSED LEGISLATION

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

FILED

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

REQUESTOR <input type="checkbox"/> DOES <input checked="" type="checkbox"/> DOES NOT	WISH TO REVIEW AND APPROVE THIS ORDINANCE PRIOR TO ITS INTRODUCTION		<u>7/24/12</u> DATE
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TO BE USED BY THE FINANCE DEPARTMENT

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

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

City Council Introduction: July 30, 2012

Bill Number 12R-176

Public Hearing: August 6, 2012

FACT SHEET**TITLE:** Proposed Resolution to increase Water Use Charges**SPONSOR:** Public Works/Utilities**OTHER DEPARTMENTS AFFECTED:****OPPONENTS:** Unknown**APPLICANT:** Public Works/Utilities**STAFF RECOMMENDATION:** For**REASON FOR LEGISLATION:** To establish a new rate schedule for Lincoln Water System for purposes of covering the System's operational and maintenance costs including debt service, and the costs of the Capital Improvements Program for F.Y. 2012-13 and F.Y. 2013-14.**DISCUSSION**

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

Water Meter Size	Current Rate	Effective November, 2012	Effective November, 2013
		Service Charge	Service Charge
5/8 inch	\$3.42	\$3.60	\$3.80
5/8 x 3/4 inch	3.42	4.55	5.75
3/4 inch	3.42	4.55	5.75
1 inch	3.42	7.60	9.60
1-1/2 inch	6.84	15.15	19.15
2 inch	13.66	24.25	30.65
3 inch	30.73	45.50	57.50
4 inch	54.64	75.85	95.85
6 inch	122.88	151.65	191.65
8 inch	218.51	242.65	306.65
10 inch	341.39	348.85	440.85

FACT SHEET PREPARED BY: *Fran Mejia*

Public Works & Utilities Business Manager

REVIEWED BY: *Mike Eysa*

Director of Public Works & Utilities

Quantitative Statistics

Years ended August 31, 2013 and 2012

(Unaudited)

	2013	2012	Increase (decrease)
Water pumpage in one hundred cubic feet: (H.C.F.) by months:			
September	1,956,364	1,606,230	350,134
October	1,516,658	1,499,586	17,072
November	1,144,612	971,698	172,914
December	1,094,318	1,001,364	92,955
January	1,098,690	1,050,588	48,102
February	990,882	1,002,834	(11,952)
March	1,086,992	1,120,842	(33,850)
April	1,086,297	1,324,452	(238,155)
May	1,325,027	1,711,297	(386,270)
June	1,547,340	2,169,184	(621,845)
July	2,487,727	2,942,179	(454,452)
August	2,169,786	2,359,532	(189,746)
Total H.C.F. pumped	17,504,693	18,759,786	(1,255,094)
H.C.F. sold and donated:			
Customer metered sales	15,479,661	17,482,179	
Used in new building construction (estimated)	10,000	10,000	
Used in flushing on new sewers, water main construction, etc. (estimated)	5,500	5,500	
Hydrant permits	37,883	42,441	
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	15,536,594	17,543,670	
Total H.C.F. unaccounted for	1,968,099	1,216,116	
Percent of H.C.F. unaccounted for	11.24%	6.48%	

LINCOLN WATER SYSTEM

Schedule 9

COMPARATIVE PUMPING REPORT

For Fiscal Years as Shown by Gallons

(Unaudited)

MONTH	August 31, 2013	August 31, 2012	August 31, 2011	August 31, 2010	August 31, 2009
September	1,463,360,000	1,201,460,000	1,172,000,000	1,078,830,000	1,122,830,000
October	1,134,460,000	1,121,690,000	1,196,680,000	817,530,000	952,000,000
November	856,170,000	726,830,000	808,380,000	697,300,000	759,790,000
December	818,550,000	749,020,000	682,970,000	682,290,000	789,130,000
January	821,820,000	785,840,000	673,740,000	747,470,000	847,930,000
February	741,180,000	750,120,000	619,320,000	690,540,000	698,790,000
March	813,070,000	838,390,000	728,530,000	756,830,000	819,680,000
April	812,550,000	990,690,000	755,980,000	857,960,000	798,590,000
May	991,120,000	1,280,050,000	1,002,360,000	959,180,000	1,231,090,000
June	1,157,410,000	1,622,550,000	1,115,880,000	1,056,010,000	1,087,110,000
July	1,860,820,000	2,200,750,000	1,567,420,000	1,284,390,000	1,502,970,000
August	1,623,000,000	1,764,930,000	1,362,790,000	1,710,020,000	1,331,280,000
Total	13,093,510,000	14,032,320,000	11,686,050,000	11,338,350,000	11,941,190,000

LINCOLN WATER SYSTEM

Schedule 10

Annual Rainfall (by month)

Last ten fiscal years

(Unaudited)

	30 Yr Avg	125 Yr Avg	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
September	3.02	2.99	1.73	1.33	3.73	1.25	4.10	3.10	3.93	0.28	3.24	3.13
October	1.97	1.88	1.92	0.93	0.13	4.24	4.79	4.50	0.90	2.76	0.45	1.35
November	1.43	1.24	0.15	1.66	1.97	0.06	1.22	0.05	0.09	2.03	2.61	2.42
December	0.95	0.82	1.50	1.58	0.24	2.42	0.80	2.09	3.05	0.52	0.43	0.52
January	0.64	0.67	0.73	0.16	1.07	0.82	0.38	0.44	0.64	0.91	1.03	0.81
February	0.77	0.94	0.54	2.10	0.79	0.99	0.64	0.55	1.31	0.07	2.22	1.17
March	1.93	1.58	2.12	0.89	0.66	1.77	0.18	1.13	2.79	3.03	0.65	2.83
April	2.71	2.57	4.02	3.49	3.27	2.53	1.52	3.80	3.44	3.83	2.22	0.92
May	4.29	3.81	8.44	3.00	6.00	3.70	1.17	4.12	8.13	2.09	2.18	3.04
June	4.34	4.16	2.49	3.57	3.44	9.90	6.18	8.59	2.28	0.65	2.85	3.09
July	3.40	3.41	1.00	0.33	1.55	5.83	1.84	3.58	1.22	2.08	5.30	2.75
August	3.48	3.47	1.11	0.30	6.89	2.81	3.20	1.78	5.80	4.05	2.55	2.16
Total	28.93	27.54	25.75	19.34	29.74	36.32	26.02	33.73	33.58	22.30	25.73	24.19

LINCOLN WATER SYSTEM

WATER ANALYSIS

(All Results in Parts Per Million)
(Collected September 4, 2013)
(Unaudited)

550 W. Cornhusker Hwy.

Hydrogen Ion Concentration (pH)	7.70
Total Dissolved Solids	306 ppm.
Total Iron (Fe)	<0.050 ppm.
Manganese (Mn)	2.22 ppb.
Calcium (as Ca)	48.7 ppm.
Total Alkalinity (CaCO ₃)	152 ppm.
Chloride (Cl)	17.4 ppm.
Fluoride (F)	0.94 ppm.
Nitrate (+Nitrite)	0.277 ppm.
Sodium (Na)	28.1 ppm.
Hardness as (CaCO ₂)	
Total Hardness	166 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, 2013

(Unaudited)

Type of policy	Insurance coverage	Policy limits	Self-insured retention deductible	Self-insurance deductible	Insurance carrier	Policy number
Automobile Fleet Liability	Self-Insured Excess Coverage Excess Coverage	0 - 250,000 250,000 - 1,000,000 1,000,000 - 6,000,000	250,000		States	SEL3017305
Automobile Fleet Physical Damage**	Self-Insured	Actual cash value	2,500	2,500		
Building and Contents (Includes Boiler & Machinery)	Blanket policy - buildings and contents	Replacement cost	50,000	2,500	FM Global	FM969
Money and Securities	Inside/outside premises	50,000	500	0	Fidelity & Deposit	CCP003059514
Water Distribution	Water distribution center	25,000,000	50,000	10,000	FM Global	FM969
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FM969
Equipment Floater (911)	Radio tower floater	Replacement cost	50,000	2,500	FM Global	FM969
Equipment Floater (NON-LIC)	Nonlicensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM969
General Liability ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017305
Public Employee Blanket Bond	Employees blanket bond coverage	1,000,000	25,000	10,000	Fidelity & Deposit	CCP003059514
Public Officials Liability***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017305
Workers' Compensation Excess	Statutory	Statutory	800,000	0	Midwest Employers Casualty (MECC)	EWC007744

** Self-insured for both comp & collision.

*** Public Entity Policy

LINCOLN WATER 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, 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 Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Lincoln Water System, which comprise the balance sheet as of August 31, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 27, 2013, which contained an other matter paragraph indicating that the financial statements do not purport to, and do not, present fairly the financial position and changes in financial position of the City of Lincoln, Nebraska as a whole.

Internal Control Over Financial Reporting

Management of Lincoln Water System is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered Lincoln Water System's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lincoln Water System's internal control. Accordingly, we do not express an opinion on the effectiveness of Lincoln Water System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Lincoln Water System's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether Lincoln 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*.

Other Matters

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

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln Water System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Lincoln, Nebraska
November 27, 2013