

LINCOLN WATER SYSTEM

Financial Statements & Schedules
Fiscal Year Ended August 31, 2008



ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS/UTILITIES

CITY OFFICIALS

Chris Beutler Mayor

COUNCIL MEMBERS

Robin Eschliman Chair

Dan Marvin Vice-Chair

Jon Camp
Jonathan Cook
Ken Svoboda
Doug Emery
John Spatz

WATER SYSTEM

Greg MacLean Director of Public Works/Utilities

Lincoln Water System
August 31, 2008 and 2007

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis	3
Financial Statements	
Balance Sheets	9
Statements of Revenues, Expenses and Changes in Net Assets	10
Statements of Cash Flows	11
Notes to Financial Statements	12
Supplementary Information	
Summary of Long-Term Debt	28
Operating Expenses	29
Utility Plant in Service	32
General Statistics (unaudited)	33
Top Ten Customers (unaudited)	34
Water Use Charges (unaudited)	35
Quantitative Statistics (unaudited)	40
Comparative Pumping Report (unaudited)	41
Annual Rainfall (unaudited)	42
Water Analysis (unaudited)	43
Summary of Insurance Coverage (unaudited)	44
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	46



Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying basic financial statements of Lincoln Water System as of and for the years ended August 31, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of Lincoln Water System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of Lincoln Water System are intended to present the financial position, the changes in financial position and cash flows of only that portion of the City of Lincoln, Nebraska, that is attributable to the transactions of Lincoln Water System. They do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Water System as of August 31, 2008 and 2007, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2008 on our consideration of Lincoln Water System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audits were conducted for the purpose of forming an opinion on Lincoln Water System's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "Unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

November 25, 2008

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, 2008 and 2007. Please read this information in conjunction with the accompanying basic financial statements and notes to the financial statements.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The System's Net Assets

The System's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The System's net assets increased by \$5,659,689 (2.43%) in 2008 over 2007 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, 2008, 2007, and 2006.

Table 1

Condensed Balance Sheets

	August 31		Variance	
	2008	2007	Dollars	Percent
Current assets	\$ 11,814,994	\$ 18,341,575	(\$ 6,526,581)	-35.58%
Capital assets	286,316,418	260,778,290	25,538,128	9.79%
Restricted assets	11,382,762	26,185,342	(14,802,580)	-56.53%
Long-term investments	8,281,319	8,120,246	161,073	1.98%
Deferred charges	640,025	710,058	(70,033)	-9.86%
Total assets	318,435,518	314,135,511	4,300,007	1.37%
Current liabilities	15,040,929	12,025,855	3,015,074	25.07%
Long-term liabilities	64,799,551	69,174,307	(4,374,756)	-6.32%
Total liabilities	79,840,480	81,200,162	(1,359,682)	-1.67%
Net assets				
Invested in capital assets, net of related debt	224,118,809	204,223,192	19,895,617	9.74%
Restricted for debt service	220,921	205,715	15,206	7.39%
Restricted for capital acquisition	404,423	2,203,158	(1,798,735)	-81.64%
Unrestricted	13,850,885	26,303,284	(12,452,399)	-47.34%
Total net assets	238,595,038	232,935,349	5,659,689	2.43%
Total liabilities and net assets	\$318,435,518	\$314,135,511	\$4,300,007	1.37%

Financial Highlights – Fiscal Year 2008

- Total assets at year-end were \$318,435,518 and exceeded total liabilities by \$238,595,038, which results in an improved positive accumulated net assets position.
- Current assets decreased by \$6,526,581 (-35.58%) due to completion of several projects.
- Capital assets increased by \$25,538,128 (9.79%) due to major project additions, which included:
 - Water Distribution Mains – approximately \$2,613,000
 - Water Transmission Pump Station & Mains – approximately \$20,307,000
 - Selected Main Replacements – approximately \$2,600,000

Table 2

Condensed Balance Sheets

	August 31		Variance	
	2007	2006	Dollars	Percent
Current assets	\$ 18,341,575	\$ 18,289,325	\$ 52,250	0.29%
Capital assets	260,778,290	250,025,768	10,752,522	4.30%
Restricted assets	26,185,342	31,429,446	(5,244,104)	-16.69%
Long-term investments	8,120,246	8,044,681	75,565	0.94%
Deferred charges	710,058	780,091	(70,033)	-8.98%
Total assets	314,135,511	308,569,311	5,566,200	1.80%
Current liabilities	12,025,855	8,511,529	3,514,326	41.29%
Long-term liabilities	69,174,307	74,834,414	(5,660,107)	-7.56%
Total liabilities	81,200,162	83,345,943	(2,145,781)	-2.57%
Net assets				
Invested in capital assets, net of related debt	204,223,192	199,305,348	4,917,844	2.47%
Restricted for debt service	205,715	253,434	(47,719)	-18.83%
Restricted for capital acquisition	2,203,158	1,573,744	629,414	39.99%
Unrestricted	26,303,284	24,090,842	2,212,442	9.18%
Total net assets	232,935,349	225,223,368	7,711,981	3.42%
Total liabilities and net assets	\$314,135,511	\$308,569,311	\$5,566,200	1.80%

Financial Highlights – Fiscal Year 2007

- Total assets at year-end were \$314,135,511 and exceeded total liabilities by \$232,935,349 which results in an improved positive accumulated net assets position.
- Current assets increased by \$52,250 (0.29%) due to unspent bond proceeds and operating profits being retained in working capital.
- Capital assets increased by \$10,752,522 (4.30%) due to major project additions, which included:
 - Water Distribution Mains – approximately \$5,952,000
 - Selected Main Replacements – approximately \$4,691,000

Table 3

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

	August 31		Variance	
	2008	2007	Dollars	Percent
Operating revenue				
Water revenue	\$23,506,747	\$24,566,224	(\$1,059,477)	-4.31%
Other revenue	542,292	683,408	(141,116)	-20.65%
Total operating revenue	<u>24,049,039</u>	<u>25,249,632</u>	<u>(1,200,593)</u>	<u>-4.75%</u>
Operating expenses				
Supply, pumping and purification	11,741,251	11,815,384	(74,133)	-0.63%
Transmission and distribution	7,447,752	7,068,748	379,004	5.36%
Accounting and collecting	858,711	864,001	(5,290)	-0.61%
Administrative and general	1,305,044	1,327,440	(22,396)	-1.69%
Total operating expenses	<u>21,352,758</u>	<u>21,075,573</u>	<u>277,185</u>	<u>1.32%</u>
Operating income	2,696,281	4,174,059	(1,477,778)	-35.40%
Net nonoperating revenues (expenses)	(32,899)	117,642	(150,541)	-127.97%
Capital contributions	2,996,307	3,420,280	(423,973)	-12.40%
Change in net assets	<u>\$5,659,689</u>	<u>\$7,711,981</u>	<u>(\$2,052,292)</u>	<u>-26.61%</u>

Financial Highlights – Fiscal Year 2008

- Operating revenues decreased by \$1,200,593 (-4.75%) compared to 2007. There was a user fee increase of 7% which was effective in February 2008, but due to wet weather, usage and revenue was down. Total water pumpage for 2008 was 11,983,570,000 gallons, 812,280,000 gallons less than the water pumpage for 2007.
- Operating expenses increased \$277,185 (1.32%) compared to 2007, in part due to increased employee benefit costs, electricity costs, and chemical costs.
- Net nonoperating revenues (expenses) provided a net decrease in 2008 of \$150,541 compared to 2007 due to lower interest rates on investments.

Table 4

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

	August 31		Variance	
	2007	2006	Dollars	Percent
Operating revenue				
Water revenue	\$24,566,224	\$25,082,457	(\$ 516,233)	-2.06%
Other revenue	683,408	564,750	118,658	21.01%
Total operating revenue	<u>25,249,632</u>	<u>25,647,207</u>	<u>(397,575)</u>	<u>-1.55%</u>
Operating expenses				
Supply, pumping and purification	11,815,384	11,385,602	429,782	3.77%
Transmission and distribution	7,068,748	6,879,966	188,782	2.74%
Accounting and collecting	864,001	906,679	(42,678)	-4.71%
Administrative and general	1,327,440	1,034,904	292,536	28.27%
Total operating expenses	<u>21,075,573</u>	<u>20,207,151</u>	<u>868,422</u>	<u>4.30%</u>
Operating income	4,174,059	5,440,056	(1,265,997)	-23.27%
Net nonoperating revenues (expenses)	117,642	(1,233,077)	1,350,719	-109.54%
Capital contributions	3,420,280	5,885,124	(2,464,844)	-41.88%
Change in net assets	<u>\$7,711,981</u>	<u>\$10,092,103</u>	<u>(\$2,380,122)</u>	<u>-23.58%</u>

Financial Highlights – Fiscal Year 2007

- Operating revenues decreased by \$397,575 (-1.55%) compared to 2006. This decrease was primarily due to the user fee increase of 7.00% that was implemented with the water billings beginning in February of 2007; however, there was a decrease in water sold because the amount of rain increased during fiscal year. Total water pumpage for 2007 was 12,795,850,000 gallons, 1,229,236,250 gallons less than the water pumpage for 2006.
- Operating expenses increased \$868,422 (4.30%) compared to 2006, in part due to increased employee benefit costs, electricity costs, and chemical costs.
- Net nonoperating revenues (expenses) provided a net increase in 2007 of \$1,350,719 compared to 2006 due to higher interest rates on investments and decreased interest expense. Developer capital contributions decreased approximately \$2,500,000 from 2006 to 2007 due to completion of fewer projects.

Debt Activity

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

System Credit and Bond Ratings

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

Commitments and Contingencies

Lincoln Water System has commitments under major construction contracts in progress of approximately \$12,350,000 at August 31, 2008.

Forward-Looking Information

The approved Capital Improvement Program for Fiscal Year 2008/09 -2013/14 identifies the need for \$109,125,000 to fund capital improvements for the Water System. Approximately \$70,030,000 of that total is projected to be funded by revenue bonds. Future user fee increases will be needed to make the necessary improvements possible.

Contact Information

This financial report is intended to provide users with a general overview of the System's financial performance for 2008 and 2007. 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, 2008 and 2007

Assets	2008	2007
Current assets:		
Equity in pooled cash and investments	\$ 3,491,334	7,012,925
Receivables:		
Accounts receivable	2,396,260	2,765,516
Unbilled revenues	3,483,790	3,497,537
Impact fees	404,423	2,203,158
Due from other funds	995,752	2,039,588
Total receivables	7,280,225	10,505,799
Inventories	1,043,435	822,851
Total current assets	11,814,994	18,341,575
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and investments	11,382,762	26,185,342
Investments	8,281,319	8,120,246
Total restricted assets	19,664,081	34,305,588
Utility plant	378,408,545	346,195,887
Less accumulated depreciation	92,092,127	85,417,597
Net utility plant	286,316,418	260,778,290
Unamortized bond issuance costs	640,025	710,058
Total noncurrent assets	306,620,524	295,793,936
Total assets	\$ 318,435,518	314,135,511
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 805,779	540,974
Accrued liabilities	1,063,409	1,017,356
Deposits liability	105,250	93,000
Accrued compensated absences	381,940	350,348
Construction contracts	6,757,677	4,326,913
Current maturities of long-term debt	5,795,000	5,555,000
Accrued interest	131,874	142,264
Total current liabilities:	15,040,929	12,025,855
Long-term liabilities:		
Accrued liabilities	42,016	-
Accrued compensated absences	318,629	339,216
Construction contracts	1,599,554	-
Long-term debt, excluding current maturities	62,839,352	68,835,091
Total long-term liabilities	64,799,551	69,174,307
Total liabilities	79,840,480	81,200,162
Net assets:		
Invested in capital assets, net of related debt	224,118,809	204,223,192
Restricted for debt service	220,921	205,715
Restricted for capital acquisition	404,423	2,203,158
Unrestricted	13,850,885	26,303,284
Total net assets	238,595,038	232,935,349
Total liabilities and net assets	\$ 318,435,518	314,135,511

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets

Years ended August 31, 2008 and 2007

	2008	2007
Operating revenues:		
Water sales	\$ 23,506,747	24,566,224
Service and materials, net	542,292	683,408
Total operating revenues	24,049,039	25,249,632
Operating expenses:		
Supply, pumping and purification	11,741,251	11,815,384
Transmission and distribution	7,447,752	7,068,748
Accounting and collecting	858,711	864,001
Administrative and general	1,305,044	1,327,440
Total operating expenses	21,352,758	21,075,573
Operating income	2,696,281	4,174,059
Nonoperating revenues (expenses):		
Investment income	1,967,280	2,587,058
Interest expense	(1,956,146)	(2,399,383)
Amortization of bond costs	(70,033)	(70,033)
Federal grant revenue	26,000	-
Net nonoperating revenues (expenses)	(32,899)	117,642
Increase in net assets before capital contributions	2,663,382	4,291,701
Capital contributions from:		
Developers	1,755,442	1,870,475
Impact fees	863,921	1,133,595
Tap fees	376,944	416,210
Total capital contributions	2,996,307	3,420,280
Increase in net assets	5,659,689	7,711,981
Total net assets - beginning	232,935,349	225,223,368
Total net assets - ending	\$ 238,595,038	232,935,349

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2008 and 2007

	2008	2007
Operating activities:		
Receipts from customers and users	\$ 26,243,027	24,503,390
Payments to suppliers	(6,999,831)	(6,825,121)
Payments to employees	(7,282,395)	(7,015,101)
Net cash provided by operating activities	11,960,801	10,663,168
Noncapital financing activities:		
Federal grant revenue	26,000	-
Repayment from other funds, net	1,043,836	1,307,388
Net cash provided by noncapital financing activities:	1,069,836	1,307,388
Capital and related financing activities:		
Acquisition and construction of capital assets	(25,438,740)	(11,116,135)
Principal paid on revenue bonds	(5,555,000)	(5,340,000)
Interest paid on revenue bonds	(2,167,275)	(2,610,005)
Net cash used in capital and related financing activities	(33,161,015)	(19,066,140)
Investing activities:		
Purchases of investments	(5,320,121)	(13,730,491)
Proceeds from investment maturities	20,150,664	19,548,800
Interest on investments	1,778,244	1,937,288
Net cash provided by investing activities	16,608,787	7,755,597
Net increase (decrease) in cash and cash equivalents	(3,521,591)	660,013
Cash and cash equivalents at beginning of year	7,012,925	6,352,912
Cash and cash equivalents at end of year	\$ 3,491,334	7,012,925
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 2,696,281	4,174,059
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,927,237	6,724,437
Changes in operating assets and liabilities:		
Accounts receivable	2,181,738	(737,442)
Inventories	(220,584)	37,817
Accounts payable	264,805	(120,410)
Accrued liabilities and deposit liability	100,319	445,303
Accrued compensated absences	11,005	139,404
Total adjustments	9,264,520	6,489,109
Net cash provided by operating activities	\$ 11,960,801	10,663,168

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$1,755,442 and \$1,870,475 were added to utility plant in 2008 and 2007, respectively.

Accounts payable incurred for utility plant purchases were \$8,357,231 and \$4,326,913 in 2008 and 2007, respectively.

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(1) Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations

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

Measurement Focus and Basis of Accounting

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

The financial statements referred to above present only the Lincoln Water System and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2008 and 2007, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Operating Revenues and Expenses

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

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

Utility Plant (Capital Assets)

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

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

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

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

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

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. government and government agency securities are carried at fair value as determined based on quoted market price. Investment agreements are carried at contract value.

Capital Contributions

Developer contributions are water 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, 2008 and 2007

Revenues

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

The City Council sets the rate schedule for the Lincoln Water System. The following rates were assessed per one hundred cubic feet of water usage for the years ended August 31, 2008 and 2007:

	<u>August 31, 2008</u>	<u>August 31, 2007</u>
<u>Water Usage</u>		
Residential:		
100 to 800 cubic feet	\$ 1.13	\$ 1.05
801 to 2,300 cubic feet	1.59	1.48
2,301 and up	2.48	2.28
Nonresidential low volume user:		
100 to 8,000 cubic feet	1.13	1.05
8,001 and up	1.59	1.48
Nonresidential high volume user:		
Base usage which is average water usage for previous three calendar years	1.07 to 1.20	1.00 to 1.13
<u>Service Charge</u>		
Residential: single-family dwelling unit	\$ 2.95	\$ 2.95
Residential: multiple-family dwelling unit	1.81	1.81
Non-residential:	Based on size and number of water meters or number of dwelling units.	

Bond Issuance Costs

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

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

Net Assets Classification

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

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

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

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

Compensated Absences

Employees earn vacation days at varying rates dependent on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation which is in no case longer than 35 days. Employees earn sick leave at the rate of approximately one day per month. Upon retirement or death, an employee or their beneficiary is reimbursed for one-fourth or up to one-half 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, 2008 and 2007 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, 2008	\$689,564	361,353	350,348	700,569	381,940
August 31, 2007	550,160	445,979	306,575	689,564	350,348

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

Other Post-Employment Benefits

The Water System recorded a liability for the annual required contribution (ARC) of approximately \$42,000 as of August 31, 2008, as a result of implementing GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The complete disclosures required by GASB 45 are included in the City of Lincoln Comprehensive Annual Financial Report (CAFR).

Use of Estimates

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

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(2) Deposits, Investments, and Investment Return

Deposits

State statutes require banks either to give bond or to pledge government securities to the City Treasurer in the amount of the City's deposits. The System has been allocated a portion of the City's pooled cash and investments. The City's cash deposits, including certificates of deposit, are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits or certificates of deposit in excess of the \$100,000 FDIC limits are covered by collateral held in a Federal Reserve pledge account or by an agent for the City and thus no custodial credit risk exists.

Investments

The City may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds, bankers' acceptances, and 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. None of the underlying securities for the Lincoln Water System's investments at August 31, 2008 and 2007 are subject to custodial credit risk, as they are held in an account in the Lincoln Water System's name, and by an agent who is not the counterparty to the investment transactions.

At August 31, 2008 and 2007, the Lincoln Water System had the following investments and maturities:

Type	August 31, 2008			
	Carrying Value	Maturities in Years		
		1-5	6-10	More than 10
U.S. Treasury obligations	\$3,351,319	3,351,319	—	—
Investment Agreement	<u>4,930,000</u>	<u>—</u>	<u>—</u>	<u>4,930,000</u>
	<u>\$8,281,319</u>	<u>3,351,319</u>	<u>—</u>	<u>4,930,000</u>

Type	August 31, 2007			
	Carrying Value	Maturities in Years		
		1-5	6-10	More than 10
U.S. Treasury obligations	\$3,190,246	3,190,246	—	—
Investment Agreement	<u>4,930,000</u>	<u>—</u>	<u>—</u>	<u>4,930,000</u>
	<u>\$8,120,246</u>	<u>3,190,246</u>	<u>—</u>	<u>4,930,000</u>

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(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 not longer than twenty-four months. Fixed income investments in construction funds, operating funds, and other nonoperating funds are limited to ten year maturities. Investment Agreements are not subject to interest rate risk, as the interest rate is guaranteed by the issuer.

Credit Risk:

Credit Risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy allows Investment Agreements with a rating at least Aa3 by Moody's Investor Service and AA- by Standard and Poor's. As of August 31, 2008 and 2007, the Lincoln Water System investment agreements were rated Aa3 and Aa2, respectively, by Moody's Investors Service and AA- and AA, respectively, by Standard and Poor's.

Concentration of Credit Risk:

The City's Investment Policy places various limits on the amount that may be invested in any one issuer. Per the Policy, allocation limits do not apply to the investment of proceeds from issuance of debt. These investments shall be governed by the debt covenant included in the debt instrument. As of August 31, 2008 and 2007, the Lincoln Water System investment agreements constituted 21% and 11%, respectively, of its total funds available for investing. These investment agreements were made with funds from the bond debt reserve funds established.

The carrying amount of equity interests in pooled cash and investments at August 31, 2008 and 2007 are:

	<u>2008</u>	<u>2007</u>
Equity in Pooled cash and investments	<u>\$14,874,096</u>	<u>33,198,267</u>

Investment Income

Investment income for the years ended August 31, 2008 and 2007 consisted of:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$1,600,890	1,956,619
Net increase in fair value of investments	<u>366,390</u>	<u>630,439</u>
	<u>\$1,967,280</u>	<u>2,587,058</u>

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(3) Inventories

Balances of the major classes of inventory at August 31, 2008 and 2007, are shown below:

	2008	2007
Heavy materials	\$ 728,995	549,450
Diesel fuel	112,732	96,461
Water meters and parts	153,129	150,728
Chemicals	48,579	26,212
Total inventories	\$1,043,435	822,851

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(4) Utility Plant

Utility plant is summarized by major classification at August 31, 2008 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2007	Increases	Decreases	August 31, 2008	August 31, 2007	Increases	Decreases	August 31, 2008	August 31, 2008
Airport	\$ 42,172	-	-	42,172	(24,901)	(422)	-	(25,323)	16,849
Structures and improvements	95,103,963	4,236,137	(11,416)	99,328,684	(25,375,649)	(2,231,481)	11,416	(27,595,714)	71,732,970
Other power and production equipment	1,893,984	-	-	1,893,984	(1,339,592)	(47,460)	-	(1,387,052)	506,932
Electric pumping equipment	25,392,938	67,892	-	25,460,830	(7,173,110)	(883,857)	-	(8,056,967)	17,403,863
Purification system	25,924,392	71,826	-	25,996,218	(8,759,377)	(785,846)	-	(9,545,223)	16,450,995
Transmission mains	51,329,731	60,096	-	51,389,827	(11,410,684)	(614,223)	-	(12,024,907)	39,364,920
Distribution mains and accessories	111,265,205	8,134,246	-	119,399,451	(19,870,308)	(1,246,595)	-	(21,116,903)	98,282,548
Hydrants	4,844,227	-	-	4,844,227	(3,063,487)	(140,534)	-	(3,204,021)	1,640,206
Office furniture and equipment	1,881,560	135,582	(59,697)	1,957,445	(1,408,629)	(127,772)	59,697	(1,476,704)	480,741
Shop equipment	214,641	-	-	214,641	(176,444)	(4,804)	-	(181,248)	33,393
Laboratory equipment	352,334	18,011	-	370,345	(227,432)	(42,190)	-	(269,622)	100,723
Tools and work equipment	542,459	-	(3,295)	539,164	(475,668)	(17,336)	3,295	(489,709)	49,455
Communications system	382,220	727,450	-	1,109,670	(185,495)	(54,417)	-	(239,912)	869,758
Meters	12,098,110	66,579	-	12,164,689	(4,504,190)	(548,720)	-	(5,052,910)	7,111,779
Vehicles	2,271,472	274,082	(191,028)	2,354,526	(1,422,631)	(181,580)	178,299	(1,425,912)	928,614
Total depreciable assets	333,539,408	13,791,901	(265,436)	347,065,873	(85,417,597)	(6,927,237)	252,707	(92,092,127)	254,973,746
Land and land rights	4,712,177	119,916	-	4,832,093	-	-	-	-	4,832,093
Construction in progress	7,944,302	30,216,667	(11,650,390)	26,510,579	-	-	-	-	26,510,579
Total nondepreciable assets	12,656,479	30,336,583	(11,650,390)	31,342,672	-	-	-	-	31,342,672
Total capital assets	\$ 346,195,887	44,128,484	(11,915,826)	378,408,545	(85,417,597)	(6,927,237)	252,707	(92,092,127)	286,316,418

During 2008, Lincoln Water System incurred \$3,165,073 of interest cost. Interest capitalized into construction in progress during 2008 was \$1,208,927. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 2.00% in 2008.

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(4) Utility Plant

Utility plant is summarized by major classification at August 31, 2007 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2006	Increases	Decreases	August 31, 2007	August 31, 2006	Increases	Decreases	August 31, 2007	August 31, 2007
Airport	\$ 42,172	-	-	42,172	(24,479)	(422)	-	(24,901)	17,271
Structures and improvements	94,771,662	332,301	-	95,103,963	(23,242,487)	(2,133,162)	-	(25,375,649)	69,728,314
Other power and production equipment	1,893,984	-	-	1,893,984	(1,276,634)	(62,958)	-	(1,339,592)	554,392
Electric pumping equipment	25,288,931	104,007	-	25,392,938	(6,272,035)	(901,075)	-	(7,173,110)	18,219,828
Purification system	25,909,954	14,438	-	25,924,392	(7,977,540)	(781,837)	-	(8,759,377)	17,165,015
Transmission mains	51,213,065	116,666	-	51,329,731	(10,802,545)	(608,139)	-	(11,410,684)	39,919,047
Distribution mains and accessories	98,176,008	13,089,197	-	111,265,205	(18,725,698)	(1,144,610)	-	(19,870,308)	91,394,897
Hydrants	4,844,227	-	-	4,844,227	(2,922,953)	(140,534)	-	(3,063,487)	1,780,740
Office furniture and equipment	1,615,597	265,963	-	1,881,560	(1,267,504)	(141,125)	-	(1,408,629)	472,931
Shop equipment	179,277	35,364	-	214,641	(173,617)	(2,827)	-	(176,444)	38,197
Laboratory equipment	321,974	30,360	-	352,334	(183,364)	(44,068)	-	(227,432)	124,902
Tools and work equipment	599,011	-	(56,552)	542,459	(512,732)	(19,488)	56,552	(475,668)	66,791
Communications system	382,220	-	-	382,220	(167,423)	(18,072)	-	(185,495)	196,725
Meters	12,033,015	65,289	(194)	12,098,110	(3,959,684)	(544,700)	194	(4,504,190)	7,593,920
Vehicles	2,423,501	57,219	(209,248)	2,271,472	(1,446,099)	(181,420)	204,888	(1,422,631)	848,841
Total depreciable assets	319,694,598	14,110,804	(265,994)	333,539,408	(78,954,794)	(6,724,437)	261,634	(85,417,597)	248,121,811
Land and land rights	4,712,330	-	(153)	4,712,177	-	-	-	-	4,712,177
Construction in progress	4,573,634	15,152,747	(11,782,079)	7,944,302	-	-	-	-	7,944,302
Total nondepreciable assets	9,285,964	15,152,747	(11,782,232)	12,656,479	-	-	-	-	12,656,479
Total capital assets	\$ 328,980,562	29,263,551	(12,048,226)	346,195,887	(78,954,794)	(6,724,437)	261,634	(85,417,597)	260,778,290

During 2007, Lincoln Water System incurred \$3,473,462 of interest cost. Interest capitalized into construction in progress during 2007 was \$1,001,995. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 2.02% in 2007.

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(5) Long-term Debt

Long-term debt of the Lincoln Water System at August 31, 2008 and 2007 is summarized below:

2008

Type of Debt	August 31, 2007	Additions	Reductions	August 31, 2008	Due Within One Year
2.75%-5.00% Water Revenue Bonds, Series 2002, due in annual principal installments on August 15, increasing from \$835,000 in 2009 to the final payment of \$1,465,000 on August 15, 2022.	\$16,240,000	-	805,000	15,435,000	835,000
5% Water Revenue Bonds, Refunding Series 2003, due in annual principal installments on August 15, increasing from \$3,940,000 in 2009 to the final payment of \$2,630,000 on August 15, 2012.	18,795,000	-	3,755,000	15,040,000	3,940,000
3.00%-5.00% Water Revenue Bonds, Series 2004, due in annual principal installments on August 15, increasing from \$1,020,000 in 2009 to the final payment of \$3,065,000 on August 15, 2025.	37,175,000	-	995,000	36,180,000	1,020,000
Unamortized premium on bonds Deferred for refunding	2,853,018 (672,927)	- -	336,455 (135,716)	2,516,563 (537,211)	- -
	<u>\$74,390,091</u>	<u>-</u>	<u>5,755,739</u>	<u>68,634,352</u>	<u>5,795,000</u>

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(5) Long-term Debt, (continued)**2007**

Type of Debt	August 31, 2006	Additions	Reductions	August 31, 2007	Due Within One Year
2.75%-5.00% Water Revenue Bonds, Series 2002, due in annual principal installments on August 15, increasing from \$805,000 in 2008 to the final payment of \$1,465,000 on August 15, 2022.	\$17,020,000	-	780,000	16,240,000	805,000
5% Water Revenue Bonds, Refunding Series 2003, due in annual principal installments on August 15, increasing from \$3,755,000 in 2008 to the final payment of \$2,630,000 on August 15, 2012.	22,380,000	-	3,585,000	18,795,000	3,755,000
3.00%-5.00% Water Revenue Bonds, Series 2004, due in annual principal installments on August 15, increasing from \$995,000 in 2008 to the final payment of \$3,065,000 on August 15, 2025.	38,150,000	-	975,000	37,175,000	995,000
Unamortized premium on bonds	3,189,472	-	336,454	2,853,018	-
Deferred for refunding	(808,643)	-	(135,716)	(672,927)	-
	<u>\$79,930,829</u>	<u>-</u>	<u>5,540,738</u>	<u>74,390,091</u>	<u>5,555,000</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, 2008 and 2007

(5) Long-term Debt, (continued)

The net revenues derived from the operations of Lincoln Water System and any future extensions, additions and improvements to the waterworks system are pledged as security for the revenue bonds.

Maturities and sinking fund requirements on long-term debt at August 31, 2008 are as follows:

Years ending August 31	Principal	Interest	Total
2009	\$ 5,795,000	3,128,414	8,923,414
2010	6,050,000	2,873,677	8,923,677
2011	6,310,000	2,602,526	8,912,526
2012	5,380,000	2,315,309	7,695,309
2013	2,845,000	2,057,934	4,902,934
2014-2018	15,995,000	8,124,055	24,119,055
2019-2023	18,285,000	3,833,898	22,118,898
2024-2025	5,995,000	407,698	6,402,698
Total	\$66,655,000	25,343,511	91,998,511

(6) Commitments and Contingencies

Lincoln Water System has commitments under major construction contracts in progress of approximately \$12,350,000 at August 31, 2008.

Lincoln Water System has entered into various agreements with developers to be reimbursed for eligible infrastructure construction. After construction is substantially complete, the developer will be reimbursed by the System based upon the anticipated expenditure appropriation or collection of directed impact fees. As of August 31, 2008, the System's commitment to these developers is estimated to be approximately \$288,000.

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(7) Disclosure About the Fair Value of Financial Instruments

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

- *Cash, accounts receivable and accounts payable* - The carrying amount approximates fair value because of the short maturity of these instruments.
- *Long-term debt* - The estimated fair value of the System's long-term debt is approximately \$66,324,000 based on borrowing rates currently available as of August 31, 2008.
- *Investments* - The fair values of investments are based on quoted market prices for those investments as shown in Note 2.

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

(8) Related Party Transactions

The City billed the Water System approximately \$466,000 and \$467,000 for administrative services during 2008 and 2007, 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 \$2,450,000 and \$2,250,000 during 2008 and 2007, respectively. Further, the Water System collects payments from customers on behalf of LES. At August 31, 2008, \$399,050 is 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 \$404,423 and \$2,203,158 as of August 31, 2008 and 2007, 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 \$995,752 and \$2,039,588 as of August 31, 2008 and 2007, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the balance sheets.

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2008 and 2007

(9) Risk Management

Lincoln Water System participates in the City's self-insurance program administered by the City's Risk Management Division (the Division). The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On behalf of the City, the Division purchases insurance and administers funds for its self-insured program. The Division maintains a workers' compensation fund and a self-insurance loss fund. The Division provides first dollar coverage for all liability and workers' compensation exposure with insurance acting as an umbrella or excess coverage. The maximum exposure would be the deductible amounts for property and auto physical damage, as well as losses not covered by insurance. Lincoln Water System had no claims or judgments exceeding the policy limits during each of the last three prior years. Budgeted premium amounts charged to Lincoln Water System are placed in the appropriate fund maintained by the Division. Premium expense was approximately \$309,000 and \$261,000 in 2008 and 2007, respectively.

(10) Pension Plan

Employees of Lincoln Water System are participants in the City of Lincoln Employees' Retirement Plan. Plan participation is required if the employee has completed five years of continuous service and attained the age of 40. An employee may voluntarily enter the plan upon attaining age 19 and after completing six months of service. The plan is a defined contribution plan requiring employees to contribute 3% of earnings on the first \$4,800 and 6% on the balance of earnings. Lincoln Water System contributes \$2 for every \$1 contributed by the employees. Plan participants vest in the City's contributions in year three of participation at 20%, up to 100% vesting in year seven. All past service costs and vested benefits are fully paid. Contributions made by the System were approximately \$509,000 and \$567,000 for 2008 and 2007, respectively. Contributions made by the plan members were approximately \$314,000 and \$307,000 for 2008 and 2007, respectively.

SUPPLEMENTARY
INFORMATION

LINCOLN WATER SYSTEM

Schedule 1

Summary of Long-Term Debt

August 31, 2008

Due years ending August 31	Series 2002		Series 2003		Series 2004		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2009	\$ 835,000	702,282	3,940,000	752,000	1,020,000	1,674,132	5,795,000	3,128,414	8,923,414
2010	865,000	675,145	4,135,000	555,000	1,050,000	1,643,532	6,050,000	2,873,677	8,923,677
2011	895,000	644,870	4,335,000	348,250	1,080,000	1,609,406	6,310,000	2,602,526	8,912,526
2012	930,000	612,203	2,630,000	131,500	1,820,000	1,571,606	5,380,000	2,315,309	7,695,309
2013	960,000	577,328	-	-	1,885,000	1,480,606	2,845,000	2,057,934	4,902,934
2014-2018	5,495,000	2,203,525	-	-	10,500,000	5,920,530	15,995,000	8,124,055	24,119,055
2019-2023	5,455,000	698,500	-	-	12,830,000	3,135,398	18,285,000	3,833,898	22,118,898
2024-2025	-	-	-	-	5,995,000	407,698	5,995,000	407,698	6,402,698
	\$ 15,435,000	6,113,853	15,040,000	1,786,750	36,180,000	17,442,908	66,655,000	25,343,511	91,998,511

Operating Expenses

Years ended August 31, 2008 and 2007

	2008	2007
Lincoln Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 50,254	47,205
Electrical maintenance	2,459	-
Grounds maintenance	6,827	8,009
Wellfield maintenance	19,824	23,676
Wellfield operations	4,316	5,367
Depreciation of wells and houses	13,441	16,697
Total source of supply	\$ 97,121	100,954
Power and pumping expenses:		
Supervision, management and administrative support	\$ 93,126	93,576
Training and education	23,471	25,111
Data management	7,946	7,267
General operations	113,677	137,425
Structures maintenance	39,417	35,998
Control system maintenance	49,737	51,531
Electrical maintenance	133,051	126,474
Grounds maintenance	321,414	305,870
Main repair/maintenance	1,825	3,255
Customer services	25,925	26,368
Laboratory operations	37,917	46,907
Pumping and transmission maintenance	103,656	117,821
Pumping and transmission operations	1,796,976	1,826,773
Depreciation of pumping equipment	383,339	336,568
Depreciation of general plant and improvements	227	13,360
Depreciation of structures and improvement	841,222	835,039
Total power and pumping	\$ 3,972,926	3,989,343
Total - Lincoln Water Plant	\$ 4,070,047	4,090,297
Ashland Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 138,857	129,304
Control system maintenance	40,928	49,394
Electrical maintenance	130,876	42,418
Grounds maintenance	113,620	101,504
Main repair/maintenance	4,041	29,196
Laboratory operations	12,902	17,604
Wellfield maintenance	185,405	189,477
Wellfield operations	776,329	781,988
Depreciation of transmission mains	260,420	260,420
Depreciation of wells and houses	769,553	796,185
Total source of supply	\$ 2,432,931	2,397,490

Operating Expenses

	2008	2007
Power and pumping expenses:		
Supervision, management and administrative support	\$ 119,384	111,506
General operations	11,272	5,908
Control system maintenance	25,676	25,833
Electrical maintenance	27,587	30,042
Grounds maintenance	0	3,335
Main repair/maintenance	3,773	6,069
Pumping and transmission maintenance	70,675	51,313
Pumping and transmission operations	202,212	211,852
Depreciation of pumping equipment	315,181	295,929
Depreciation of structures and improvement	159,218	159,218
Depreciation of general plant	1,929	2,243
Depreciation of transmission mains	2,243	2,243
Depreciation of other production equipment	47,460	62,958
Total power and pumping	\$ 986,609	968,449
Purification expense:		
Supervision, management and administrative support	\$ 284,788	266,772
Training and education	88,656	50,640
General operations	73,907	88,935
Treatment and process control	108,112	116,782
Structures maintenance	14,243	11,295
Process equipment maintenance	43,209	69,331
Control system maintenance	97,342	95,784
Electrical maintenance	47,712	70,661
Grounds maintenance	569,136	597,722
Laboratory operations	321,300	328,680
Treatment operations	1,054,026	1,180,442
Depreciation of structures and improvements	687,671	612,542
Depreciation of purification equipment	785,846	781,837
Depreciation of general plant & equipment	75,716	88,039
Total purification expenses	\$ 4,251,664	4,359,462
Total Ashland Water Plant	\$ 7,671,204	7,725,401
Total supply, pumping and purification	\$ 11,741,251	11,815,698

Operating Expenses

	2008	2007
Transmission and distribution expenses:		
Supervision and management	\$ 1,091,371	915,035
Administrative and support staff	466,350	463,481
Training and education	90,817	116,620
Data management	348,439	332,896
General operations	462,736	304,880
Main repair/maintenance	1,320,700	1,245,120
Contractor services	205,990	203,191
Customer services	1,087,843	1,238,302
Depreciation of structures and improvements	1,033	1,033
Depreciation of transmission mains	349,989	343,905
Depreciation of distribution mains	1,791,675	1,683,525
Depreciation of hydrants and fountains	140,534	140,534
Depreciation of general plant and equipment	90,275	80,226
Total transmission and distribution	\$ 7,447,752	7,068,748
Accounting and collecting expenses:		
Supervision and management	\$ 174,241	166,903
Administrative and support staff	1,483	1,451
Meter reading	119,618	128,159
Billing and accounting	272,715	290,760
Collections	105,807	121,419
Customer services and billing	144,047	112,349
Customer contracts and orders	32,764	32,779
Depreciation of general plant and equipment	8,036	10,181
Total accounting and collecting	\$ 858,711	864,001
Administrative and general expenses:		
Supervision and management	\$ 1,196,893	1,203,851
Administrative and support staff	87,502	102,940
Depreciation of general plant and equipment	20,649	20,649
Total administrative and general	\$ 1,305,044	1,327,440

LINCOLN WATER SYSTEM

Schedule 3

Utility Plant in Service

August 31, 2008

Asset Class	Capital Assets			August 31, 2008	Accumulated Depreciation			August 31, 2008	Net Capital Assets
	August 31, 2007	Increases	Decreases		August 31, 2007	Increases	Decreases		August 31, 2008
Lincoln Water Plant:									
Airport	\$ 42,172	-	-	42,172	(24,901)	(422)	-	(25,323)	16,849
Structures and improvements	36,501,029	3,896,830	-	40,397,859	(12,757,978)	(854,793)	-	(13,612,771)	26,785,088
Other power and production equipment	-	-	-	-	-	-	-	-	-
Electric pumping equipment	14,034,997	67,892	-	14,102,889	(2,342,951)	(328,922)	-	(2,671,873)	11,431,016
Purification system	-	-	-	-	1,072	-	-	1,072	1,072
Transmission mains	29,399,677	60,096	-	29,459,773	(5,670,014)	(351,561)	-	(6,021,575)	23,438,198
Distribution mains and accessories	111,265,205	8,134,246	-	119,399,451	(19,870,308)	(1,246,595)	-	(21,116,903)	98,282,548
Hydrants	4,844,227	-	-	4,844,227	(3,063,487)	(140,534)	-	(3,204,021)	1,640,206
Office furniture and equipment	1,513,079	135,582	(59,697)	1,588,964	(1,105,885)	(95,042)	59,697	(1,141,230)	447,734
Shop equipment	196,690	-	-	196,690	(158,557)	(4,740)	-	(163,297)	33,393
Laboratory equipment	-	7,959	-	7,959	310	(796)	-	(486)	7,473
Tools and work equipment	390,282	-	(55)	390,227	(332,778)	(13,878)	55	(346,601)	43,626
Communications system	382,220	727,450	-	1,109,670	(185,495)	(54,417)	-	(239,912)	869,758
Meters	12,098,110	66,579	-	12,164,689	(4,504,190)	(548,720)	-	(5,052,910)	7,111,779
Lincoln depreciable assets	210,667,688	13,096,634	(59,752)	223,704,570	(50,015,162)	(3,640,420)	59,752	(53,595,830)	170,108,740
Land and land rights	1,128,950	119,916	-	1,248,866	-	-	-	-	1,248,866
Lincoln nondepreciable assets	1,128,950	119,916	-	1,248,866	-	-	-	-	1,248,866
Total Lincoln plant	211,796,638	13,216,550	(59,752)	224,953,436	(50,015,162)	(3,640,420)	59,752	(53,595,830)	171,357,606
Ashland Water Plant:									
Structures and improvements	58,602,934	339,307	(11,416)	58,930,825	(12,617,671)	(1,376,688)	11,416	(13,982,943)	44,947,882
Transmission mains and accessories	21,930,054	-	-	21,930,054	(5,740,670)	(262,662)	-	(6,003,332)	15,926,722
Office furniture and equipment	368,481	-	-	368,481	(302,744)	(32,730)	-	(335,474)	33,007
Shop equipment	17,951	-	-	17,951	(17,887)	(64)	-	(17,951)	-
Laboratory equipment	352,334	10,052	-	362,386	(227,742)	(41,394)	-	(269,136)	93,250
Other power and production	1,893,984	-	-	1,893,984	(1,339,592)	(47,460)	-	(1,387,052)	506,932
Electric pumping equipment	11,357,941	-	-	11,357,941	(4,830,159)	(554,935)	-	(5,385,094)	5,972,847
Purification system	25,924,392	71,826	-	25,996,218	(8,760,449)	(785,846)	-	(9,546,295)	16,449,923
Tools and work equipment	152,177	-	(3,240)	148,937	(142,890)	(3,458)	3,240	(143,108)	5,829
Ashland depreciable assets	120,600,248	421,185	(14,656)	121,006,777	(33,979,804)	(3,105,237)	14,656	(37,070,385)	83,936,392
Land and land rights	3,583,227	-	-	3,583,227	-	-	-	-	3,583,227
Ashland nondepreciable assets	3,583,227	-	-	3,583,227	-	-	-	-	3,583,227
Total Ashland plant	124,183,475	421,185	(14,656)	124,590,004	(33,979,804)	(3,105,237)	14,656	(37,070,385)	87,519,619
Vehicles and work equipment (all locations)	2,271,472	274,082	(191,028)	2,354,526	(1,422,631)	(181,580)	178,299	(1,425,912)	928,614
Utility plant in service	\$ 338,251,585	13,911,817	(265,436)	351,897,966	(85,417,597)	(6,927,237)	252,707	(92,092,127)	259,805,839
Construction in progress	7,944,302	30,216,667	(11,650,390)	26,510,579	-	-	-	-	26,510,579
Total capital assets	\$ 346,195,887	44,128,484	(11,915,826)	378,408,545	(85,417,597)	(6,927,237)	252,707	(92,092,127)	286,316,418

GENERAL STATISTICS

Year Ended August 31, 2008

(Unaudited)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	88.72 Square Miles
Population.....	248,700 Estimate
Source of Water Supply.....	Wells
Location of Supply - Platte River, Ashland, Nebraska	
Well Capacity - Ashland.....	110 Million Gallons
Well Capacity - Lincoln	10 Million Gallons
Treatment of Water - Ashland West Plant	Aeration; Chlorination; Contact Sedimentation and Rapid Sand Filtration
Treatment of Water - Ashland East Plant	Ozonation; Filtration; Chlorination
Rainfall for Year Ended August 31, 2008	33.73
Kind and Size of Main Used	Cast Iron/Ductile Iron/PVC 4 Inches to 54 Inches
Kind and Size of Transmission Mains	
from Ashland to Lincoln	36-Inch Cast Iron 48-Inch Reinforced Concrete
Kind and Size of Transmission Mains	
from Ashland to Greenwood	54-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, 2007	1,200.9
Estimated Added During Year	14.0
Estimated Removed During Year	1.7
Total as of August 31, 2008.....	1,213.2 Miles
Amount of Water Pumped During Year Ended August 31, 2008.....	11,983,570,000 gallons
Average Daily Consumption of Water.....	32,831,726 gallons
Average Daily Consumption Per Capita	132 gallons
Total Number of Active Residential Water Customers	
End of Fiscal Year	72,971
Total Number of Active Non-Residential Water Customers	
End of Fiscal Year	4,561
Bonded Debt of Lincoln Water System at August 31, 2008.....	\$66,655,000

LINCOLN WATER SYSTEMSchedule 5**TOP TEN CUSTOMERS****Year Ended August 31, 2008**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	436,253	\$688,397
2. Archer-Daniels Midland Company	354,478	375,114
3. State of Nebraska	264,015	427,322
4. City of Lincoln	235,550	393,130
5. Veyance Technologies, Inc.	232,237	253,334
6. University of Nebraska Foundation	164,960	174,759
7. BryanLGH Medical Center	154,584	254,006
8. Pfizer Animal Health	129,309	140,802
9. Lincoln Public Schools	125,671	210,157
10. Lincoln Housing Authority	94,152	153,944
Top Ten Users Totals	2,191,209	\$3,070,965



10

08R-191

Introduce: 8-18-08

RESOLUTION NO. A- 84989

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

4 WHEREAS, Both the Mayor's Advisory Committees, Streets, Roads and Trails (SRT)
5 and the Mayor's Infrastructure Finance Committee (MIFC) support the water rate increases
6 proposed by the City's Public Works & Utilities Department over the next 10 years, to help
7 finance the infrastructure needs identified in the City's Capital Improvement Program. The
8 current projections acknowledge the need for approval of a 4% increase for Fiscal Year 2008-
9 09; a 6% increase for Fiscal Year 2009-10; and a 4% increase for Fiscal Year 2010-11.

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

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

15 NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Lincoln,
16 Nebraska:

17 Effective with the billing cycle commencing on November 15, 2008, and ending January
18 15, 2009, the following schedule of water use charges is hereby established and adopted:

1 SCHEDULE A

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

6 ~~117.5~~ 116.0 cents per 100 cubic feet for the first 800 cubic feet of water used per dwelling unit
7 each month.

8 ~~167.0~~ 165.0 cents per 100 cubic feet for the next 1500 cubic feet of water used per dwelling unit
9 each month.

10 ~~258.0~~ 256.0 cents per 100 cubic feet for all additional water used each month.

11 The monthly Service Charge shall be hereinafter provided.

12 SCHEDULE B

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

15 ~~117.5~~ 116.0 cents per 100 cubic feet for the first 8000 cubic feet of water used per month.

16 ~~167.0~~ 165.0 cents per 100 cubic feet for all additional water used each month.

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

18 SCHEDULE C

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

1 The following fees would apply:

2 ~~112.0~~ 110.0 cents per 100 cubic feet for water usage less than base to 5% above base.

3 ~~116.0~~ 114.0 cents per 100 cubic feet for water usage 5% - 15% above base.

4 ~~120.0~~ 118.0 cents per 100 cubic feet for water usage 15% - 25% above base.

5 ~~124.0~~ 122.0 cents per 100 cubic feet for water usage for all water usage over 25% above base.

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

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

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

11 to-wit:

12	WATER METER SIZE	SERVICE CHARGE FOR
13		WATER METER
14	5/8 inch	\$ 2.95
15	3/4 inch	2.95
16	1 inch	2.95
17	1-1/2 inch	5.90
18	2 inch	11.80
19	3 inch	26.55
20	4 inch	47.20
21	6 inch	106.15
22	8 inch	188.75
23	10 inch	294.90

24 The Service Charge for a multiple dwelling unit or mobile home shall be at least \$1.81 per dwelling
25 unit or mobile home hookup space per month. In those instances where fire protection considerations
26 dictate that a water meter larger than 1-inch service a single-family

1 dwelling unit located on a single lot, the monthly service charge shall be \$2.95 per dwelling
2 unit. A dwelling unit shall, for the purpose of this schedule, be defined as a room or rooms in
3 which kitchen facilities are provided, located in the building or structure used by a facility or
4 household as a home or residence of the family or household.

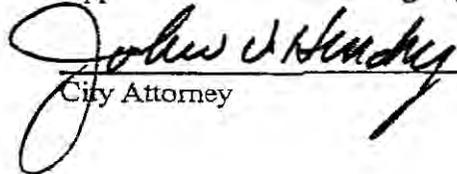
5 WATER RATES TO CUSTOMERS OUTSIDE
6 THE CITY LIMITS

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

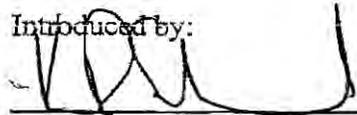
10 BE IT FURTHER RESOLVED that Resolution No. A-84484, adopted by the City
11 Council on August 23, 2007, is hereby superseded.

See further Council Proceedings on
next page.

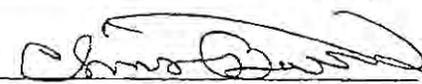
Approved as to Form & Legality:


City Attorney

Introduced by:



AYES: CAMP, ESCHLIMAN, SPATZ,
SVOBODA;
NAYS: COOK, EMERY, MARVIN.

Approved this 2nd day of Sept., 2008:


Mayor

ADOPTED
AUG 25 2008
BY CITY COUNCIL

08R-191

8/25/08 Council Proceedings:

ESCHLIMAN Moved to amend Bill No. 08R-191 by reducing the rate increase by 1%.

Seconded by Camp & carried by the following vote: AYES: Camp, Cook, Eschliman, Marvin; NAYS: Emery, Spatz, Svoboda.

Quantitative Statistics

Years ended August 31, 2008 and 2007

(Unaudited)

	2008	2007	Increase (decrease)
Water pumpage in one hundred cubic feet: (H.C.F.) by months:			
September	1,781,587	1,489,071	292,516
October	1,295,520	1,371,121	(75,601)
November	1,131,547	1,129,092	2,455
December	1,061,693	1,041,401	20,292
January	1,091,867	1,077,869	13,998
February	1,044,307	978,828	65,479
March	1,040,467	1,088,756	(48,289)
April	1,030,960	1,108,584	(77,624)
May	1,191,827	1,310,836	(119,009)
June	1,187,720	1,736,909	(549,189)
July	1,832,227	2,778,667	(946,440)
August	2,288,373	1,950,003	338,370
Total H.C.F. pumped	15,978,093	17,061,137	(1,083,044)
H.C.F. sold and donated:			
Customer metered sales	14,698,082	16,380,430	(1,682,348)
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	27,748	38,523	(10,775)
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	14,744,880	16,438,003	(1,693,123)
Total H.C.F. unaccounted for	1,233,213	623,134	610,079
Percent of H.C.F. unaccounted for	7.72%	3.65%	

LINCOLN WATER SYSTEM

Schedule 8

COMPARATIVE PUMPING REPORT

For Fiscal Years as Shown by Gallons

(Unaudited)

MONTH	August 31, 2008	August 31, 2007	August 31, 2006	August 31, 2005	August 31, 2004
September	1,336,190,000	1,116,800,000	1,592,226,000	1,480,430,000	1,372,488,000
October	971,640,000	1,028,340,000	1,179,390,000	1,128,140,000	1,230,054,000
November	848,660,000	846,820,000	886,026,000	794,620,000	816,023,250
December	796,270,000	781,050,000	813,837,000	761,380,000	794,745,000
January	818,900,000	808,400,000	806,757,000	809,030,000	786,438,000
February	783,230,000	734,120,000	784,161,000	747,670,000	757,842,000
March	780,350,000	816,570,000	769,778,250	774,520,000	823,634,250
April	773,220,000	831,440,000	904,410,000	844,140,000	1,003,313,250
May	893,870,000	983,130,000	1,190,787,750	1,272,810,000	1,077,558,750
June	890,790,000	1,302,680,000	1,682,034,000	1,436,260,000	1,208,910,750
July	1,374,170,000	2,084,000,000	1,933,509,000	2,139,790,000	1,295,531,250
August	1,716,280,000	1,462,500,000	1,482,170,250	1,632,630,000	1,659,762,750
Total	11,983,570,000	12,795,850,000	14,025,086,250	13,821,420,000	12,826,301,250

LINCOLN WATER SYSTEM
ANNUAL RAINFALL FOR THE PERIOD OF
September 1, 2007 to August 31, 2008
(Unaudited)

	<u>Inches of Rainfall</u>
September.....	3.10
October	4.50
November.....	0.05
December.....	2.09
January	0.44
February.....	0.55
March	1.13
April.....	3.80
May	4.12
June	8.59
July.....	3.58
August.....	<u>1.78</u>
TOTAL INCHES FOR FISCAL YEAR	<u>33.73</u>

LINCOLN WATER SYSTEMWATER ANALYSIS

(All Results in Parts Per Million)
 (Collected August 14, 2008)
 (Unaudited)

550 W. Cornhusker Hwy.

Hydrogen Ion Concentration (pH)	7.63
Total Dissolved Solids	356 ppm.
Total Iron (Fe).....	<0.050 ppm.
Manganese (Mn).....	2.57 ppb.
Calcium (as Ca).....	58.4 ppm.
Total Alkalinity (CaCO ₃).....	170 ppm.
Chloride (Cl).....	19.0 ppm.
Fluoride (F).....	0.93 ppm.
Nitrate (+Nitrite).....	0.49 ppm.
Sodium (Na).....	30.7 ppm.
Hardness as (CaCO ₂)	
Total Hardness	200 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, 2008

(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 - 5,000,000	250,000		States	SEL30117301 & SEL30117401
Automobile Fleet Physical Damage**	Self-Insured	Actual cash value	2,500	2,500		
Building and Contents (Includes Boiler & Machinery)	Blanket policy - buildings and contents	Replacement cost	50,000	2,500	FM Global	FM539
Money and Securities	Inside/outside premises	50,000	500	0	Fidelity & Deposit	CCP0030595
Water Distribution	Water distribution center	25,000,000	50,000	10,000	FM Global	FM539
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FM539
Equipment Floater (911)	Radio tower floater	Replacement cost	50,000	2,500	FM Global	FM539
Equipment Floater (NON-LIC)	Nonlicensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM539
General Liability ***	\$1,000,000 occurrence	5,000,000	250,000	0	States	SEL30117301 & SEL30117401
Public Employee Blanket Bond	Employees blanket bond coverage	1,000,000	25,000	0	Fidelity & Deposit	CCP 003 05 95
Public Officials Liability***	\$1,000,000 occurrence	5,000,000	250,000	0	States	SEL30117301 & SEL30117401
Workers' Compensation Excess	Statutory	Statutory	500,000	0	Midwest Employers Casualty (MECC)	EWC007744

** Self-insured for both comp & collision.

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

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

We have audited the financial statements of Lincoln Water System as of and for the year ended August 31, 2008, and have issued our report thereon dated November 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects Lincoln Water System's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Lincoln Water System's financial statements that is more than inconsequential will not be prevented or detected by Lincoln Water System's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Lincoln Water System's internal control.

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

Compliance and Other Matters

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

We noted certain matters that we reported to Lincoln Water System's management in a separate letter dated November 25, 2008

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

BKD, LLP

November 25, 2008