

# LINCOLN WATER SYSTEM

Fiscal Year Ended August 31, 2006

Financial Statements & Schedules



**Belmont Pump Station**

**ANNUAL FINANCIAL REPORT**

**DEPARTMENT OF PUBLIC WORKS/UTILITIES**

**CITY OFFICIALS**

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**COUNCIL MEMBERS**

Patte Newman ..... Chair

Dan Marvin ..... Vice-Chair

- Jon Camp
- Jonathan Cook
- Robin Eschliman
- Annette McRoy
- Ken Svoboda

**WATER SYSTEM**

Karl Fredrickson ..... Director of Public Works/Utilities

**Lincoln Water System**  
**August 31, 2006 and 2005**

**Contents**

<b>Independent Accountants' Report on Financial Statements and Supplementary Information</b> .....	<b>1</b>
<b>Management's Discussion and Analysis</b> .....	<b>3</b>
<b>Financial Statements</b>	
<b>Balance Sheets</b> .....	<b>9</b>
<b>Statements of Revenues, Expenses and Changes in Net Assets</b> .....	<b>10</b>
<b>Statements of Cash Flows</b> .....	<b>11</b>
<b>Notes to Financial Statements</b> .....	<b>12</b>
<b>Supplementary Information</b>	
<b>Summary of Long-Term Debt</b> .....	<b>27</b>
<b>Operating Expenses</b> .....	<b>28</b>
<b>Utility Plant in Service</b> .....	<b>31</b>
<b>General Statistics (unaudited)</b> .....	<b>32</b>
<b>Top Ten Customers (unaudited)</b> .....	<b>33</b>
<b>Water Use Charges (unaudited)</b> .....	<b>34</b>
<b>Quantitative Statistics (unaudited)</b> .....	<b>38</b>
<b>Comparative Pumping Report (unaudited)</b> .....	<b>39</b>
<b>Annual Rainfall (unaudited)</b> .....	<b>40</b>
<b>Water Analysis (unaudited)</b> .....	<b>41</b>
<b>Summary of Insurance Coverage (unaudited)</b> .....	<b>42</b>
<b>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></b> .....	<b>44</b>



## 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, 2006 and 2005, 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 the City of Lincoln, Nebraska 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 the 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, 2006 and 2005, 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, 2006 and 2005, 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 3, 2006 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 read in conjunction with this report in considering the results of our audit.

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1120 South 101st Street, Suite 410 Omaha, Nebraska 68124-1088 402 392-1040 Fax 402 392-1772

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 3, 2006

## **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, 2006 and 2005. 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 \$10,092,103 (4.69%) in 2006 over 2005 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, 2006, 2005, and 2004.

**Table 1**

### Condensed Balance Sheets

	August 31		Variance	
	2006	2005	Dollars	Percent
Current assets	\$ 18,289,325	\$ 23,581,875	(\$5,292,550)	-22.44%
Capital assets	250,025,768	238,649,313	11,376,455	4.77%
Restricted assets	31,429,446	32,280,661	(851,215)	-2.64%
Long-term investments	8,044,681	8,190,046	(145,365)	-1.77%
Deferred charges	780,091	850,124	(70,033)	-8.24%
<b>Total assets</b>	<b>308,569,311</b>	<b>303,552,019</b>	<b>5,017,292</b>	<b>1.65%</b>
Current liabilities	8,511,529	8,054,443	457,086	5.67%
Long-term liabilities	74,834,414	80,366,311	(5,531,897)	-6.88%
<b>Total liabilities</b>	<b>83,345,943</b>	<b>88,420,754</b>	<b>(5,074,811)</b>	<b>-5.74%</b>
Net assets				
Invested in capital assets, net of related debt	199,305,348	191,109,551	8,195,797	4.29%
Restricted for debt service	253,434	249,875	3,559	1.42%
Restricted for capital acquisition	1,573,744	1,265,311	308,433	24.38%
Unrestricted	24,090,842	22,506,528	1,584,314	7.04%
<b>Total net assets</b>	<b>225,223,368</b>	<b>215,131,265</b>	<b>10,092,103</b>	<b>4.69%</b>
<b>Total liabilities and net assets</b>	<b>\$308,569,311</b>	<b>\$303,552,019</b>	<b>\$ 5,017,292</b>	<b>1.65%</b>

### Financial Highlights – Fiscal Year 2006

- Total assets at year-end were \$308,569,311 and exceeded total liabilities by \$225,223,368 which results in an improved positive accumulated net assets position.
- Current assets decreased by \$5,292,550 (-22.44%) due to construction spending.
- Capital assets increased by \$11,376,455 (4.77%) due to major project additions, which included:
  - Pumping Stations – approximately \$1,789,000
  - Water Distribution Main – approximately \$4,960,000
  - Water Trans Pump Station & Mains – approximately \$472,000
  - Selected Main Replacements – approximately \$2,355,000
  - Wellfield & Water Treatment Plant – approximately \$1,796,000

**Table 2**

**Condensed Balance Sheets**

	August 31		Variance	
	2005	2004	Dollars	Percent
Current assets	\$ 23,581,875	\$ 10,278,214	\$13,303,661	129.44%
Capital assets	238,649,313	231,363,643	7,285,670	3.15%
Restricted assets	32,280,661	13,552,267	18,728,394	138.19%
Long-term investments	8,190,046	3,264,607	4,925,439	150.87%
Deferred charges	850,124	532,589	317,535	59.62%
<b>Total assets</b>	<b>303,552,019</b>	<b>258,991,320</b>	<b>44,560,699</b>	<b>17.21%</b>
Current liabilities	8,054,443	7,575,360	479,083	6.32%
Long-term liabilities	80,366,311	44,867,465	35,498,846	79.12%
<b>Total liabilities</b>	<b>88,420,754</b>	<b>52,442,825</b>	<b>35,977,929</b>	<b>68.60%</b>
Net assets				
Invested in capital assets, net of related debt	191,109,551	186,301,527	4,808,024	2.58%
Restricted for debt service	249,875	85,306	164,569	192.92%
Restricted for capital acquisition	1,265,311	873,440	391,871	44.87%
Unrestricted	22,506,528	19,288,222	3,218,306	16.69%
<b>Total net assets</b>	<b>215,131,265</b>	<b>206,548,495</b>	<b>8,582,770</b>	<b>4.16%</b>
<b>Total liabilities and net assets</b>	<b>\$303,552,019</b>	<b>\$258,991,320</b>	<b>\$44,560,699</b>	<b>17.21%</b>

**Financial Highlights – Fiscal Year 2005**

- Total assets at year-end were \$303,552,019 and exceeded total liabilities by \$215,131,265 which results in an improved positive accumulated net assets position.
- Current assets increased by \$13,303,661 (129.44%) due to unspent bond proceeds and operating profits being retained in working capital.
- Capital assets increased by \$7,285,670 (3.15%) due to major project additions, which included:
  - Pumping Stations – approximately \$258,000
  - Water Distribution Main – approximately \$2,621,000
  - Water Trans Pump Station & Mains – approximately \$2,166,000
  - Selected Main Replacements – approximately \$589,000
  - Wellfield & Water Treatment Plant – approximately \$887,000
  - General System Improvements – approximately \$345,000



**Table 3**

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

	August 31		Variance	
	2006 Actual	2005 Actual	Dollars	Percent
Operating revenue				
Water revenue	\$25,082,457	\$23,826,036	\$1,256,421	5.27%
Other revenue	517,153	536,138	(\$18,985)	-3.54%
Total operating revenue	<u>25,599,610</u>	<u>24,362,174</u>	<u>1,237,436</u>	<u>5.08%</u>
Operating expenses				
Supply, pumping and purification	11,385,602	10,627,425	758,177	7.13%
Transmission and distribution	6,879,966	6,594,266	285,700	4.33%
Accounting and collecting	906,679	872,292	34,387	3.94%
Administrative and general	1,034,904	1,072,166	(37,262)	-3.48%
Total operating expenses	<u>20,207,151</u>	<u>19,166,149</u>	<u>1,041,002</u>	<u>5.43%</u>
Operating income	5,392,459	5,196,025	196,434	3.78%
Net nonoperating expenses	(1,233,077)	(1,844,312)	611,235	-33.14%
Capital contributions	5,932,721	5,231,057	701,664	13.41%
Change in net assets	<u>\$10,092,103</u>	<u>\$8,582,770</u>	<u>\$1,509,333</u>	<u>17.59%</u>

**Financial Highlights – Fiscal Year 2006**

- Operating revenues increased by \$1,237,436 (5.08%) compared to 2005. This increase was primarily due to the user fee increase of 7.00% that was implemented with the water billings beginning in February of 2006 and increased water usage. Total water pumpage for 2006 was 14,025,100,000 gallons, 203,680,000 gallons more than the water pumpage for 2005. Water pumpage for Fiscal Year 2005-2006 was the highest of the top five water-use years.
- Operating expenses increased \$1,041,002 (5.43%) compared to 2005, due to power, pumping and purification, and transmission and distribution costs being higher than last fiscal year and more expenses were incurred because of the high water demand of our customers.

**Table 4**

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

	August 31		Variance	
	2005 Actual	2004 Actual	Dollars	Percent
Operating revenue				
Water revenue	\$23,826,036	\$21,544,851	\$2,281,185	10.59%
Other revenue	536,138	623,407	(87,269)	-14.00%
Total operating revenue	<u>24,362,174</u>	<u>22,168,258</u>	<u>2,193,916</u>	<u>9.90%</u>
Operating expenses				
Supply, pumping and purification	10,627,425	10,175,257	452,168	4.44%
Transmission and distribution	6,594,266	6,109,508	484,758	7.93%
Accounting and collecting	872,292	911,131	(38,839)	-4.26%
Administrative and general	1,072,166	1,071,279	887	0.08%
Total operating expenses	<u>19,166,149</u>	<u>18,267,175</u>	<u>898,974</u>	<u>4.92%</u>
Operating income	5,196,025	3,901,083	1,294,942	33.19%
Net nonoperating expenses	(1,844,312)	(1,130,202)	(714,110)	-63.18%
Capital contributions	5,231,057	4,117,988	1,113,069	27.03%
Change in net assets	<u>\$8,582,770</u>	<u>\$6,888,869</u>	<u>\$1,693,901</u>	<u>24.59%</u>

**Financial Highlights – Fiscal Year 2005**

- Operating revenues increased by \$2,193,916 (9.90%) compared to 2004. This increase was primarily due to the user fee increase of 5.00% that was implemented with the water billings beginning in February of 2004 and increased water usage. Total water pumpage for 2005 was 13,821,420,000 gallons, 995,118,750 gallons more than the water pumpage for 2004. Water pumpage for Fiscal Year 2004-2005 was the 4th highest of the top five water-use years.
- Operating expenses increased \$898,974 (4.92%) compared to 2004, due to power, pumping and purification, and transmission and distribution costs being higher than last fiscal year and more expenses were incurred because of the high water demand of our customers. No one item increased substantially. All operating expense categories increased by a relatively small amount, causing the overall increase.

**Debt Activity**

In November 2004, the Lincoln Water System issued \$40,000,000 in Water Revenue Bonds at an interest rate of 4.3%.

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 \$4,220,000 at August 31, 2006.

Lincoln Water System has commitments to purchase approximately \$1,000,000, annually, of automated meter reading system equipment for one year.

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

The approved Capital Improvement Program for 2006-2012 identifies the need for \$107,839,000 to fund capital improvements for the Water System. Approximately \$85,185,000 of that total is projected to be funded by revenue bonds. Future user fee increases will be necessary 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 2006 and 2005. If you have questions about this report or need additional financial information, please contact the Business Office of the Public Works & Utilities Department at 555 South 10<sup>th</sup> Street, Lincoln, NE 68508.

# LINCOLN WATER SYSTEM

## Balance Sheets

August 31, 2006 and 2005

Assets	2006	2005
Current assets:		
Equity in pooled cash and investments	\$ 6,352,912	11,851,093
Receivables:		
Accounts receivable	2,893,615	3,026,678
Unbilled revenues	3,261,410	3,436,624
Impact fees	1,573,744	1,265,311
Due from other funds	3,346,976	3,265,734
Total receivables	11,075,745	10,994,347
Inventories	860,668	736,435
Total current assets	18,289,325	23,581,875
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and investments	31,429,446	32,280,661
Investments	8,044,681	8,190,046
Total non-current assets	39,474,127	40,470,707
Utility plant	328,980,562	311,566,188
Less accumulated depreciation	78,954,794	72,916,875
Net utility plant	250,025,768	238,649,313
Unamortized bond issuance costs	780,091	850,124
Total noncurrent assets	290,279,986	279,970,144
Total assets	\$ 308,569,311	303,552,019
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 661,384	840,097
Accrued liabilities	563,253	753,252
Deposits liability	101,800	94,150
Accrued compensated absences	306,575	286,785
Construction contracts	1,386,369	788,699
Current maturities of long-term debt	5,340,000	5,130,000
Accrued interest and other	152,148	161,460
Total current liabilities:	8,511,529	8,054,443
Long-term liabilities:		
Long-term debt, excluding current maturities	74,590,829	80,131,568
Accrued compensated absences	243,585	234,743
Total long-term liabilities	74,834,414	80,366,311
Total liabilities	83,345,943	88,420,754
Net assets:		
Invested in capital assets, net of related debt	199,305,347	191,109,551
Restricted for debt service	253,434	249,875
Restricted for capital acquisition	1,573,744	1,265,311
Unrestricted	24,090,843	22,506,528
Total net assets	225,223,368	215,131,265
Total liabilities and net assets	\$ 308,569,311	303,552,019

See accompanying notes to financial statements.

# LINCOLN WATER SYSTEM

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

Years ended August 31, 2006 and 2005

	2006	2005
Operating revenues:		
Water sales	\$ 25,082,457	23,826,036
Service and materials, net	517,153	536,138
Total operating revenues	25,599,610	24,362,174
Operating expenses:		
Supply, pumping and purification	11,385,602	10,627,425
Transmission and distribution	6,879,966	6,594,266
Accounting and collecting	906,679	872,292
Administrative and general	1,034,904	1,072,166
Total operating expenses	20,207,151	19,166,149
Operating income	5,392,459	5,196,025
Nonoperating revenues (expenses):		
Investment income	1,697,768	1,238,566
Interest expense on revenue bonds	(2,860,812)	(3,017,468)
Amortization of bond costs	(70,033)	(65,410)
Net nonoperating expenses	(1,233,077)	(1,844,312)
Increase in net assets before capital contributions	4,159,382	3,351,713
Capital contributions from:		
Developers	4,215,100	3,677,860
Impact fees	1,147,976	838,452
Tap fees	569,645	714,745
Total capital contributions	5,932,721	5,231,057
Increase in net assets	10,092,103	8,582,770
Total net assets - beginning	215,131,265	206,548,495
Total net assets - ending	\$ 225,223,368	215,131,265

See accompanying notes to financial statements.

**LINCOLN WATER SYSTEM**

**Statements of Cash Flows**

**Years ended August 31, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
Operating activities:		
Receipts from customers and users	\$ 25,607,104	22,809,119
Payments to suppliers	(7,002,626)	(6,318,457)
Payments to employees	(7,269,902)	(6,615,451)
Net cash provided by operating activities	11,334,576	9,875,211
Non capital financing activities:		
Advance to other funds, net	(81,242)	(3,265,734)
Net cash used in non capital financing activities:	(81,242)	(3,265,734)
Capital and related financing activities:		
Acquisition and construction of capital assets	(11,245,000)	(8,909,227)
Proceeds from sale of long-term debt	0	41,273,287
Principal paid on long-term debt	(5,130,000)	(4,895,000)
Interest paid on revenue bonds	(3,070,863)	(3,132,487)
Net cash provided by (used in) capital and related financing activities	(19,445,863)	24,336,573
Investing activities:		
Purchases of investments	(2,721,141)	(23,848,871)
Proceeds from investment maturities	3,393,784	0
Interest on investments	2,021,705	1,433,604
Net cash provided by (used in) investing activities	2,694,348	(22,415,267)
Net increase (decrease) in cash and cash equivalents	(5,498,181)	8,530,783
Cash and cash equivalents at beginning of year	11,851,093	3,320,310
Cash and cash equivalents at end of year	\$ 6,352,912	11,851,093
Reconciliation of net operating revenues to net cash provided by operating activities:		
Operating income	\$ 5,392,459	5,196,025
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,398,937	6,020,484
Changes in operating assets and liabilities:		
Accounts receivable	(156)	(1,556,155)
Inventories	(124,233)	49,011
Accounts payable	(178,713)	(35,695)
Accrued liabilities and deposit liability	(182,350)	154,703
Accrued compensated absences	28,632	46,838
Total adjustments	5,942,117	4,679,186
Net cash provided by operating activities	\$ 11,334,576	9,875,211

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$4,215,100 and \$3,677,860 were added to utility plant in 2006 and 2005, respectively.

Accounts payable incurred for utility plant purchases were \$1,386,369 and \$788,699 in 2006 and 2005, respectively.

See accompanying notes to financial statements.

# LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

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

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

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

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

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

The financial statements referred to above present only the Lincoln Water System and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2006 and 2005, 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, 2006 and 2005

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### ***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. Interest 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

### ***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. Collateralized investment agreements are carried at contract value.

(Continued)



# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

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### **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 in connection with bond issues 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.

### **Revenue**

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, 2006 and 2005:

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	<u>August 31, 2006</u>	<u>August 31, 2005</u>
<u>Water Usage</u>		
Residential:		
100 to 800 cubic feet	\$ .995	\$ .93
801 to 2,300 cubic feet	1.38	1.28
2,301 and up	2.10	1.89
Nonresidential low volume user:		
100 to 8,000 cubic feet	.995	.93
8,001 and up	1.38	1.28
Nonresidential high volume user:		
Base usage which is average water usage for previous three calendar years	.935 to 1.065	.87 to 1.00
<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.	

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(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

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### ***Bond Issuance Costs***

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

### ***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, 2006 and 2005 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, 2006	\$521,528	315,417	286,785	550,160	306,575
August 31, 2005	474,690	335,142	288,304	521,528	286,785

(Continued)

# LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2006 and 2005

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## ***Use of Estimates***

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

## ***Reclassifications***

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 financial statement presentation. These reclassifications had no effect on the change in net assets.

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

### (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 risk exists. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

#### *Investments*

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

For an investment, *custodial credit risk* is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment securities that are in the possession of an outside party. None of the underlying securities for the Lincoln Water System's investments at August 31, 2006 and 2005 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, 2006 and 2005, the Lincoln Water System had the following investments and maturities:

Type	August 31, 2006		
	Carrying Value	Maturities in Years	
		6-10	More than 10
U.S. Treasury obligations	\$3,114,681	3,114,681	—
Collateralized Investment Agreements	<u>4,930,000</u>	<u>—</u>	<u>4,930,000</u>
	<u>\$8,044,681</u>	<u>3,114,681</u>	<u>4,930,000</u>

Type	August 31, 2005		
	Carrying Value	Maturities in Years	
		6-10	More than 10
U.S. Treasury obligations	\$3,260,046	3,260,046	—
Collateralized Investment Agreements	<u>4,930,000</u>	<u>—</u>	<u>4,930,000</u>
	<u>\$8,190,046</u>	<u>3,260,046</u>	<u>4,930,000</u>

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

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### Interest Rate Risk:

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits current operating funds to be invested with maturities of no longer than twenty-four months. Fixed income investments in construction funds, operating funds, and other non-operating funds are limited to ten year maturities. Collateralized Investment Agreements are not subject to interest rate risk, as the interest rate is guaranteed by the issuer.

### Credit Risk:

Credit Risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy allows Investment Agreements with a rating at least Aa3 by Moody's Investor Service and AA- by Standard and Poor's. As of August 31, 2006 and 2005, the Lincoln Water System collateralized investment agreements were rated Aa2 by Moody's Investors Service and AA 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 debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument. As of August 31, 2006 and 2005, the Lincoln Water System collateralized investment agreements constituted 11% and 10%, respectively, of its total funds available for investing. These collateralized 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, 2006 and 2005 are:

	<u>2006</u>	<u>2005</u>
Equity in Pooled cash and investments	\$37,782,359	44,131,754

### ***Investment Income***

Investment income for the years ended August 31, 2006 and 2005 are:

	<u>2006</u>	<u>2005</u>
Interest and dividend income	\$2,020,880	1,654,430
Net decrease in fair value of investments	(323,112)	(415,864)
	<u>\$1,697,768</u>	<u>1,238,566</u>

(Continued)

**LINCOLN WATER SYSTEM**

Notes to Financial Statements

August 31, 2006 and 2005

**(3) Inventories**

Balances of the major classes of inventory at August 31, 2006 and 2005 are shown below:

	<b>2006</b>	<b>2005</b>
Heavy materials	\$ 672,209	593,953
Diesel fuel	70,979	57,294
Water meters and parts	91,348	60,161
Chemicals	26,132	25,027
<b>Total inventories</b>	<b>\$ 860,668</b>	<b>736,435</b>

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

### (4) Utility Plant

Utility plant is summarized by major classification at August 31, 2006 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2005	Increases	Decreases	August 31, 2006	August 31, 2005	Increases	Decreases	August 31, 2006	August 31, 2006
Airport	\$ 42,172	-	-	42,172	(24,057)	(422)	-	(24,479)	17,693
Structures and improvements	91,667,071	3,104,591	-	94,771,662	(21,230,527)	(2,011,960)	-	(23,242,487)	71,529,175
Other power and production equipment	1,893,984	-	-	1,893,984	(1,213,441)	(63,193)	-	(1,276,634)	617,350
Electric pumping equipment	23,081,445	2,207,486	-	25,288,931	(5,399,379)	(872,656)	-	(6,272,035)	19,016,896
Purification system	25,903,189	6,765	-	25,909,954	(7,189,569)	(787,971)	-	(7,977,540)	17,932,414
Transmission mains	50,799,666	413,399	-	51,213,065	(10,203,601)	(598,944)	-	(10,802,545)	40,410,520
Distribution mains and accessories	84,046,715	14,130,622	(1,329)	98,176,008	(17,722,390)	(1,004,637)	1,329	(18,725,698)	79,450,310
Hydrants	4,844,227	-	-	4,844,227	(2,776,422)	(146,531)	-	(2,922,953)	1,921,274
Office furniture and equipment	1,693,032	44,145	(121,580)	1,615,597	(1,276,206)	(112,878)	121,580	(1,267,504)	348,093
Shop equipment	193,975	-	(14,698)	179,277	(184,579)	(3,736)	14,698	(173,617)	5,660
Laboratory equipment	402,090	32,217	(112,333)	321,974	(247,357)	(48,340)	112,333	(183,364)	138,610
Tools and work equipment	577,704	26,683	(5,376)	599,011	(496,286)	(21,822)	5,376	(512,732)	86,279
Communications system	382,220	-	-	382,220	(148,688)	(18,735)	-	(167,423)	214,797
Meters	11,473,920	609,229	(50,134)	12,033,015	(3,486,445)	(523,373)	50,134	(3,959,684)	8,073,331
Vehicles	2,383,442	99,356	(59,297)	2,423,501	(1,317,928)	(183,739)	55,568	(1,446,099)	977,402
<b>Total depreciable assets</b>	<b>299,384,852</b>	<b>20,674,493</b>	<b>(364,747)</b>	<b>319,694,598</b>	<b>(72,916,875)</b>	<b>(6,398,937)</b>	<b>361,018</b>	<b>(78,954,794)</b>	<b>240,739,804</b>
Land and land rights	4,712,330	-	-	4,712,330	-	-	-	-	4,712,330
Construction in progress	7,469,006	13,057,495	(15,952,867)	4,573,634	-	-	-	-	4,573,634
<b>Total nondepreciable assets</b>	<b>12,181,336</b>	<b>13,057,495</b>	<b>(15,952,867)</b>	<b>9,285,964</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,285,964</b>
<b>Total capital assets</b>	<b>\$ 311,566,188</b>	<b>33,731,988</b>	<b>(16,317,614)</b>	<b>328,980,562</b>	<b>(72,916,875)</b>	<b>(6,398,937)</b>	<b>361,018</b>	<b>(78,954,794)</b>	<b>250,025,768</b>

During 2006, Lincoln Water System incurred \$3,624,251 of interest cost. Interest capitalized into construction in progress during 2006 was \$763,439. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 2.00% in 2006.

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

### (4) Utility Plant

Utility plant is summarized by major classification at August 31, 2005 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2004	Increases	Decreases	August 31, 2005	August 31, 2004	Increases	Decreases	August 31, 2005	August 31, 2005
Airport	\$ 42,172	-	-	42,172	(23,635)	(422)	-	(24,057)	18,115
Structures and improvements	95,362,620	483,726	(4,179,275)	91,667,071	(23,619,607)	(1,790,195)	4,179,275	(21,230,527)	70,436,544
Other power and production equipment	2,092,378	-	(198,394)	1,893,984	(1,348,109)	(63,726)	198,394	(1,213,441)	680,543
Electric pumping equipment	23,721,477	1,962	(641,994)	23,081,445	(5,186,364)	(855,009)	641,994	(5,399,379)	17,682,066
Purification system	25,673,664	466,405	(236,880)	25,903,189	(6,649,888)	(776,561)	236,880	(7,189,569)	18,713,620
Transmission mains	51,213,429	452,090	(865,853)	50,799,666	(10,471,662)	(597,792)	865,853	(10,203,601)	40,596,065
Distribution mains and accessories	79,320,323	4,741,794	(15,402)	84,046,715	(16,833,997)	(903,795)	15,402	(17,722,390)	66,324,325
Hydrants	4,844,227	-	-	4,844,227	(2,629,890)	(146,532)	-	(2,776,422)	2,067,805
Office furniture and equipment	3,141,744	8,962	(1,457,674)	1,693,032	(2,613,865)	(120,015)	1,457,674	(1,276,206)	416,826
Stores equipment	3,443	-	(3,443)	-	(3,443)	-	3,443	-	-
Shop equipment	195,553	-	(1,578)	193,975	(178,629)	(7,528)	1,578	(184,579)	9,396
Laboratory equipment	381,766	30,017	(9,693)	402,090	(208,467)	(48,583)	9,693	(247,357)	154,733
Tools and work equipment	618,303	47,022	(87,621)	577,704	(562,680)	(21,227)	87,621	(496,286)	81,418
Communications system	455,167	-	(72,947)	382,220	(202,024)	(19,611)	72,947	(148,688)	233,532
Meters	10,056,430	1,417,490	-	11,473,920	(3,009,896)	(476,549)	-	(3,486,445)	7,987,475
Vehicles	2,328,769	192,906	(138,233)	2,383,442	(1,252,485)	(192,939)	127,496	(1,317,928)	1,065,514
<b>Total depreciable assets</b>	<b>299,451,465</b>	<b>7,842,374</b>	<b>(7,908,987)</b>	<b>299,384,852</b>	<b>(74,794,641)</b>	<b>(6,020,484)</b>	<b>7,898,250</b>	<b>(72,916,875)</b>	<b>226,467,977</b>
Land and land rights	4,712,695	15	(380)	4,712,330	-	-	-	-	4,712,330
Construction in progress	1,994,124	8,589,253	(3,114,371)	7,469,006	-	-	-	-	7,469,006
<b>Total nondepreciable assets</b>	<b>6,706,819</b>	<b>8,589,268</b>	<b>(3,114,751)</b>	<b>12,181,336</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,181,336</b>
<b>Total capital assets</b>	<b>\$ 306,158,284</b>	<b>16,431,642</b>	<b>(11,023,738)</b>	<b>311,566,188</b>	<b>(74,794,641)</b>	<b>(6,020,484)</b>	<b>7,898,250</b>	<b>(72,916,875)</b>	<b>238,649,313</b>

During 2005, Lincoln Water System incurred \$3,402,912 of interest cost. Interest capitalized into construction in progress during 2005 was \$385,444. 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 2.01% in 2005.



**LINCOLN WATER SYSTEM**

Notes to Financial Statements

August 31, 2006 and 2005

**(5) Long-term Debt**

Long-term debt of the Lincoln Water System at August 31, 2006 and 2005 is summarized below:

**2006**

Type of Debt	August 31, 2005	Additions	Reductions	August 31, 2006	Due Within One Year
2.75%-5.00% Water Revenue Bonds, Series 2002, due in annual principal installments on August 15, increasing from \$780,000 in 2007 to the final payment of \$1,465,000 on August 15, 2022.	\$17,775,000	-	755,000	17,020,000	780,000
5% Water Revenue Bonds, Refunding Series 2003, due in annual principal installments on August 15, increasing from \$3,585,000 in 2007 to the final payment of \$2,630,000 on August 15, 2012.	25,800,000	-	3,420,000	22,380,000	3,585,000
3.00%-5.00% Water Revenue Bonds, Series 2004, due in annual principal installments on August 15, increasing from \$975,000 in 2007 to the final payment of \$3,065,000 on August 15, 2025.	39,105,000	-	955,000	38,150,000	975,000
Unamortized premium on bonds Deferred for refunding	3,525,928 (944,360)	- -	336,456 (135,717)	3,189,472 (808,643)	- -
	<u>\$85,261,568</u>	<u>-</u>	<u>5,330,739</u>	<u>79,930,829</u>	<u>5,340,000</u>

(Continued)

**LINCOLN WATER SYSTEM**

Notes to Financial Statements

August 31, 2006 and 2005

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

**2005**

Type of Debt	August 31, 2004	Additions	Reductions	August 31, 2005	Due Within One Year
2.75%-5.00% Water Revenue Bonds, Series 2002, due in annual principal installments on August 15, increasing from \$755,000 in 2006 to the final payment of \$1,465,000 on August 15, 2022.	18,510,000	-	735,000	17,775,000	755,000
5% Water Revenue Bonds, Refunding Series 2003, due in annual principal installments on August 15, increasing from \$3,420,000 in 2006 to the final payment of \$2,630,000 on August 15, 2012.	29,065,000	-	3,265,000	25,800,000	3,420,000
3.00%-5.00% Water Revenue Bonds, Series 2004, due in annual principal installments on August 15, increasing from \$955,000 in 2006 to the final payment of \$3,065,000 on August 15, 2025.	-	40,000,000	895,000	39,105,000	955,000
Unamortized premium on bonds Deferred for refunding	2,186,155 <u>(1,080,076)</u>	1,656,232 <u>-</u>	316,459 <u>(135,716)</u>	3,525,928 <u>(944,360)</u>	- <u>-</u>
	<u>\$48,681,079</u>	<u>41,656,232</u>	<u>5,075,743</u>	<u>85,261,568</u>	<u>5,130,000</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, 2006 and 2005

### (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, 2006 are as follows:

Years ending August 31	Principal	Interest	Total
2007	\$ 5,340,000	3,612,001	8,952,001
2008	5,555,000	3,376,201	8,931,201
2009	5,795,000	3,128,414	8,923,414
2010	6,050,000	2,873,676	8,923,676
2011	6,310,000	2,602,526	8,912,526
2012-2016	17,430,000	9,716,337	27,146,337
2017-2021	18,135,000	5,633,031	23,768,031
2022-2025	12,935,000	1,389,531	14,324,531
Total	\$ 77,550,000	32,331,717	109,881,717

### (6) Commitments and Contingencies

Lincoln Water System has commitments under major construction contracts in progress of approximately \$4,220,000 at August 31, 2006.

Lincoln Water System has commitments to purchase approximately \$1,000,000 of automated meter reading system equipment through 2007.

The 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 on a quarterly basis from impact fee dollars collected within that development area. These agreements project construction costs and impact fee revenue based on the final plat at the time of acceptance of the agreement. As of August 31, 2006, the System's commitment to these developers is estimated to be \$1,600,000.

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2006 and 2005

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### (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 \$81,600,000 as of August 31, 2006.
- *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

Lincoln Water System participates in an automated meter reading program system equipment purchasing arrangement with Lincoln Wastewater System. Under the terms of this arrangement, Lincoln Water System purchases automated meter reading system equipment on behalf of Lincoln Wastewater System and bills Lincoln Wastewater System for approximately 40% of the costs of the equipment. Amounts received from Lincoln Wastewater System for this equipment amounted to \$400,000 for each of the years ended August 31, 2006 and 2005.

The City billed the Water System approximately \$420,000 and \$416,000 for administrative services during 2006 and 2005, respectively.

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 \$1,573,744 and \$1,265,311 as of August 31, 2006 and 2005, respectively.

The City of Lincoln general fund has borrowed moneys from the pooled cash and investment account. The Water System's allocated share of the borrowing was \$3,346,976 and \$3,265,734 as of August 31, 2006 and 2005, 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, 2006 and 2005

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### **(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 \$243,000 and \$232,000 in 2006 and 2005, 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 \$560,000 and \$521,000 for 2006 and 2005, respectively. Contributions made by the plan members were approximately \$304,000 and \$284,000 for 2006 and 2005, respectively.

**LINCOLN WATER SYSTEM**

Schedule 1

Summary of Long-Term Debt

August 31, 2006

Due years ending August 31	Series 2002		Series 2003		Series 2004		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2007	\$ 780,000	759,770	3,585,000	1,119,000	975,000	1,733,231	5,340,000	3,612,001	8,952,001
2008	805,000	732,470	3,755,000	939,750	995,000	1,703,981	5,555,000	3,376,201	8,931,201
2009	835,000	702,283	3,940,000	752,000	1,020,000	1,674,131	5,795,000	3,128,414	8,923,414
2010	865,000	675,145	4,135,000	555,000	1,050,000	1,643,531	6,050,000	2,873,676	8,923,676
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
2012-2016	5,030,000	2,669,556	2,630,000	131,500	9,770,000	6,915,281	17,430,000	9,716,337	27,146,337
2017-2021	6,345,000	1,348,750	-	-	11,790,000	4,284,281	18,135,000	5,633,031	23,768,031
2022-2025	1,465,000	73,250	-	-	11,470,000	1,316,281	12,935,000	1,389,531	14,324,531
	\$ 17,020,000	7,606,094	22,380,000	3,845,500	38,150,000	20,880,123	77,550,000	32,331,717	109,881,717

## Operating Expenses

Years ended August 31, 2006 and 2005

	2006	2005
Lincoln Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 46,323	45,374
Control system maintenance	-	544
Electrical maintenance	451	998
Grounds maintenance	8,320	9,068
Wellfield maintenance	22,200	17,058
Wellfield operations	8,257	5,082
Depreciation of wells and houses	16,245	16,622
Total source of supply	\$ 101,796	94,746
Power and pumping expenses:		
Supervision, management and administrative support	\$ 94,307	92,271
Training and education	29,559	23,079
Data management	6,997	7,004
General operations	117,900	101,369
Structures maintenance	14,748	19,597
Control system maintenance	50,745	45,835
Electrical maintenance	121,189	116,429
Grounds maintenance	243,572	279,107
Main repair/maintenance	10,453	12,665
Customer services	33,920	11,755
Laboratory operations	47,507	44,668
Pumping and transmission maintenance	171,432	146,697
Pumping and transmission operations	1,853,246	1,610,461
Depreciation of pumping equipment	308,422	291,103
Depreciation of general plant and improvements	15,091	15,146
Depreciation of structures and improvement	820,748	824,725
Total power and pumping	\$ 3,939,836	3,641,911
Total - Lincoln Water Plant	\$ 4,041,632	3,736,657
Ashland Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 116,944	123,264
Control system maintenance	32,764	34,107
Electrical maintenance	26,687	30,395
Grounds maintenance	94,251	86,401
Main repair/maintenance	4,154	3,752
Laboratory operations	12,530	3,992
Wellfield maintenance	158,263	197,411
Wellfield operations	726,946	667,635
Depreciation of transmission mains	258,369	257,468
Depreciation of wells and houses	767,640	756,093
Total source of supply	\$ 2,198,548	2,160,518

## Operating Expenses

	2006	2005
Power and pumping expenses:		
Supervision, management and administrative support	\$ 105,637	103,099
General operations	6,981	4,902
Control system maintenance	6,871	12,613
Electrical maintenance	20,950	26,589
Grounds maintenance	-	10,372
Main repair/maintenance	814	2,010
Pumping and transmission maintenance	45,607	46,938
Pumping and transmission operations	265,152	248,322
Depreciation of pumping equipment	296,877	297,825
Depreciation of structures and improvement	159,218	159,233
Depreciation of general plant	1,929	1,929
Depreciation of transmission mains	2,243	2,243
Depreciation of other production equipment	63,194	63,726
Total power and pumping	\$ 975,473	979,801
Purification expense:		
Supervision, management and administrative support	\$ 255,377	230,355
Training and education	74,908	73,926
General operations	96,087	71,967
Treatment and process control	104,696	137,972
Structures maintenance	15,179	5,411
Process equipment maintenance	50,585	64,432
Control system maintenance	122,729	108,756
Electrical maintenance	55,031	59,216
Grounds maintenance	593,030	480,841
Laboratory operations	358,782	328,043
Treatment operations	1,026,733	993,958
Depreciation of structures and improvements	533,619	316,452
Depreciation of purification equipment	787,971	776,560
Depreciation of general plant & equipment	95,222	102,560
Total purification expenses	\$ 4,169,949	3,750,449
Total Ashland Water Plant	\$ 7,343,970	6,890,768
Total supply, pumping and purification	\$ 11,385,602	10,627,425



## Operating Expenses

	2006	2005
Transmission and distribution expenses:		
Supervision and management	\$ 817,833	734,527
Administrative and support staff	419,617	369,066
Training and education	176,935	135,676
Data management	342,347	342,144
General operations	287,515	314,830
Main repair/maintenance	1,281,240	1,139,109
Contractor services	146,483	136,552
Customer services	1,350,416	1,508,136
Depreciation of structures and improvements	1,033	2,710
Depreciation of transmission mains	336,761	336,511
Depreciation of distribution mains	1,522,025	1,372,156
Depreciation of hydrants and fountains	146,531	146,531
Depreciation of general plant and equipment	51,230	56,318
<b>Total transmission and distribution</b>	<b>\$ 6,879,966</b>	<b>6,594,266</b>
Accounting and collecting expenses:		
Supervision and management	\$ 219,688	170,584
Administrative and support staff	2,843	5,663
Meter reading	141,494	157,697
Billing and accounting	278,851	286,830
Collections	124,546	119,622
Customer services and billing	97,743	90,079
Customer contracts and orders	31,333	31,141
Depreciation of general plant and equipment	10,181	10,676
<b>Total accounting and collecting</b>	<b>\$ 906,679</b>	<b>872,292</b>
Administrative and general expenses:		
Supervision and management	\$ 958,048	963,513
Administrative and support staff	56,207	87,695
Depreciation of general plant and equipment	20,649	20,904
Depreciation of general plant structures	-	54
<b>Total administrative and general</b>	<b>\$ 1,034,904</b>	<b>1,072,166</b>

LINCOLN WATER SYSTEM

Schedule 3

Utility Plant in Service

August 31, 2006

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2005	Increases	Decreases	August 31, 2006	August 31, 2005	Increases	Decreases	August 31, 2006	August 31, 2006
Lincoln Water Plant:									
Airport	\$ 42,172	-	-	42,172	(24,057)	(422)	-	(24,479)	17,693
Structures and improvements	36,280,391	196,294	-	36,476,685	(11,068,537)	(837,575)	-	(11,906,112)	24,570,573
Other power and production equipment	-	-	-	-	-	-	-	-	-
Electric pumping equipment	11,771,267	2,159,723	-	13,930,990	(1,734,767)	(289,687)	-	(2,024,454)	11,906,536
Purification system	-	-	-	-	1,072	-	-	1,072	1,072
Transmission mains	29,164,675	53,190	-	29,217,865	(4,986,206)	(338,332)	-	(5,324,538)	23,893,327
Distribution mains and accessories	84,046,715	14,130,622	(1,329)	98,176,008	(17,722,390)	(1,004,637)	1,329	(18,725,698)	79,450,310
Hydrants	4,844,227	-	-	4,844,227	(2,776,422)	(146,531)	-	(2,922,953)	1,921,274
Office furniture and equipment	1,347,016	44,145	(116,068)	1,275,093	(1,053,005)	(69,579)	116,068	(1,006,516)	268,577
Shop equipment	176,024	-	(14,698)	161,326	(166,944)	(3,610)	14,698	(155,856)	5,470
Laboratory equipment	-	-	-	-	310	-	-	310	310
Tools and work equipment	425,527	26,683	(5,376)	446,834	(362,800)	(16,436)	5,376	(373,860)	72,974
Communications system	382,220	-	-	382,220	(148,688)	(18,735)	-	(167,423)	214,797
Meters	11,473,920	609,229	(50,134)	12,033,015	(3,486,445)	(523,373)	50,134	(3,959,684)	8,073,331
Lincoln depreciable assets	179,954,154	17,219,886	(187,605)	196,986,435	(43,528,879)	(3,248,917)	187,605	(46,590,191)	150,396,244
Land and land rights	1,128,950	-	-	1,128,950	-	-	-	-	1,128,950
Lincoln nondepreciable assets	1,128,950	-	-	1,128,950	-	-	-	-	1,128,950
Total Lincoln plant	181,083,104	17,219,886	(187,605)	198,115,385	(43,528,879)	(3,248,917)	187,605	(46,590,191)	151,525,194
Ashland Water Plant:									
Structures and improvements	55,386,680	2,908,297	-	58,294,977	(10,161,990)	(1,174,385)	-	(11,336,375)	46,958,602
Transmission mains and accessories	21,634,991	360,209	-	21,995,200	(5,217,395)	(260,612)	-	(5,478,007)	16,517,193
Office furniture and equipment	346,016	-	(5,512)	340,504	(223,201)	(43,299)	5,512	(260,988)	79,516
Shop equipment	17,951	-	-	17,951	(17,635)	(126)	-	(17,761)	190
Laboratory equipment	402,090	32,217	(112,333)	321,974	(247,667)	(48,340)	112,333	(183,674)	138,300
Other power and production	1,893,984	-	-	1,893,984	(1,213,441)	(63,193)	-	(1,276,634)	617,350
Electric pumping equipment	11,310,178	47,763	-	11,357,941	(3,664,612)	(582,969)	-	(4,247,581)	7,110,360
Purification system	25,903,189	6,765	-	25,909,954	(7,190,641)	(787,971)	-	(7,978,612)	17,931,342
Tools and work equipment	152,177	-	-	152,177	(133,486)	(5,386)	-	(138,872)	13,305
Ashland depreciable assets	117,047,256	3,355,251	(117,845)	120,284,662	(28,070,068)	(2,966,281)	117,845	(30,918,504)	89,366,158
Land and land rights	3,583,380	-	-	3,583,380	-	-	-	-	3,583,380
Ashland nondepreciable assets	3,583,380	-	-	3,583,380	-	-	-	-	3,583,380
Total Ashland plant	120,630,636	3,355,251	(117,845)	123,868,042	(28,070,068)	(2,966,281)	117,845	(30,918,504)	92,949,538
Vehicles and work equipment (all locations)	2,383,442	99,356	(59,297)	2,423,501	(1,317,928)	(183,739)	55,568	(1,446,099)	977,402
Utility plant in service	\$ 304,097,182	20,674,493	(364,747)	324,406,928	(72,916,875)	(6,398,937)	361,018	(78,954,794)	245,452,134
Construction in progress	7,469,006	13,057,495	(15,952,867)	4,573,634	-	-	-	-	4,573,634
Total capital assets	\$ 311,566,188	33,731,988	(16,317,614)	328,980,562	(72,916,875)	(6,398,937)	361,018	(78,954,794)	250,025,768

**GENERAL STATISTICS**

**Year Ended August 31, 2006**

(Unaudited)

---

Altitude of Lincoln, Nebraska .....	1,167 Feet
Area of Lincoln, Nebraska .....	85.76 Square Miles
Population .....	241,700 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, 2006 .....	22.30
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, 2005	1,164.1
Estimated Added During Year	18.7
Estimated Removed During Year	0.1
Total as of August 31, 2006 .....	1,182.7 Miles
Amount of Water Pumped During Year Ended August 31, 2006 .....	14,025,100,000 gallons
Average Daily Consumption of Water .....	38,424,932 gallons
Average Daily Consumption Per Capita .....	159 gallons
Total Number of Active Water Customers	
End of Fiscal Year .....	75,919
Bonded Debt of Lincoln Water System at August 31, 2006 .....	\$77,550,000

**LINCOLN WATER SYSTEM**

Schedule 5

**TOP TEN CUSTOMERS****Year Ended August 31, 2006**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	536,259	\$736,586
2. Archer-Daniels Midland Company	360,963	329,133
3. Goodyear Tire & Rubber	321,958	304,280
4. State of Nebraska	318,031	445,815
5. City of Lincoln	309,625	452,683
6. ConAgra Refrigerator Foods	183,368	167,051
7. Pfizer Animal Health	150,376	148,812
8. Lincoln Public Schools	144,923	215,639
9. BryanLGH Medical Center	129,435	184,559
10. Lincoln Housing Authority	99,141	148,443
<b>Top Ten Users Totals</b>	<b>2,554,079</b>	<b>\$3,133,001</b>



06R-156

Introduce 8-14-06

(Substitute)  
RESOLUTION NO. A- 83988

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

4           WHEREAS, Both the Mayor’s Advisory Committees, Streets, Roads and Trails (SRT) and  
5 the Mayor’s Infrastructure Finance Committee (MIFC) support the water rate increases proposed by  
6 the City’s Public Works & Utilities Department over the next 10 years, to help finance the  
7 infrastructure needs identified in the City’s Capital Improvement Program. The current projections  
8 acknowledge the need for approval of a 6% increase for Fiscal Year 2006-07; a 5% increase for  
9 Fiscal Year 2007-08; and a 5% increase for Fiscal Year 2008-09.

10           WHEREAS, Lincoln’s water infrastructure is a necessary component and is required under  
11 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 the  
13 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, 2006, and ending January 15,  
18 2007, 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"  
3 shall be defined as property consisting of dwelling units. If there is more than one use per master  
4 meter on any one property including the residential use, the schedule to be used will be determined  
5 as residential, if the residential portion is 50 percent or more of the area of the building.

6 105.0 cents per 100 cubic feet for the first 800 cubic feet of water used per dwelling unit each  
7 month.

8 148.0 cents per 100 cubic feet for the next 1500 cubic feet of water used per dwelling unit  
9 each month.

10 228.0 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  
14 property that used less than 12,000,000 cubic feet of water in the previous calendar year:

15 105.0 cents per 100 cubic feet for the first 8000 cubic feet of water used per month.

16 148.0 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  
20 used more than 12,000,000 cubic feet of water in the previous calendar year. On a calendar year  
21 basis, a "base usage" of each high user customer will be determined. The base usage is an average  
22 of the water usage of each high user customer for the previous three (3) calendar years.

1 The following fees would apply:

2 100.0 cents per 100 cubic feet for water usage less than base to 5% above base.

3 104.0 cents per 100 cubic feet for water usage 5% - 15% above base.

4 108.0 cents per 100 cubic feet for water usage 15% - 25% above base.

5 113.0 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  
10 Lincoln Water System, determined by the number and size of the water meter, or meters, serving  
11 such property, 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  
25 dwelling unit or mobile home hookup space per month. In those instances where fire protection  
26 considerations dictate that a water meter larger than 1-inch service a single-family dwelling unit  
27 located on a single lot, the monthly service charge shall be \$2.95 per dwelling unit. A dwelling unit  
28 shall, for the purpose of this schedule, be defined as a room or rooms in which kitchen facilities are

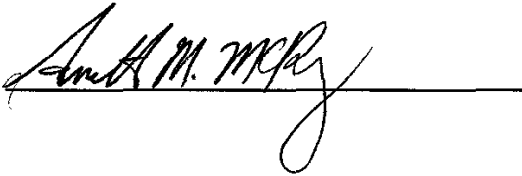
1 provided, located in the building or structure used by a facility or household as a home or residence  
2 of the family or household.

3 WATER RATES TO CUSTOMERS OUTSIDE  
4 THE CITY LIMITS

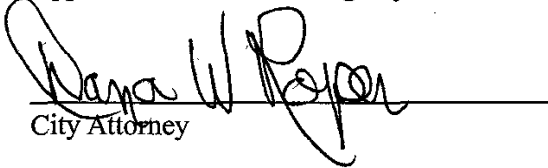
5 Customers located outside the City Limits of Lincoln and served by the water system of the  
6 City of Lincoln shall pay the same water rates charged to customers within the City Limits of Lincoln  
7 for water furnished them by the water system of the City of Lincoln.

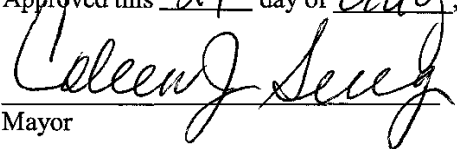
8 BE IT FURTHER RESOLVED that Resolution No. A-83457, adopted by the City Council  
on August 1, 2005, is hereby superseded.

Introduced by:

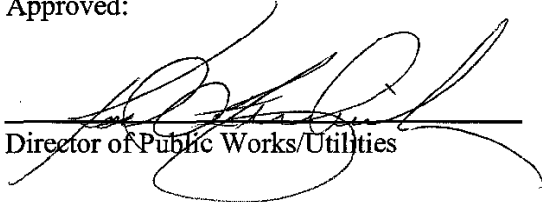


Approved as to Form & Legality:

  
City Attorney

Approved this 24 day of Aug, 2006:  
  
Mayor

Approved:

  
Director of Public Works/Utilities

**ADOPTED**  
**AUG 21 2006**  
**BY CITY COUNCIL**



## Quantitative Statistics

Years ended August 31, 2006 and 2005

(Unaudited)

	2006	2005	Increase (decrease)
Water pumpage in one hundred cubic feet: (H.C.F.) by months:			
September	2,122,968	1,973,907	149,061
October	1,572,520	1,504,188	68,332
November	1,181,368	1,059,489	121,879
December	1,085,116	1,015,179	69,937
January	1,075,676	1,078,705	(3,029)
February	1,045,548	996,893	48,655
March	1,026,371	1,032,691	(6,320)
April	1,205,880	1,125,519	80,361
May	1,587,717	1,697,079	(109,362)
June	2,242,712	1,915,011	327,701
July	2,578,012	2,853,059	(275,047)
August	1,976,227	2,176,840	(200,613)
Total H.C.F. pumped	18,700,115	18,428,560	271,555
H.C.F. sold and donated:			
Customer metered sales	17,301,877	17,848,307	(546,430)
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	56,637	41,327	15,310
Used for testing meters (estimated)	250	250	—
Used by Fire Department (estimated)	3,200	3,200	—
Lawn sprinkling and service shop water	100	100	—
Total water accounted for	17,377,564	17,908,684	(531,120)
Total H.C.F. unaccounted for	1,322,551	519,876	802,675
Percent of H.C.F. unaccounted for	7.07%	2.82%	

**LINCOLN WATER SYSTEM**

Schedule 8

**COMPARATIVE PUMPING REPORT**

For Fiscal Years as Shown by Gallons

(Unaudited)

<b>MONTH</b>	<b>August 31, 2006</b>	<b>August 31, 2005</b>	<b>August 31, 2004</b>	<b>August 31, 2003</b>	<b>August 31, 2002</b>
<b>September</b>	1,592,226,000	1,480,430,000	1,372,488,000	1,523,935,000	1,393,343,000
<b>October</b>	1,179,390,000	1,128,140,000	1,230,054,000	979,028,000	1,094,538,000
<b>November</b>	886,026,000	794,620,000	816,023,250	827,521,000	1,012,904,000
<b>December</b>	813,837,000	761,380,000	794,745,000	848,382,000	825,145,000
<b>January</b>	806,757,000	809,030,000	786,438,000	863,192,000	877,574,000
<b>February</b>	784,161,000	747,670,000	757,842,000	781,163,000	779,241,000
<b>March</b>	769,778,250	774,520,000	823,634,250	858,968,000	864,475,000
<b>April</b>	904,410,000	844,140,000	1,003,313,250	912,982,000	994,905,000
<b>May</b>	1,190,787,750	1,272,810,000	1,077,558,750	1,040,289,000	1,079,242,000
<b>June</b>	1,682,034,000	1,436,260,000	1,208,910,750	1,150,092,000	1,990,016,000
<b>July</b>	1,933,509,000	2,139,790,000	1,295,531,250	2,051,310,000	2,081,278,000
<b>August</b>	1,482,170,250	1,632,630,000	1,659,762,750	1,857,923,000	1,640,554,000
<b>Total</b>	<b>14,025,086,250</b>	<b>13,821,420,000</b>	<b>12,826,301,250</b>	<b>13,694,785,000</b>	<b>14,633,215,000</b>

**LINCOLN WATER SYSTEM**  
**ANNUAL RAINFALL FOR THE PERIOD OF**  
September 1, 2005 to August 31, 2006  
(Unaudited)

	Inches of <u>Rainfall</u>
September .....	0.28
October .....	2.76
November .....	2.03
December .....	0.52
January .....	0.91
February .....	0.07
March .....	3.03
April .....	3.83
May .....	2.09
June .....	0.65
July .....	2.08
August .....	<u>4.05</u>
<b>TOTAL INCHES FOR FISCAL YEAR</b>	<b><u>22.30</u></b>

**LINCOLN WATER SYSTEM**

WATER ANALYSIS

(All Results in Parts Per Million)  
(Collected July 25, 2006)  
(Unaudited)

550 W. Cornhusker Hwy.

Hydrogen Ion Concentration (pH) .....	7.51
Total Dissolved Solids .....	309 ppm.
Total Iron (Fe) .....	0.057 ppm.
Manganese (Mn) .....	4.73 ppb.
Calcium (as Ca) .....	49.7 ppm.
Total Alkalinity (CaCO <sub>3</sub> ) .....	152 ppm.
Chloride (Cl) .....	13.7 ppm.
Fluoride (F) .....	0.93 ppm.
Nitrate (+Nitrite) .....	0.28 ppm.
Sodium (Na) .....	28.7 ppm.
Hardness as (CaCO <sub>2</sub> ) Total Hardness .....	170 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, 2006

(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		Genesis	XYB300909C
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	FM212
Money and Securities	Inside/outside premises	50,000	500	0	Fidelity & Deposit	CCP003595
Water Distribution	Water distribution center	25,000,000	50,000	0	FM Global	FM212
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FM212
Equipment Floater (911)	Radio tower floater	Replacement cost	50,000	2,500	FM Global	FM212
Equipment Floater (NON-LIC)	Nonlicensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM212
General Liability ***	\$1,000,000 occurrence	5,000,000	250,000	0	Genesis	XYB300909C
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	Genesis	XYB300909C
Workers' Compensation Excess	Policy has \$25,000,000 limit	25,000,000	500,000	0	Safety National	SP-2A04-NE

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

## LINCOLN WATER SYSTEM

### Summary of Insurance Coverage

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

#### **AUTOMOBILE INSURANCE**

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

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

#### **PROPERTY INSURANCE**

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

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

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

*Inland Marine Floaters:* Provides physical damage coverage for specifically scheduled property. Current floaters insured include: data processing equipment, radio towers, and nonlicensed equipment.

#### **WATER DISTRIBUTION SYSTEM**

Provides coverage for underground pipeline between Lincoln and Ashland.

#### **GENERAL LIABILITY**

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

#### **PUBLIC EMPLOYEES BLANKET BOND**

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

#### **PUBLIC OFFICIALS LIABILITY (Claims-made)**

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

#### **WORKERS' COMPENSATION**

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



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

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

We have audited the financial statements of Lincoln Water System as of and for the year ended August 31, 2006, and have issued our report thereon dated November 3, 2006. 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 the Lincoln Water System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 the Lincoln Water System's management in a separate letter dated November 3, 2006.

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

November 3, 2006

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