



# LINCOLN WATER SYSTEM

Financial Statements & Schedules  
Fiscal Year Ended  
August 31, 2010



**ANNUAL FINANCIAL REPORT**

**DEPARTMENT OF PUBLIC WORKS/UTILITIES**

**CITY OFFICIALS**

Chris Beutler ..... Mayor

**COUNCIL MEMBERS**

John Spatz ..... Chair

Eugene Carroll ..... Vice-Chair

- Jon Camp
- Jonathan Cook
- Doug Emery
- Adam Hornung
- Jayne Snyder

**WATER SYSTEM**

Greg MacLean ..... Director of Public Works/Utilities

**Lincoln Water System**  
**August 31, 2010 and 2009**

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

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

We have audited the accompanying basic financial statements of Lincoln Water System as of and for the years ended August 31, 2010 and 2009, 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, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2010 on our consideration of Lincoln 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, LCA*

November 30, 2010

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

#### ***Using This Annual Report***

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

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

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

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

#### ***The Statement of Cash Flows***

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

#### ***The System's Net Assets***

The System's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The System's net assets increased by \$4,089,823 (1.672%) in 2010 over 2009 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, 2010, 2009, and 2008.

**Table 1**

### Condensed Balance Sheets

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

### Financial Highlights – Fiscal Year 2010

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

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

	August 31		Change	
	2009	2008	Dollars	Percent
Current assets	\$ 13,009,313	\$ 11,814,994	\$ 1,194,319	10.109%
Capital assets	298,833,004	286,316,418	12,516,586	4.372%
Restricted assets	10,557,106	11,382,762	(825,656)	(7.254%)
Long-term investments	8,365,688	8,281,319	84,369	1.019%
Deferred charges	740,779	640,025	100,754	15.742%
<b>Total assets</b>	<b>331,505,890</b>	<b>318,435,518</b>	<b>13,070,372</b>	<b>4.105%</b>
Current liabilities	13,810,175	15,040,929	(1,230,754)	(8.183%)
Long-term liabilities	73,057,608	64,799,551	8,258,057	12.744%
<b>Total liabilities</b>	<b>86,867,783</b>	<b>79,840,480</b>	<b>7,027,303</b>	<b>8.802%</b>
Net assets				
Invested in capital assets, net of related debt	233,365,538	222,706,850	10,658,688	4.786%
Restricted for debt service	216,595	992,855	(776,260)	(78.185%)
Restricted for capital acquisition	808,345	404,423	403,922	99.876%
Unrestricted	10,247,629	14,490,910	(4,243,281)	(29.282%)
<b>Total net assets</b>	<b>244,638,107</b>	<b>238,595,038</b>	<b>6,043,069</b>	<b>2.533%</b>
<b>Total liabilities and net assets</b>	<b>\$331,505,890</b>	<b>\$318,435,518</b>	<b>\$13,070,372</b>	<b>4.105%</b>

**Financial Highlights – Fiscal Year 2009**

- Total assets at year-end were \$331,505,890 and exceeded total liabilities by \$244,638,107. Of this amount \$10,247,629 (unrestricted) may be used to meet the ongoing obligations of the System.
- Capital assets increased by \$12,516,586 (4.372%) due to the addition of several major projects, which included:
  - Water Distribution Mains – approximately \$1,820,000
  - Water Transmission Pump Station & Mains – approximately \$7,915,000
  - Water Treatment Plan – approximately \$2,716,000
- Long term liabilities increased by \$8,258,057 (12.744%) primarily due to the issuance of \$15,420,000 in revenue bonds less current maturities paid on all revenue bonds of approximately \$5,800,000.

**Table 3**

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

	August 31		Change	
	2010	2009	Dollars	Percent
Operating revenue				
Water revenue	\$24,620,902	\$25,052,990	(\$432,088)	(1.725%)
Other revenue	514,225	639,213	(124,988)	(19.553%)
Total operating revenue	<u>25,135,127</u>	<u>25,692,203</u>	<u>(557,076)</u>	<u>(2.168%)</u>
Operating expenses				
Supply, pumping and purification	11,485,657	11,824,225	(338,568)	(2.863%)
Transmission and distribution	7,490,238	7,831,566	(341,328)	(4.358%)
Accounting and collecting	927,213	966,546	(39,333)	(4.069%)
Administrative and general	1,350,543	1,300,641	49,902	3.837%
Total operating expenses	<u>21,253,651</u>	<u>21,922,978</u>	<u>(669,327)</u>	<u>(3.053%)</u>
Operating income	3,881,476	3,769,225	112,251	2.978%
Net nonoperating expenses	(1,692,623)	(1,000,492)	(692,131)	69.179%
Capital contributions	1,900,970	3,274,336	(1,373,366)	(41.943%)
Change in net assets	<u>\$4,089,823</u>	<u>\$6,043,069</u>	<u>(\$1,953,246)</u>	<u>(32.322%)</u>

**Financial Highlights – Fiscal Year 2010**

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

**Table 4**

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

	August 31		Change	
	2009	2008	Dollars	Percent
Operating revenue				
Water revenue	\$25,052,990	\$23,506,747	\$1,546,243	6.578%
Other revenue	639,213	542,292	96,921	17.872%
Total operating revenue	<u>25,692,203</u>	<u>24,049,039</u>	<u>1,643,164</u>	<u>6.833%</u>
Operating expenses				
Supply, pumping and purification	11,824,225	11,741,251	82,974	0.707%
Transmission and distribution	7,831,566	7,447,752	383,814	5.153%
Accounting and collecting	966,546	858,711	107,835	12.558%
Administrative and general	1,300,641	1,305,044	(4,403)	(0.337%)
Total operating expenses	<u>21,922,978</u>	<u>21,352,758</u>	<u>570,220</u>	<u>2.670%</u>
Operating income	3,769,225	2,696,281	1,072,944	39.793%
Net nonoperating expenses	(1,000,492)	(32,899)	(967,593)	2,941.102%
Capital contributions	3,274,336	2,996,307	278,029	9.279%
Change in net assets	<u>\$6,043,069</u>	<u>\$5,659,689</u>	<u>\$383,380</u>	<u>6.774%</u>

**Financial Highlights – Fiscal Year 2009**

- Operating revenues increased by \$1,643,164 (6.833%) compared to 2008. Effective February 2009, there was a 3% user fee increase. Total water pumpage for 2009 was 11,941,190,000 gallons, 42,380,000 gallons less than the water pumpage for 2008, due to a cool summer.
- Operating expenses increased \$570,220 (2.670%) compared to 2008, in part due to increased employee benefit costs, electricity, and chemical costs.
- Net nonoperating expenses increased \$967,593 (2,941.102%) compared to 2008 due to less interest income and lower interest rates on investments.

### ***Debt Activity***

In August 2009, the Lincoln Water System issued \$15,420,000 of additional bonds to be used on construction costs.

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 \$1,600,000 at August 31, 2010.

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

The approved Capital Improvement Program for Fiscal Year 2010/11 -2015/16 identifies the need for \$100,520,200 to fund capital improvements for the Water System. Approximately \$82,550,000 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 2010 and 2009. If you have questions about this report or need additional financial information, please contact the Business Office of the Public Works & Utilities Department at 555 South 10<sup>th</sup> Street, Lincoln, NE 68508.

# LINCOLN WATER SYSTEM

## Balance Sheets

August 31, 2010 and 2009

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Current assets:		
Equity in pooled cash and investments	\$ 1,804,922	4,394,292
Receivables:		
Accounts receivable	2,711,578	2,808,120
Unbilled revenues	3,801,928	3,275,363
Due from other funds	339,412	873,514
Impact fees	2,454	808,345
Total receivables	6,855,372	7,765,342
Inventories	840,372	849,679
Total current assets	9,500,666	13,009,313
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and investments	4,930,281	10,557,106
Investments	9,386,641	8,365,688
Total restricted assets	14,316,922	18,922,794
Utility plant	403,094,580	397,608,114
Less accumulated depreciation	102,066,552	98,775,110
Net utility plant	301,028,028	298,833,004
Unamortized bond issuance costs	663,892	740,779
Total noncurrent assets	316,008,842	318,496,577
Total assets	\$ 325,509,508	331,505,890
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 665,094	531,560
Accrued liabilities	610,450	579,103
Deposits liability	76,894	78,444
Accrued compensated absences	409,070	380,821
Construction contracts	1,394,031	6,044,900
Current maturities of long-term debt	6,310,000	6,050,000
Accrued interest	134,393	145,347
Total current liabilities:	9,599,932	13,810,175
Long-term liabilities:		
Accrued liabilities	119,104	40,806
Accrued compensated absences	371,633	376,989
Construction contracts	1,227,600	667,211
Long-term debt, excluding current maturities	65,463,309	71,972,602
Total long-term liabilities	67,181,646	73,057,608
Total liabilities	76,781,578	86,867,783
Net assets:		
Invested in capital assets, net of related debt	238,080,168	233,365,538
Restricted for debt service	397,377	216,595
Restricted for capital acquisition	2,454	808,345
Unrestricted	10,247,931	10,247,629
Total net assets	248,727,930	244,638,107
Total liabilities and net assets	\$ 325,509,508	331,505,890

See accompanying notes to financial statements.

# LINCOLN WATER SYSTEM

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

Years ended August 31, 2010 and 2009

	2010	2009
Operating revenues:		
Water sales	\$ 24,620,902	25,052,990
Service and materials, net	514,225	639,213
Total operating revenues	25,135,127	25,692,203
Operating expenses:		
Supply, pumping and purification	11,485,657	11,824,225
Transmission and distribution	7,490,238	7,831,566
Accounting and collecting	927,213	966,546
Administrative and general	1,350,543	1,300,641
Total operating expenses	21,253,651	21,922,978
Operating income	3,881,476	3,769,225
Nonoperating revenues (expenses):		
Investment income	523,674	870,720
Interest expense	(2,139,410)	(1,800,608)
Amortization of bond costs	(76,887)	(70,604)
Net nonoperating expenses	(1,692,623)	(1,000,492)
Increase in net assets before capital contributions	2,188,853	2,768,733
Capital contributions from:		
Developers	1,044,304	1,999,072
Impact fees	570,994	978,180
Tap fees	285,672	297,084
Total capital contributions	1,900,970	3,274,336
Increase in net assets	4,089,823	6,043,069
Total net assets - beginning	244,638,107	238,595,038
Total net assets - ending	\$ 248,727,930	244,638,107

See accompanying notes to financial statements.

**LINCOLN WATER SYSTEM**

**Statements of Cash Flows**

**Years ended August 31, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
Operating activities:		
Receipts from customers and users	\$ 25,509,445	25,058,042
Payments to suppliers	(6,172,812)	(7,727,045)
Payments to employees	(7,643,101)	(7,776,770)
Net cash provided by operating activities	11,693,532	9,554,227
Noncapital financing activities:		
Repayment from other funds, net	534,102	122,238
Net cash provided by noncapital financing activities:	534,102	122,238
Capital and related financing activities:		
Acquisition and construction of capital assets	(11,546,893)	(17,815,271)
Principal paid on revenue bonds	(6,050,000)	(5,795,000)
Proceeds from sale of revenue bonds	-	15,248,642
Interest paid on revenue bonds	(2,349,658)	(2,023,885)
Net cash used in capital and related financing activities	(19,946,551)	(10,385,514)
Investing activities:		
Purchases of investments	(3,203,284)	(2,741,705)
Proceeds from investment maturities	7,648,621	3,593,879
Interest on investments	684,210	759,833
Net cash provided by investing activities	5,129,547	1,612,007
Net increase (decrease) in cash and cash equivalents	(2,589,370)	902,958
Cash and cash equivalents at beginning of year	4,394,292	3,491,334
Cash and cash equivalents at end of year	\$ 1,804,922	4,394,292
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 3,881,476	3,769,225
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,162,359	6,927,901
Changes in operating assets and liabilities:		
Accounts receivable	375,868	(607,355)
Inventories	9,307	193,756
Accounts payable	133,534	(274,219)
Accrued liabilities and deposit liability	108,095	(512,322)
Accrued compensated absences	22,893	57,241
Total adjustments	7,812,056	5,785,002
Net cash provided by operating activities	\$ 11,693,532	9,554,227

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$1,044,304 and \$1,999,072 were added to utility plant in 2010 and 2009, respectively.

Accounts payable incurred for utility plant purchases were \$2,621,631 and \$6,712,111 in 2010 and 2009, respectively.

See accompanying notes to financial statements.

# LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

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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, 2010 and 2009, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

### ***Operating Revenues and Expenses***

As an enterprise fund, the Lincoln 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, 2010 and 2009

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

### *Utility Plant (Capital Assets)*

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

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

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

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

(Continued)

# LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

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

### ***Deposits and Investments***

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

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

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

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

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

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

### ***Capital Contributions***

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

### ***Unamortized Premium on Revenue Bonds***

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

### ***Inventories***

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

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2010 and 2009

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

#### **Revenues**

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

The City Council sets the rate schedule for the Lincoln Water System. The following rates were assessed per one hundred cubic feet of water usage for the years ended August 31, 2010 and 2009:

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	<u>August 31, 2010</u>	<u>August 31, 2009</u>
<u>Water Usage</u>		
Residential:		
100 to 800 cubic feet	\$ 1.22	\$ 1.16
801 to 2,300 cubic feet	1.735	1.65
2,301 and up	2.69	2.56
Nonresidential low volume user:		
100 to 8,000 cubic feet	1.22	1.16
8,001 and up	1.735	1.65
Nonresidential high volume user:		
Base usage which is average water usage for previous three calendar years	1.155 to 1.28	1.10 to 1.22
<u>Service Charge</u>		
Residential: single-family dwelling unit	\$ 3.10	\$ 2.95
Residential: multiple-family dwelling unit	1.90	1.81
Non-residential:	Based on size and number of water meters or number of dwelling units.	

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#### **Bond Issuance Costs**

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

(Continued)

# LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

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

### ***Net Assets Classification***

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

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

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

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

### ***Compensated Absences***

Employees earn vacation days at varying rates dependent on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation which is in no case longer than 35 days. Employees earn sick leave at the rate of approximately one day per month. Upon retirement, death, or reduction in force, an employee or their beneficiary is reimbursed up to 65% of accumulated sick leave, which may in some cases be placed directly in a medical spending account instead of reimbursing the employee directly. The Lincoln Water System accrues for vacation, sick leave and other compensated absences with similar characteristics.

Compensated absences of the Lincoln Water System at August 31, 2010 and 2009 are summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
August 31, 2010	\$757,810	403,714	380,821	780,703	409,070
August 31, 2009	\$700,569	439,181	381,940	757,810	380,821

(Continued)

# LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2010 and 2009

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

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

The Water System recorded a liability for the annual required contribution (ARC) of approximately \$119,000 and \$41,000 as of August 31, 2010 and 2009, respectively, in connection with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The complete disclosures required by GASB 45 are included in the City of Lincoln Comprehensive Annual Financial Report (CAFR).

### ***Use of Estimates***

Management of 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 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on the change in net assets.

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2010 and 2009

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

#### *Deposits*

State statutes require banks either to give bond or to pledge government securities to the City Treasurer in the amount of the City's deposits. The System has been allocated a portion of the City's pooled cash and investments. One or more of the financial institutions holding the City's cash accounts are participating in the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program. Under the program, through December 31, 2012, all noninterest-bearing transaction accounts at these institutions are fully guaranteed by the FDIC for the entire amount in the account. For interest-bearing cash accounts, the City's cash deposits, including certificates of deposit, are insured up to \$250,000 by the FDIC. Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits are covered by collateral held in a Federal Reserve pledge account or by an agent for the City and thus no custodial risk exists. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

#### *Investments*

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

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

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

Type	August 31, 2010			
	Carrying Value	Maturities in Years		
		1-5	6-10	More than 10
U.S. Treasury obligations	\$3,410,701	3,410,701	—	—
U.S. Agency obligations	1,045,940	1,045,940	—	—
Collateralized Investment Agreements	4,930,000	—	—	4,930,000
	<u>\$9,386,641</u>	<u>4,456,641</u>	<u>—</u>	<u>4,930,000</u>
Type	August 31, 2009			
	Carrying Value	Maturities in Years		
		1-5	6-10	More than 10
U.S. Treasury obligations	\$3,435,688	3,435,688	—	—
Collateralized Investment Agreements	4,930,000	—	—	4,930,000
	<u>\$8,365,688</u>	<u>3,435,688</u>	<u>—</u>	<u>4,930,000</u>

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2010 and 2009

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

#### Interest Rate Risk:

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

#### Credit Risk:

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

#### Concentration of Credit Risk:

The City's investment policy places various limits on the amount that may be invested in any one issuer. Per the policy, allocation limits do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument. As of August 31, 2010, and 2009, the collateralized investment agreements held by Lincoln Water System constituted 30% and 21%, respectively, of its total funds available for investing. These collateralized investment agreements were made with funds from the bond debt reserve funds established. The investment held in U.S. agency obligations constituted 6% of the total funds available for investing as of August 31, 2010.

The carrying amount of equity interests in pooled cash and investments at August 31, 2010 and 2009 are:

	<u>2010</u>	<u>2009</u>
Equity in pooled cash and investments	<u>\$6,735,203</u>	<u>14,951,398</u>

#### ***Investment Income***

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

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$730,839	640,277
Net change in fair value of investments	<u>(207,165)</u>	<u>230,443</u>
	<u>\$523,674</u>	<u>870,720</u>

(Continued)

**LINCOLN WATER SYSTEM**

Notes to Financial Statements

August 31, 2010 and 2009

**(3) Inventories**

Balances of the major classes of inventory at August 31, 2010 and 2009, are shown below:

	<b>2010</b>	<b>2009</b>
Heavy materials	\$598,249	551,224
Diesel fuel	70,368	100,219
Water meters and parts	123,207	159,330
Chemicals	48,548	38,906
Total inventories	\$840,372	849,679

(Continued)

## LINCOLN WATER SYSTEM

### Notes to Financial Statements

August 31, 2010 and 2009

#### (4) Utility Plant

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

Asset Class	Capital Assets			Accumulated Depreciation				Net Capital Assets	
	August 31, 2009	Increases	Decreases	August 31, 2010	August 31, 2009	Increases	Decreases	August 31, 2010	
Airport	\$ 42,172	-	-	42,172	(25,745)	(422)	-	(26,167)	16,005
Structures and improvements	66,986,924	233,058	-	67,219,982	(21,167,628)	(1,729,142)	-	(22,896,770)	44,323,212
Reservoirs	38,370,053	-	-	38,370,053	(9,851,831)	(727,359)	-	(10,579,190)	27,790,863
Other power and production equipment	2,286,573	136,147	-	2,422,720	(1,429,577)	(52,269)	-	(1,481,846)	940,874
Electric pumping equipment	20,495,049	680,427	(12,585)	21,162,891	(7,589,642)	(497,266)	12,585	(8,074,323)	13,088,568
Purification system	26,013,736	5,377,366	(3,343,620)	28,047,482	(10,330,274)	(840,017)	3,343,620	(7,826,671)	20,220,811
Transmission mains	56,127,850	26,539,400	-	82,667,250	(12,692,382)	(807,792)	-	(13,500,174)	69,167,076
Distribution mains and accessories	127,531,393	2,390,080	-	129,921,473	(22,466,524)	(1,426,825)	-	(23,893,349)	106,028,124
Hydrants	4,844,227	-	-	4,844,227	(3,344,555)	(69,942)	-	(3,414,497)	1,429,730
Office furniture and equipment	1,959,040	20,100	(204,370)	1,774,770	(1,591,259)	(123,860)	204,370	(1,510,749)	264,021
Shop equipment	199,383	-	-	199,383	(170,643)	(3,867)	-	(174,510)	24,873
Laboratory equipment	450,779	17,331	(71,295)	396,815	(311,357)	(34,842)	71,295	(274,904)	121,911
Tools and work equipment	324,702	20,730	(49,817)	295,615	(289,314)	(14,207)	49,817	(253,704)	41,911
Communications system	1,183,615	1,561,078	-	2,744,693	(298,194)	(77,796)	-	(375,990)	2,368,703
Meters	12,525,156	125,861	-	12,651,017	(5,605,887)	(555,655)	-	(6,161,542)	6,489,475
Vehicles	2,780,509	193,064	(201,065)	2,772,508	(1,610,298)	(201,098)	189,230	(1,622,166)	1,150,342
<b>Total depreciable assets</b>	<b>362,121,161</b>	<b>37,294,642</b>	<b>(3,882,752)</b>	<b>395,533,051</b>	<b>(98,775,110)</b>	<b>(7,162,359)</b>	<b>3,870,917</b>	<b>(102,066,552)</b>	<b>293,466,499</b>
Land and land rights	5,123,119	321,488	-	5,444,607	-	-	-	-	5,444,607
Construction in progress	30,363,834	7,933,962	(36,180,874)	2,116,922	-	-	-	-	2,116,922
<b>Total nondepreciable assets</b>	<b>35,486,953</b>	<b>8,255,450</b>	<b>(36,180,874)</b>	<b>7,561,529</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,561,529</b>
<b>Total capital assets</b>	<b>\$ 397,608,114</b>	<b>45,550,092</b>	<b>(40,063,626)</b>	<b>403,094,580</b>	<b>(98,775,110)</b>	<b>(7,162,359)</b>	<b>3,870,917</b>	<b>(102,066,552)</b>	<b>301,028,028</b>

During 2010, Lincoln Water System incurred \$3,447,142 of interest cost. Interest capitalized into construction in progress during 2010 was \$1,108,439. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 1.81% in 2010.

## LINCOLN WATER SYSTEM

### Notes to Financial Statements

August 31, 2010 and 2009

#### (4) Utility Plant

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

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2008	Increases	Decreases	August 31, 2009	August 31, 2008	Increases	Decreases	August 31, 2009	August 31, 2009
Airport	\$ 42,172	-	-	42,172	(25,323)	(422)	-	(25,745)	16,427
Structures and improvements	66,194,403	792,521	-	66,986,924	(19,432,730)	(1,734,898)	-	(21,167,628)	45,819,296
Reservoirs	38,370,064	(11)	-	38,370,053	(9,114,152)	(737,679)	-	(9,851,831)	28,518,222
Other power and production equipment	1,893,984	392,589	-	2,286,573	(1,387,052)	(42,525)	-	(1,429,577)	856,996
Electric pumping equipment	20,225,047	271,119	(1,117)	20,495,049	(7,105,799)	(484,960)	1,117	(7,589,642)	12,905,407
Purification system	25,996,218	17,518	-	26,013,736	(9,545,223)	(785,051)	-	(10,330,274)	15,683,462
Transmission mains	51,389,827	4,738,023	-	56,127,850	(12,024,907)	(667,475)	-	(12,692,382)	43,435,468
Distribution mains and accessories	119,399,451	8,131,942	-	127,531,393	(21,116,903)	(1,349,621)	-	(22,466,524)	105,064,869
Hydrants	4,844,227	-	-	4,844,227	(3,204,021)	(140,534)	-	(3,344,555)	1,499,672
Office furniture and equipment	1,957,445	15,619	(14,024)	1,959,040	(1,476,704)	(128,579)	14,024	(1,591,259)	367,781
Shop equipment	214,641	-	(15,258)	199,383	(181,248)	(4,653)	15,258	(170,643)	28,740
Laboratory equipment	370,345	80,491	(57)	450,779	(269,622)	(41,792)	57	(311,357)	139,422
Tools and work equipment	539,164	-	(214,462)	324,702	(489,709)	(14,067)	214,462	(289,314)	35,388
Communications system	1,109,670	73,945	-	1,183,615	(239,912)	(58,282)	-	(298,194)	885,421
Meters	12,164,689	360,467	-	12,525,156	(5,052,910)	(552,977)	-	(5,605,887)	6,919,269
Vehicles	2,354,526	425,983	-	2,780,509	(1,425,912)	(184,386)	-	(1,610,298)	1,170,211
<b>Total depreciable assets</b>	<b>347,065,873</b>	<b>15,300,206</b>	<b>(244,918)</b>	<b>362,121,161</b>	<b>(92,092,127)</b>	<b>(6,927,901)</b>	<b>244,918</b>	<b>(98,775,110)</b>	<b>263,346,051</b>
Land and land rights	4,832,093	291,026	-	5,123,119	-	-	-	-	5,123,119
Construction in progress	26,510,579	16,726,012	(12,872,757)	30,363,834	-	-	-	-	30,363,834
<b>Total nondepreciable assets</b>	<b>31,342,672</b>	<b>17,017,038</b>	<b>(12,872,757)</b>	<b>35,486,953</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,486,953</b>
<b>Total capital assets</b>	<b>\$ 378,408,545</b>	<b>32,317,244</b>	<b>(13,117,675)</b>	<b>397,608,114</b>	<b>(92,092,127)</b>	<b>(6,927,901)</b>	<b>244,918</b>	<b>(98,775,110)</b>	<b>298,833,004</b>

During 2009, Lincoln Water System incurred \$2,941,269 of interest cost. Interest capitalized into construction in progress during 2009 was \$1,140,661. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 1.91% in 2009.

**LINCOLN WATER SYSTEM**

## Notes to Financial Statements

August 31, 2010 and 2009

**(5) Long-term Debt**

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

**2010**

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

(Continued)

**LINCOLN WATER SYSTEM**

Notes to Financial Statements

August 31, 2010 and 2009

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

**2009**

Type of Debt	August 31, 2008	Additions	Reductions	August 31, 2009	Due Within One Year
2.75% - 5.00% Water Revenue Bonds, Series 2002, due in annual principal installments on August 15, increasing from \$865,000 in 2010 to the final payment of \$1,465,000 on August 15, 2022.	\$15,435,000	-	835,000	14,600,000	865,000
5% Water Revenue Bonds, Refunding Series 2003, due in annual principal installments on August 15, decreasing from \$4,135,000 in 2010 to the final payment of \$2,630,000 on August 15, 2012.	15,040,000	-	3,940,000	11,100,000	4,135,000
3.00% - 5.00% Water Revenue Bonds, Series 2004, due in annual principal installments on August 15, increasing from \$1,050,000 in 2010 to the final payment of \$3,065,000 on August 15, 2025.	36,180,000	-	1,020,000	35,160,000	1,050,000
2.00% - 4.5% Water Revenue Bonds, Series 2009, due in annual principal installments on August 15, increasing from \$465,000 in 2013 to the final payment of \$1,080,000 on August 15, 2034.	-	15,420,000	-	15,420,000	-
Unamortized premium on bonds Deferred for refunding	2,516,563 <u>(537,211)</u>	-	372,467 <u>(135,717)</u>	2,144,096 <u>(401,494)</u>	-
	<u>\$68,634,352</u>	<u>15,420,000</u>	<u>6,031,750</u>	<u>78,022,602</u>	<u>6,050,000</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, 2010 and 2009

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

Maturities and sinking fund requirements on long-term debt at August 31, 2010 are as follows:

Years ending August 31	Principal	Interest	Total
2011	\$ 6,310,000	3,191,857	9,501,857
2012	5,380,000	2,904,640	8,284,640
2013	3,310,000	2,647,265	5,957,265
2014	3,425,000	2,506,275	5,931,275
2015	3,555,000	2,354,275	5,909,275
2016-2020	20,055,000	9,147,385	29,202,385
2021-2025	20,130,000	4,299,904	24,429,904
2026-2030	4,045,000	1,434,288	5,479,288
2031-2034	4,020,000	463,500	4,483,500
<b>Total</b>	<b>\$70,230,000</b>	<b>28,949,389</b>	<b>99,179,389</b>

The City has pledged future revenues derived from the operation of the Lincoln Water System, net of operating and maintenance expenses, to repay all outstanding water revenue bonds. Proceeds from the bonds provided financing for improvements to the water supply system, as well as refunding \$37.8 million of water revenue bonds. The bonds are payable solely from the net earnings of the Water System and are payable through 2034. The total principal and interest remaining to be paid on the bonds is \$99,179,389, with annual payments expected to require 76.5 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$9,508,097 and \$12,424,175, respectively.

**(6) Commitments and Contingencies**

Lincoln Water System has commitments under major construction contracts in progress of approximately \$1,600,000 at August 31, 2010.

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, 2010, the System's commitment to these developers is estimated to be approximately \$4,000,000 over the next 10 - 15 years.

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2010 and 2009

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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 \$82,307,000 based on borrowing rates currently available as of August 31, 2010.
- *Investments* - The fair values of investments are based on quoted market prices for those investments as shown in Note 2.

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

### (8) Related Party Transactions

The City billed the Water System approximately \$496,000 and \$500,000 for administrative services during 2010 and 2009, 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 \$2,340,000 and \$3,010,000 during 2010 and 2009, respectively. Further, the Water System collects payments from customers on behalf of LES. At August 31, 2010, approximately \$257,000 is included in accounts payable for amounts owed to LES for electricity used and customer payments collected. As of August 31, 2010, the Water System owed \$571,000 for long term liabilities to the City of Lincoln Street Construction fund for work performed related to joint construction projects.

A special revenue fund of the City collects and holds impact fees until they are disbursed in accordance with City ordinance. The Lincoln Water System was due impact fees of \$2,454 and \$808,345 as of August 31, 2010 and 2009, 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 \$339,412 and \$873,514 as of August 31, 2010 and 2009, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the balance sheets.

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2010 and 2009

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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 \$320,000 and \$328,000 in 2010 and 2009, respectively.

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

Employees of Lincoln Water System are participants in the City of Lincoln Employees' Retirement Plan. Plan participation is required if the employee has completed five years of continuous service and attained the age of 40. An employee may voluntarily enter the plan upon attaining age 19 and after completing six months of service. The plan is a defined contribution plan requiring employees to contribute to the plan depending on employee class and date of hire. Lincoln Water System contributes between \$1.29 and \$2.00 for every \$1.00 contributed by employees. Plan participants vest in the City's contributions in year three of participation at 20%, up to 100% vesting in year seven. All past service costs and vested benefits are fully paid. Contributions made by the System were approximately \$626,000 and \$610,000 for 2010 and 2009, respectively. Contributions made by the plan members were approximately \$332,000 and \$327,000 for 2010 and 2009, respectively.

SUPPLEMENTARY  
INFORMATION

**LINCOLN WATER SYSTEM**

Schedule 1

Summary of Long-Term Debt

August 31, 2010

Due years ending August 31	Series 2002		Series 2003		Series 2004		Series 2009		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2011	\$ 895,000	644,870	4,335,000	348,250	1,080,000	1,609,406	-	589,331	6,310,000	3,191,857	9,501,857
2012	930,000	612,203	2,630,000	131,500	1,820,000	1,571,606	-	589,331	5,380,000	2,904,640	8,284,640
2013	960,000	577,328	-	-	1,885,000	1,480,606	465,000	589,331	3,310,000	2,647,265	5,957,265
2014	1,000,000	539,888	-	-	1,950,000	1,386,356	475,000	580,031	3,425,000	2,506,275	5,931,275
2015	1,045,000	494,888	-	-	2,020,000	1,288,856	490,000	570,531	3,555,000	2,354,275	5,909,275
2016-2020	6,045,000	1,651,000	-	-	11,325,000	4,850,530	2,685,000	2,645,855	20,055,000	9,147,385	29,202,385
2021-2025	2,860,000	216,250	-	-	14,030,000	1,937,884	3,240,000	2,145,770	20,130,000	4,299,904	24,429,904
2026-2030	-	-	-	-	-	-	4,045,000	1,434,288	4,045,000	1,434,288	5,479,288
2030-2034	-	-	-	-	-	-	4,020,000	463,500	4,020,000	463,500	4,483,500
	\$ 13,735,000	4,736,427	6,965,000	479,750	34,110,000	14,125,244	15,420,000	9,607,968	70,230,000	28,949,389	99,179,389

**LINCOLN WASTEWATER SYSTEM**

Schedule 2

**Debt Coverage Ratio**

**Last ten fiscal years**

Fiscal Year Ending	Gross Revenue	Direct Operating Expenses	Net Available Balance	Debt Service Requirement			
				Principal	Interest	Total	Coverage
2001	16,663,975	8,087,688	8,576,287	952,500	364,972	1,317,472	6.51
2002	15,731,749	8,632,287	7,099,462	992,500	316,847	1,309,347	5.42
2003	15,607,743	9,086,469	6,521,274	1,032,500	266,722	1,299,222	5.02
2004	18,092,619	10,042,919	8,049,700	1,750,000	2,135,009	3,885,009	2.07
2005	18,248,683	10,482,955	7,765,728	1,500,000	2,404,824	3,904,824	1.99
2006	19,827,194	11,125,819	8,701,375	2,065,000	3,044,805	5,109,805	1.70
2007	21,158,743	11,462,964	9,695,779	2,005,000	3,082,787	5,087,787	1.91
2008	22,347,867	11,393,624	10,954,243	2,415,000	4,030,454	6,445,454	1.70
2009	22,643,270	11,771,291	10,871,979	2,620,000	3,820,044	6,440,044	1.69
2010	22,472,096	11,664,594	10,807,502	2,695,000	3,731,444	6,426,444	1.68

## Operating Expenses

Years ended August 31, 2010 and 2009

	2010	2009
Lincoln Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 55,247	55,536
Electrical maintenance	130	670
Grounds maintenance	2,136	6,286
Wellfield maintenance	16,022	15,149
Wellfield operations	-	4,626
Depreciation of wells and houses	-	4,339
Depreciation of general plant	903	903
<b>Total source of supply</b>	<b>\$ 74,438</b>	<b>87,509</b>
Power and pumping expenses:		
Supervision, management and administrative support	\$ 102,574	98,362
Training and education	15,334	22,954
Data management	8,425	9,465
General operations	111,522	116,875
Treatment and process control	-	1,304
Structures maintenance	15,014	20,165
Control system maintenance	58,206	54,823
Electrical maintenance	135,027	133,276
Grounds maintenance	387,130	360,049
Main repair/maintenance	9,765	2,637
Customer services	21,896	39,106
Laboratory operations	8,195	42,716
Pumping and transmission maintenance	153,220	123,177
Pumping and transmission operations	1,770,225	2,012,357
Security maintenance	831	819
Depreciation of pumping equipment	396,438	390,842
Depreciation of general plant and improvements	156	162
Depreciation of structures and improvement	941,173	923,207
<b>Total power and pumping</b>	<b>\$ 4,135,131</b>	<b>4,352,296</b>
<b>Total - Lincoln Water Plant</b>	<b>\$ 4,209,569</b>	<b>4,439,805</b>
Ashland Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 141,241	137,807
Control system maintenance	36,147	45,144
Electrical maintenance	33,608	50,699
Grounds maintenance	105,486	98,401
Main repair/maintenance	1,821	21,228
Laboratory operations	10,628	10,030
Security maintenance	4,621	-
Wellfield maintenance	131,933	149,855
Wellfield operations	730,393	814,597
Depreciation of transmission mains	260,420	260,420
Depreciation of other production equipment	1,084	612
Depreciation of wells and houses	465,350	465,701
<b>Total source of supply</b>	<b>\$ 1,922,732</b>	<b>2,054,494</b>

## Operating Expenses

	2010	2009
Power and pumping expenses:		
Supervision, management and administrative support	\$ 126,234	120,941
General operations	2,455	4,967
Structures maintenance	1,203	-
Control system maintenance	11,778	19,415
Electrical maintenance	24,245	26,787
Electrical maintenance	3,335	-
Main repair/maintenance	1,271	5,355
Pumping and transmission maintenance	35,762	35,973
Pumping and transmission operations	204,218	234,500
Depreciation of pumping equipment	306,320	310,210
Depreciation of structures and improvement	159,218	159,218
Depreciation of general plant	1,929	1,929
Depreciation of transmission mains	90,822	2,243
Depreciation of other production equipment	49,292	40,967
<b>Total power and pumping</b>	<b>\$ 1,018,082</b>	<b>962,505</b>
Purification expense:		
Supervision, management and administrative support	\$ 305,845	298,141
Training and education	94,226	113,022
General operations	52,650	68,559
Treatment and process control	140,074	124,521
Structures maintenance	22,277	18,356
Process equipment maintenance	12,362	18,440
Control system maintenance	115,730	99,832
Electrical maintenance	35,136	32,088
Grounds maintenance	473,074	537,459
Laboratory operations	328,972	325,161
Treatment operations	1,092,116	1,128,371
Security maintenance	2,161	-
Depreciation of structures and improvements	763,923	762,217
Depreciation of transmission mains	19,309	8,671
Depreciation of purification equipment	840,017	785,051
Depreciation of general plant & equipment	37,402	47,532
<b>Total purification expenses</b>	<b>\$ 4,335,274</b>	<b>4,367,421</b>
<b>Total Ashland Water Plant</b>	<b>\$ 7,276,088</b>	<b>7,384,420</b>
<b>Total supply, pumping and purification</b>	<b>\$ 11,485,657</b>	<b>11,824,225</b>

## Operating Expenses

	2010	2009
Transmission and distribution expenses:		
Supervision and management	\$ 859,394	805,525
Administrative and support staff	467,410	536,756
Training and education	61,301	104,058
Data management	396,835	382,684
General operations	290,505	408,009
Main repair/maintenance	1,358,162	1,509,094
Contractor services	136,725	137,473
Customer services	1,312,493	1,390,885
Depreciation of structures and improvements	1,033	1,033
Depreciation of transmission mains	435,670	394,570
Depreciation of distribution mains	1,985,942	1,905,392
Depreciation of hydrants and fountains	69,942	140,534
Depreciation of general plant and equipment	114,826	115,553
<b>Total transmission and distribution</b>	<b>\$ 7,490,238</b>	<b>7,831,566</b>
Accounting and collecting expenses:		
Supervision and management	\$ 180,617	195,464
Administrative and support staff	3,634	2,638
Meter reading	129,096	131,625
Billing and accounting	311,102	352,519
Collections	117,414	114,448
Customer services and billing	151,320	134,084
Customer contracts and orders	33,096	34,166
Depreciation of general plant and equipment	934	1,602
<b>Total accounting and collecting</b>	<b>\$ 927,213</b>	<b>966,546</b>
Administrative and general expenses:		
Supervision and management	\$ 1,204,889	1,165,451
Administrative and support staff	126,496	114,583
Depreciation of general plant and equipment	19,158	20,607
<b>Total administrative and general</b>	<b>\$ 1,350,543</b>	<b>1,300,641</b>

LINCOLN WATER SYSTEM

Schedule 4

Utility Plant in Service

August 31, 2010

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2009	Increases	Decreases	August 31, 2010	August 31, 2009	Increases	Decreases	August 31, 2010	August 31, 2010
Lincoln Water Plant:									
Airport	\$ 42,172	-	-	42,172	(25,745)	(422)	-	(26,167)	16,005
Structures and improvements	14,688,222	233,058	-	14,921,280	(6,909,914)	(377,251)	-	(7,287,165)	7,634,115
Reservoirs	26,086,436	-	-	26,086,436	(7,624,234)	(550,098)	-	(8,174,332)	17,912,104
Other power and production equipmen	37,856	-	-	37,856	(946)	(1,893)	-	(2,839)	35,017
Electric pumping equipment	14,372,891	680,427	(12,585)	15,040,733	(3,009,571)	(351,120)	12,585	(3,348,106)	11,692,627
Purification system	-	-	-	-	1,072	-	-	1,072	1,072
Transmission mains	33,850,935	(170,208)	-	33,680,727	(6,417,716)	(437,241)	-	(6,854,957)	26,825,770
Distribution mains and accessories	127,531,393	2,390,080	-	129,921,473	(22,466,524)	(1,426,825)	-	(23,893,349)	106,028,124
Hydrants	4,844,227	-	-	4,844,227	(3,344,555)	(69,942)	-	(3,414,497)	1,429,730
Office furniture and equipment	1,590,559	20,100	(142,946)	1,467,713	(1,250,371)	(121,009)	142,946	(1,228,434)	239,279
Shop equipment	181,432	-	-	181,432	(152,692)	(3,867)	-	(156,559)	24,873
Laboratory equipment	7,959	-	-	7,959	(1,282)	(796)	-	(2,078)	5,881
Tools and work equipment	175,765	20,730	(1,092)	195,403	(143,154)	(11,775)	1,092	(153,837)	41,566
Communications system	1,183,615	-	-	1,183,615	(298,194)	(58,283)	-	(356,477)	827,138
Meters	12,525,156	125,861	-	12,651,017	(5,605,887)	(555,655)	-	(6,161,542)	6,489,475
Lincoln depreciable assets	237,118,618	3,300,048	(156,623)	240,262,043	(57,249,713)	(3,966,177)	156,623	(61,059,267)	179,202,776
Land and land rights	1,539,892	6,150	-	1,546,042	-	-	-	-	1,546,042
Lincoln nondepreciable assets	1,539,892	6,150	-	1,546,042	-	-	-	-	1,546,042
Total Lincoln plant	238,658,510	3,306,198	(156,623)	241,808,085	(57,249,713)	(3,966,177)	156,623	(61,059,267)	180,748,818
Ashland Water Plant:									
Structures and improvements	52,298,702	-	-	52,298,702	(14,257,714)	(1,351,891)	-	(15,609,605)	36,689,097
Reservoirs	12,283,617	-	-	12,283,617	(2,227,597)	(177,261)	-	(2,404,858)	9,878,759
Transmission mains	22,276,915	26,709,608	-	48,986,523	(6,274,666)	(370,551)	-	(6,645,217)	42,341,306
Office furniture and equipment	368,481	-	(61,424)	307,057	(340,888)	(2,851)	61,424	(282,315)	24,742
Shop equipment	17,951	-	-	17,951	(17,951)	-	-	(17,951)	-
Laboratory equipment	442,820	17,331	(71,295)	388,856	(310,075)	(34,046)	71,295	(272,826)	116,030
Other power and production equipmen	2,248,717	136,147	-	2,384,864	(1,428,631)	(50,376)	-	(1,479,007)	905,857
Electric pumping equipment	6,122,158	-	-	6,122,158	(4,580,071)	(146,146)	-	(4,726,217)	1,395,941
Purification system	26,013,736	5,377,366	(3,343,620)	28,047,482	(10,331,346)	(840,017)	3,343,620	(7,827,743)	20,219,739
Communications Systems	-	1,561,078	-	1,561,078	-	(19,513)	-	(19,513)	1,541,565
Tools and work equipment	148,937	-	(48,725)	100,212	(146,160)	(2,432)	48,725	(99,867)	345
Ashland depreciable assets	122,222,034	33,801,530	(3,525,064)	152,498,500	(39,915,099)	(2,995,084)	3,525,064	(39,385,119)	113,113,381
Land and land rights	3,583,227	315,338	-	3,898,565	-	-	-	-	3,898,565
Ashland nondepreciable assets	3,583,227	315,338	-	3,898,565	-	-	-	-	3,898,565
Total Ashland plant	125,805,261	34,116,868	(3,525,064)	156,397,065	(39,915,099)	(2,995,084)	3,525,064	(39,385,119)	117,011,946
Vehicles and work equipment (all locatio	2,780,509	193,064	(201,065)	2,772,508	(1,610,298)	(201,098)	189,230	(1,622,166)	1,150,342
Utility plant in service	\$ 367,244,280	37,616,130	(3,882,752)	400,977,658	(98,775,110)	(7,162,359)	3,870,917	(102,066,552)	298,911,106
Construction in progress	30,363,834	7,933,962	(36,180,874)	2,116,922	-	-	-	-	2,116,922
Total capital assets	\$ 397,608,114	45,550,092	(40,063,626)	403,094,580	(98,775,110)	(7,162,359)	3,870,917	(102,066,552)	301,028,028

GENERAL STATISTICS

Year Ended August 31, 2010

(Unaudited)

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Altitude of Lincoln, Nebraska .....	1,167 Feet
Area of Lincoln, Nebraska .....	90.65 Square Miles
Population .....	259,447 Estimate
Source of Water Supply .....	Wells
Location of Supply - Platte River, Ashland, Nebraska	
Well Capacity - Ashland .....	110 Million Gallons
Treatment of Water - Ashland West Plant .....	Aeration; Chlorination; Detention; Rapid Sand Filtration; and Chloramination
Treatment of Water - Ashland East Plant .....	Ozonation; Rapid Sand Filtration; and Chloramination
Rainfall for Year Ended August 31, 2010 .....	36.32
Kind and Size of Main Used .....	Cast Iron/Ductile Iron/PVC 4 Inches to 60 Inches
Kind and Size of Transmission Mains	
from Ashland to Lincoln .....	36-Inch Cast Iron 48-Inch Reinforced Concrete 54 / 60-Inch Steel
Length of Transmission Mains	
from Ashland to Lincoln .....	25.1 Miles
Total Miles of Distribution Mains in Use:	
Miles in use September 1, 2009	1,230.3
Estimated Added During Year	9.0
Estimated Removed During Year	2.4
Total as of August 31, 2010 .....	1,236.9 Miles
Amount of Water Pumped During Year Ended August 31, 2010 .....	11,338,350,000 gallons
Average Daily Consumption of Water .....	31,063,973 gallons
Average Daily Consumption Per Capita .....	120 gallons
Total Number of Active Residential Water Customers	
End of Fiscal Year .....	74,125
Total Number of Active Non-Residential Water Customers	
End of Fiscal Year .....	4,615
Bonded Debt of Lincoln Water System at August 31, 2010 .....	\$70,230,000

**LINCOLN WATER SYSTEM**

Schedule 6

**TOP TEN CUSTOMERS****Year Ended August 31, 2010**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	374,391	\$667,574
2. Archer-Daniels Midland Company	322,129	370,186
3. State of Nebraska	275,593	486,243
4. City of Lincoln	199,800	369,020
5. University of Nebraska Foundation	192,123	220,159
6. BryanLGH Medical Center	141,387	255,260
7. Veyance Technologies, Inc.	134,056	159,701
8. Pfizer Animal Health	110,651	174,010
9. Lincoln Public Schools	100,912	188,645
10. Lincoln Housing Authority	96,374	169,023
<b>Top Ten Users Totals</b>	<b>1,947,416</b>	<b>\$3,059,821</b>



A85972

10R-195

Introduce: 8-16-10

RESOLUTION NO. A- 85972

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

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

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

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

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

17 SCHEDULE A

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

1 will be determined as residential, if the residential portion is 50 percent or more of the area of  
2 the building.

3 128.0 cents per 100 cubic feet for the first 800 cubic feet of water used per dwelling unit  
4 each month.

5 182.0 cents per 100 cubic feet for the next 1500 cubic feet of water used per dwelling  
6 unit each month.

7 282.0 cents per 100 cubic feet for all additional water used each month.

8 The monthly Service Charge shall be hereinafter provided.

#### 9 SCHEDULE B

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

13 128.0 cents per 100 cubic feet for the first 8000 cubic feet of water used per month.

14 182.0 cents per 100 cubic feet for all additional water used each month.

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

#### 16 SCHEDULE C

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

22 The following fees would apply:

23 121.5 cents per 100 cubic feet for water usage less than base to 5% above base.

1           126.0 cents per 100 cubic feet for water usage 5% - 15% above base.  
 2           130.0 cents per 100 cubic feet for water usage 15% - 25% above base.  
 3           134.0 cents per 100 cubic feet for water usage for all water usage over 25% above base.  
 4           The minimum monthly Service Charge shall be as hereinafter provided.

5                                   **SCHEDULE D - PROVISIONS APPLICABLE -**  
 6                                   **TO ALL TYPES OF WATER SERVICE**

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

10	11	12
	WATER METER SIZE	SERVICE CHARGE FOR WATER METER
12	5/8 inch	\$ 3.26
13	3/4 inch	3.26
14	1 inch	3.26
15	1-1/2 inch	6.51
16	2 inch	13.01
17	3 inch	29.27
18	4 inch	52.04
19	6 inch	117.03
20	8 inch	208.10
21	10 inch	325.13

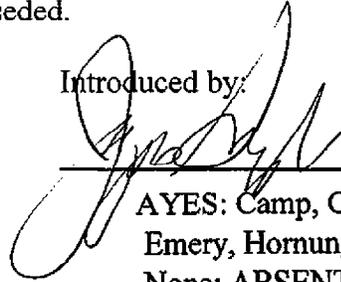
22           The Service Charge for a multiple dwelling unit or mobile home shall be at least \$2.00  
 23 per dwelling unit or mobile home hookup space per month. In those instances where fire  
 24 protection considerations dictate that a water meter larger than 1-inch service a single-family  
 25 dwelling unit located on a single lot, the monthly service charge shall be \$3.26 per dwelling  
 26 unit. A dwelling unit shall, for the purpose of this schedule, be defined as a room or rooms in  
 27 which kitchen facilities are provided, located in the building or structure used by a facility or  
 28 household as a home or residence of the family or household.

1 WATER RATES TO CUSTOMERS OUTSIDE  
2 THE CITY LIMITS

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

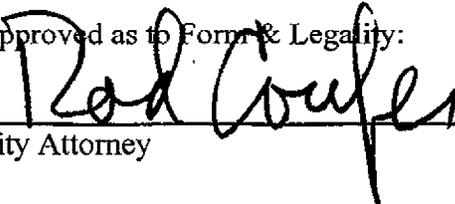
6 BE IT FURTHER RESOLVED that Resolution No. A-85489, adopted by the City  
7 Council on August 24, 2009, is hereby superseded.

Introduced by:



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

Approved as to Form & Legality:

  
City Attorney

Approved this 25<sup>th</sup> day of Aug., 2010:

  
Mayor

**ADOPTED**

**AUG 23 2010**

**BY CITY COUNCIL**

# CITY OF LINCOLN

Request for:  Ordinance  
 Resolution

(Do Not Write in this Space)

Bill Control No. OR-195 Date: 8/6

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

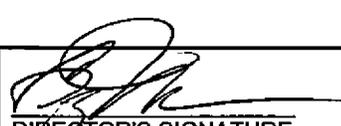
(To Be Entered by City Clerk)

<b>DATE</b> August 3, 2010	<b>REQUEST MADE BY</b> Greg MacLean	<b>DEPARTMENT</b> Public Works/Utilities
<b>DESIRED DOCKET DATE:</b> 8-16; PH 8-23-10	IF EMERGENCY, GIVE REASON (See Art. 6, Sec. 2 of Charter)	
<b>Emergency Measure Required:</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		

**REASONS OR JUSTIFICATION FOR PROPOSED LEGISLATION**

To establish a new schedule for water use charges to increase revenues for the Lincoln Water System for purposes of covering a portion of the System's operational and maintenance costs including debt service, and a portion of the costs of the Capital Improvements Program for F.Y. 2010-11.

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

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

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

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

City Council Introduction: August 16, 2010

Bill Number 10R-195

Public Hearing: August 23, 2010

**FACT SHEET**

**TITLE:** Proposed Resolution to increase Water Use Charges

**SPONSOR:** Public Works/Utilities

**OPPONENTS:** Unknown

**OTHER DEPARTMENTS AFFECTED:**

**STAFF RECOMMENDATION:** For

**APPLICANT:** Public Works/Utilities

**REASON FOR LEGISLATION:** To establish a new schedule for water use charges to increase revenues for the Lincoln Water System for purposes of covering a portion of the System's operational and maintenance costs including debt service, and a portion of the costs of the Capital Improvements Program for F.Y. 2010-11.

**DISCUSSION**

The Public Works/Utilities Department recommends that the current schedule of water use charges be increased by 5% as shown below. This results in an 89¢ monthly increase to the average residential water bill. The Lincoln Water System is proposing to implement these increases with the "H" billing cycle commencing in November 2010, and ending in January 2011.

<u>Current Schedule</u>	<u>New Schedule</u>
<b>Residential Property:</b>	
122.0¢/HCF for the first 800 C.F. of water per dwelling unit per month	128.0¢
173.5¢/HCF for the first 1,500 C.F. of water per dwelling unit per month	182.0¢
269.0¢/HCF for all additional water used each month	282.0¢
<b>Schedule B Customers:</b>	
122.0¢/HCF for the first 8,000 C.F. of water used each month	128.0¢
173.5¢/HCF for all additional water used each month	182.0¢
<b>Schedule C Customers:</b>	
115.5¢/HCF for water usage less than base to 5% above base	121.5¢
120.0¢/HCF for water usage 5% - 15% above base	126.0¢
124.0¢/HCF for water usage 15% - 25% above base	130.0¢
128.0¢/HCF for water usage for all water usage over 25% above base	134.0¢

**FACT SHEET PREPARED BY:** *Imaji*

Business Manager of Public Works/Utilities

**REVIEWED BY:** *[Signature]*

Director of Public Works/Utilities

## Quantitative Statistics

Years ended August 31, 2010 and 2009

(Unaudited)

	2010	2009	Increase (decrease)
Water pumpage in one hundred cubic feet: (H.C.F.) by months:			
September	1,442,286	1,501,110	(58,824)
October	1,092,955	1,272,727	(179,772)
November	932,219	1,015,762	(83,543)
December	912,152	1,054,987	(142,835)
January	999,291	1,133,596	(134,305)
February	923,182	934,211	(11,209)
March	1,011,805	1,095,829	(84,024)
April	1,147,005	1,067,634	79,371
May	1,282,326	1,645,842	(363,516)
June	1,411,778	1,453,356	(41,578)
July	1,717,099	2,009,318	(292,219)
August	2,286,123	1,779,786	506,337
<b>Total H.C.F. pumped</b>	<b>15,158,221</b>	<b>15,964,158</b>	<b>(805,937)</b>
H.C.F. sold and donated:			
Customer metered sales	14,327,979	14,934,921	(606,942)
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	21,289	30,240	8,951
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	—
<b>Total water accounted for</b>	<b>14,368,318</b>	<b>14,984,211</b>	<b>(615,893)</b>
<b>Total H.C.F. unaccounted for</b>	<b>789,903</b>	<b>979,947</b>	<b>(190,044)</b>
<b>Percent of H.C.F. unaccounted for</b>	<b>5.21%</b>	<b>6.14%</b>	

**LINCOLN WATER SYSTEM**

Schedule 9

**COMPARATIVE PUMPING REPORT**

For Fiscal Years as Shown by Gallons

(Unaudited)

<b>MONTH</b>	<b>August 31, 2010</b>	<b>August 31, 2009</b>	<b>August 31, 2008</b>	<b>August 31, 2007</b>	<b>August 31, 2006</b>
<b>September</b>	1,078,830,000	1,122,830,000	1,336,190,000	1,116,800,000	1,592,226,000
<b>October</b>	817,530,000	952,000,000	971,640,000	1,028,340,000	1,179,390,000
<b>November</b>	697,300,000	759,790,000	848,660,000	846,820,000	886,026,000
<b>December</b>	682,290,000	789,130,000	796,270,000	781,050,000	813,837,000
<b>January</b>	747,470,000	847,930,000	818,900,000	808,400,000	806,757,000
<b>February</b>	690,540,000	698,790,000	783,230,000	734,120,000	784,161,000
<b>March</b>	756,830,000	819,680,000	780,350,000	816,570,000	769,778,250
<b>April</b>	857,960,000	798,590,000	773,220,000	831,440,000	904,410,000
<b>May</b>	959,180,000	1,231,090,000	893,870,000	983,130,000	1,190,787,750
<b>June</b>	1,056,010,000	1,087,110,000	890,790,000	1,302,680,000	1,682,034,000
<b>July</b>	1,284,390,000	1,502,970,000	1,374,170,000	2,084,000,000	1,933,509,000
<b>August</b>	1,710,020,000	1,331,280,000	1,716,280,000	1,462,500,000	1,482,170,250
<b>Total</b>	<b>11,338,350,000</b>	<b>11,941,190,000</b>	<b>11,983,570,000</b>	<b>12,795,850,000</b>	<b>14,025,086,250</b>

**LINCOLN WATER SYSTEM**  
**ANNUAL RAINFALL FOR THE PERIOD OF**  
September 1, 2009 to August 31, 2010  
(Unaudited)

	Inches of <u>Rainfall</u>
September .....	1.25
October .....	4.24
November .....	0.06
December .....	2.42
January .....	0.82
February .....	0.99
March .....	1.77
April .....	2.53
May .....	3.70
June .....	9.90
July .....	5.83
August .....	<u>2.81</u>
<b>TOTAL INCHES FOR FISCAL YEAR</b>	<u><u>36.32</u></u>

**LINCOLN WATER SYSTEM**

WATER ANALYSIS

(All Results in Parts Per Million)  
(Collected September 3, 2010)  
(Unaudited)

550 W. Cornhusker Hwy.

Hydrogen Ion Concentration (pH) .....	7.65
Total Dissolved Solids .....	363 ppm.
Total Iron (Fe) .....	<0.050 ppm.
Manganese (Mn) .....	1.92 ppb.
Calcium (as Ca) .....	53.9 ppm.
Total Alkalinity (CaCO <sub>3</sub> ) .....	168 ppm.
Chloride (Cl) .....	20.9 ppm.
Fluoride (F) .....	0.92 ppm.
Nitrate (+Nitrite) .....	0.45 ppm.
Sodium (Na) .....	33.1 ppm.
Hardness as (CaCO <sub>2</sub> ) 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, 2010

(Unaudited)

Type of policy	Insurance coverage	Policy limits	Self-insured retention deductible	Self-insurance deductible	Insurance carrier	Policy number
Automobile Fleet Liability	Self-Insured Excess Coverage Excess Coverage	0 - 250,000 250,000 - 1,000,000 1,000,000 - 6,000,000	250,000		States	SEL30117302 & SEL30117401
Automobile Fleet Physical Damage**	Self-Insured	Actual cash value	2,500	2,500		
Building and Contents (Includes Boiler & Machinery)	Blanket policy - buildings and contents	Replacement cost	50,000	2,500	FM Global	FM618
Money and Securities	Inside/outside premises	50,000	500	0	Fidelity & Deposit	CCP0030595
Water Distribution	Water distribution center	25,000,000	50,000	10,000	FM Global	FM618
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FM618
Equipment Floater (911)	Radio tower floater	Replacement cost	50,000	2,500	FM Global	FM618
Equipment Floater (NON-LIC)	Nonlicensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM618
General Liability ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL30117302 & SEL30117401
Public Employee Blanket Bond	Employees blanket bond coverage	1,000,000	25,000	0	Fidelity & Deposit	CCP 003 05 95
Public Officials Liability***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL30117301 & SEL30117401
Workers' Compensation Excess	Statutory	Statutory	500,000	0	Midwest Employers Casualty (MECC)	EWC007744

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

\*\*\* Public Entity Policy

## LINCOLN WATER SYSTEM

### Summary of Insurance Coverage

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

#### **AUTOMOBILE INSURANCE**

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

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

#### **PROPERTY INSURANCE**

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

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

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

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

#### **WATER DISTRIBUTION SYSTEM**

Provides coverage for underground pipeline between Lincoln and Ashland.

#### **GENERAL LIABILITY**

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

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

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

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

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

#### **WORKERS' COMPENSATION**

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

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

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

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

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

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

BKA,LLP

November 30, 2010