

LINCOLN WATER SYSTEM

Financial Statements
& Schedules
Fiscal Year Ended
August 31, 2012



ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS/UTILITIES

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WATER SYSTEM

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Lincoln Water System
August 31, 2012 and 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, 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, 2012, 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.

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

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

BKD, LLP

November 30, 2012

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, 2012 and 2011. 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 \$10,584,523 (4.16%) in 2012 over 2011 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, 2012, 2011, and 2010.

Table 1

Condensed Balance Sheets

	August 31		Change	
	2012	2011	Dollars	Percent
Current assets	\$ 20,220,886	\$ 9,111,242	\$11,109,644	121.93%
Capital assets	296,794,471	298,002,486	(1,208,015)	(0.41%)
Noncurrent assets	14,943,168	17,029,661	(2,086,493)	(12.25%)
Total assets	331,958,525	324,143,389	7,815,136	2.41%
Current liabilities	7,528,808	9,313,114	(1,784,306)	(19.16%)
Long-term liabilities	59,684,673	60,669,754	(985,081)	(1.62%)
Total liabilities	67,213,481	69,982,868	(2,769,387)	(3.96%)
Net assets				
Invested in capital assets, net of related debt	238,567,894	239,387,493	(819,599)	(0.34%)
Restricted for debt service	149,097	419,376	(270,279)	(64.45%)
Restricted for capital acquisition	299,582	39,915	259,667	650.55%
Unrestricted	25,728,471	14,313,737	11,414,734	79.75%
Total net assets	264,745,044	254,160,521	10,584,523	4.16%
Total liabilities and net assets	\$331,958,525	\$324,143,389	\$ 7,815,136	2.41%

Financial Highlights – Fiscal Year 2012

- Total assets at year end were \$331,958,525 and exceeded total liabilities by \$264,745,044. Of this amount \$25,728,471 (unrestricted) may be used to meet the ongoing obligations of the System.
- Current assets increased by \$11,109,644 (121.93%) primarily due to the increase in our cash and accounts receivables balances at year end.
- Noncurrent assets decreased by \$2,086,493 (12.25%) primarily due to a decrease in investment balances.
- Current liabilities decreased by \$1,784,306 (19.16%). In August 2012 the final payment was made on the Series 2003 Bonds.

Table 2

Condensed Balance Sheets

	August 31		Change	
	2011	2010	Dollars	Percent
Current assets	\$ 9,111,242	\$ 9,500,666	(\$389,424)	(4.10%)
Capital assets	298,002,486	301,028,028	(3,025,542)	(1.01%)
Noncurrent assets	17,029,661	14,980,814	2,048,847	13.68%
Total assets	324,143,389	325,509,508	(1,366,119)	(0.42%)
Current liabilities	9,313,114	9,599,932	(286,818)	(2.99%)
Long-term liabilities	60,669,754	67,181,646	(6,511,892)	(9.69%)
Total liabilities	69,982,868	76,781,578	(6,798,710)	(8.85%)
Net assets				
Invested in capital assets, net of related debt	239,387,493	238,080,168	1,307,325	0.55%
Restricted for debt service	419,376	397,377	21,999	5.54%
Restricted for capital acquisition	39,915	2,454	37,461	1526.53%
Unrestricted	14,313,737	10,247,931	4,065,806	39.67%
Total net assets	254,160,521	248,727,930	5,432,591	2.18%
Total liabilities and net assets	\$324,143,389	\$325,509,508	(\$1,366,119)	(0.42%)

Financial Highlights – Fiscal Year 2011

- Total assets at year end were \$324,143,389 and exceeded total liabilities by \$254,160,521. Of this amount \$14,313,737 (unrestricted) may be used to meet the ongoing obligations of the System.
- Noncurrent assets increased by \$2,048,847 (13.68%) to build cash balances and maintain bonding capacity in future years.
- Long term liabilities decreased by \$6,511,892 (9.69%) due to repayments on borrowings.

Table 3

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

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

Financial Highlights – Fiscal Year 2012

- Total operating revenues increased by \$5,590,808 (19.58%) due to the severe drought conditions experienced by Nebraska this past year. Water pumpage was up 20% from last year. In July 2012 the Mayor of the City of Lincoln asked the customers of the System to voluntarily comply with alternate day watering restrictions, which became mandatory in August 2012.
- Total operating expenses increased marginally by \$65,393 (0.28%) due to cost cutting efforts made by the System.

Table 4

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

	August 31		Change	
	2011	2010	Dollars	Percent
Operating revenue				
Water revenue	\$27,979,011	\$24,620,902	\$3,358,109	13.64%
Other revenue	580,473	514,225	66,248	12.88%
Total operating revenue	<u>28,559,484</u>	<u>25,135,127</u>	<u>3,424,357</u>	<u>13.62%</u>
Operating expenses				
Supply, pumping and purification	12,886,573	11,701,713	1,184,860	10.13%
Transmission and distribution	8,041,446	7,519,133	522,313	6.95%
Accounting and collecting	1,047,761	927,213	120,548	13.00%
Administrative and general	1,124,293	1,105,592	18,701	1.69%
Total operating expenses	<u>23,100,073</u>	<u>21,253,651</u>	<u>1,846,422</u>	<u>8.69%</u>
Operating income	5,459,411	3,881,476	1,577,935	40.65%
Net nonoperating expenses	(2,088,376)	(1,692,623)	(395,753)	23.38%
Capital contributions	1,902,161	1,900,970	1,191	0.06%
Transfers In	159,395	—	159,395	100.00%
Change in net assets	<u>\$ 5,432,591</u>	<u>\$ 4,089,823</u>	<u>\$1,342,768</u>	<u>32.83%</u>

Financial Highlights – Fiscal Year 2011

- Operating revenues increased by \$3,424,357 (13.62%) compared to 2010. Effective February 2011, there was a 5% user fee increase. In addition, metered sales were up 7.96% due to a dry fall and spring.
- Operating expenses increased \$1,846,422 (8.69%) compared to 2010 due to increased personnel, energy and chemical costs.
- Net nonoperating expenses increased \$395,753 (23.38%) compared to 2010 as a result of higher interest expense on bonds and lower interest income on cash & investment balances.
- Lincoln Water System reported capital contributions of \$1,902,161.
- Lincoln Water System received \$159,395 of funding from the City's Fast Forward Fund, which funds economic development projects.

Debt Activity

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

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

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

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 \$3,600,000 at August 31, 2012.

Forward-Looking Information

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

In August 2012, the Lincoln City Council approved rate increases for the next two years. The first increase of 5% is effective in November 2012 and the second increase of 5% is effective in November 2013.

Contact Information

This financial report is intended to provide users with a general overview of the System's financial performance for 2012 and 2011. If you have questions about this report or need additional financial information, please contact the Business Office of the Public Works & Utilities Department at 555 South 10th Street, Lincoln, NE 68508.

LINCOLN WATER SYSTEM

Balance Sheets

August 31, 2012 and 2011

Assets	2012	2011
Current assets:		
Equity in pooled cash and investments	\$ 8,205,819	1,270,745
Receivables:		
Accounts receivable	4,159,867	2,745,516
Unbilled revenues	5,038,847	3,848,140
Due from other governments	1,500,956	-
Due from other funds	299,582	274,293
Impact fees	73,164	39,915
Total receivables	11,072,416	6,907,864
Inventories	942,651	932,633
Total current assets	20,220,886	9,111,242
Noncurrent assets:		
Equity in pooled cash and investments	7,141,068	5,982,360
Restricted assets:		
Equity in pooled cash and investments	314,670	631,698
Investments	6,948,305	9,828,598
Total restricted assets	7,262,975	10,460,296
Utility plant	413,465,558	407,695,172
Less accumulated depreciation	116,671,087	109,692,686
Net utility plant	296,794,471	298,002,486
Unamortized bond issuance costs	539,125	587,005
Total noncurrent assets	311,737,639	315,032,147
Total assets	\$ 331,958,525	324,143,389
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 816,353	449,849
Accrued liabilities	950,932	688,527
Deposits liability	104,850	75,344
Accrued compensated absences	428,112	427,699
Construction contracts	1,758,562	2,169,341
Current maturities of long-term debt	3,360,000	5,380,000
Accrued interest	109,999	122,354
Total current liabilities:	7,528,808	9,313,114
Long-term liabilities:		
Accrued liabilities	235,233	196,145
Accrued compensated absences	371,425	395,957
Construction contracts	190,638	193,636
Long-term debt, excluding current maturities	58,887,377	59,884,016
Total long-term liabilities	59,684,673	60,669,754
Total liabilities	67,213,481	69,982,868
Net assets:		
Invested in capital assets, net of related debt	238,567,894	239,387,493
Restricted for debt service	149,097	419,376
Restricted for capital acquisition	299,582	39,915
Unrestricted	25,728,471	14,313,737
Total net assets	264,745,044	254,160,521
Total liabilities and net assets	\$ 331,958,525	324,143,389

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets

Years ended August 31, 2012 and 2011

	2012	2011
Operating revenues:		
Water sales	\$ 33,527,885	27,979,011
Service and materials, net	622,407	580,473
Total operating revenues	34,150,292	28,559,484
Operating expenses:		
Supply, pumping and purification	12,923,017	12,886,573
Transmission and distribution	8,206,260	8,041,446
Accounting and collecting	978,437	1,047,761
Administrative and general	1,057,752	1,124,293
Total operating expenses	23,165,466	23,100,073
Operating income	10,984,826	5,459,411
Nonoperating revenues (expenses):		
Investment income	530,761	892,051
Interest expense	(2,666,166)	(2,907,198)
Amortization of bond costs	(76,955)	(76,887)
Federal grants	-	3,658
Net nonoperating expenses	(2,212,360)	(2,088,376)
Increase in net assets before capital contributions	8,772,466	3,371,035
Capital contributions from:		
Developers	487,614	724,190
Impact fees	921,837	833,875
Tap fees	382,001	344,096
Total capital contributions	1,791,452	1,902,161
Transfers In	20,605	159,395
Increase in net assets	10,584,523	5,432,591
Total net assets - beginning	254,160,521	248,727,930
Total net assets - ending	\$ 264,745,044	254,160,521

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM

Statements of Cash Flows

Years ended August 31, 2012 and 2011

	2012	2011
Operating activities:		
Receipts from customers and users	\$ 31,541,491	28,440,323
Payments to suppliers	(6,854,824)	(7,459,478)
Payments to employees	(8,147,810)	(8,104,984)
Net cash provided by operating activities	16,538,857	12,875,861
Noncapital financing activities:		
Repayment from (advance to) other funds, net	(25,289)	68,777
Net cash provided by (used in) noncapital financing activities:	(25,289)	68,777
Capital and related financing activities:		
Acquisition and construction of capital assets	(4,922,677)	(2,816,602)
Principal paid on revenue bonds	(5,380,000)	(6,310,000)
Proceeds from NDEQ loan	1,127,435	-
System funds used for bond refunding	(74,312)	-
Interest paid on revenue bonds	(2,898,314)	(3,118,530)
Net cash used in capital and related financing activities	(12,147,868)	(12,245,132)
Investing activities:		
Purchases of investments	(25,752,723)	(9,727,504)
Proceeds from sales and investment maturities	20,631,982	8,023,611
Interest on investments	452,942	470,210
Net cash used in investing activities	(4,667,799)	(1,233,683)
Net decrease in cash and cash equivalents	(302,099)	(534,177)
Cash and cash equivalents at beginning of year	1,270,745	1,804,922
Cash and cash equivalents at end of year	\$ 968,646	1,270,745
Composition of equity in pooled cash and investments		
Cash and cash equivalents	\$ 968,646	1,270,745
Investments	7,237,173	-
Total equity in pooled cash and investments	\$ 8,205,819	1,270,745
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 10,984,826	5,459,411
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,528,972	7,645,046
Changes in operating assets and liabilities:		
Accounts receivable	(2,638,307)	(117,611)
Inventories	(10,018)	(92,261)
Accounts payable	366,504	(215,245)
Accrued liabilities and deposit liability	330,999	153,568
Accrued compensated absences	(24,119)	42,953
Total adjustments	5,554,031	7,416,450
Net cash provided by operating activities	\$ 16,538,857	12,875,861

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$487,614 and \$724,190 were added to utility plant in 2012 and 2011, respectively.

Accounts payable incurred for utility plant purchases were \$1,949,200 and \$2,362,977 in 2012 and 2011, respectively.

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(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, 2012 and 2011, 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, 2012 and 2011

(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, 2012 and 2011

(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.

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, 2012 and 2011

(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, 2012 and 2011:

	<u>August 31, 2012</u>	<u>August 31, 2011</u>
<u>Water Usage</u>		
Residential:		
100 to 800 cubic feet	\$ 1.344	\$ 1.28
801 to 2,300 cubic feet	1.911	1.82
2,301 and up	2.961	2.82
Nonresidential low volume user:		
100 to 8,000 cubic feet	1.344	1.28
8,001 and up	1.911	1.82
Nonresidential high volume user:		
Base usage which is average water usage for previous three calendar years	1.276 to 1.407	1.215 to 1.34
<u>Service Charge</u>		
Residential: single-family dwelling unit	\$ 3.42	\$ 3.26
Residential: multiple-family dwelling unit	2.10	2.00
Non-residential:	Based on size and number of water meters or number of dwelling units.	

In August 2012, the Lincoln City Council approved rate increases for the next two years. The first rate increase of 5% is effective in November 2012 and the second increase, also 5%, is effective in November 2013.

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, 2012 and 2011

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

Net Assets Classification

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

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

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

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

Compensated Absences

Employees earn vacation days at varying rates dependent on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation which is in no case longer than 36.25 days. Employees earn sick leave at the rate of approximately one day per month. Upon retirement, death, or reduction in force, an employee or their beneficiary is reimbursed up to 65% of accumulated sick leave, which may in some cases be placed directly in a medical spending account instead of reimbursing the employee directly. The Lincoln Water System accrues for vacation, sick leave and other compensated absences with similar characteristics.

Compensated absences of the Lincoln Water System at August 31, 2012 and 2011 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, 2012	\$823,656	403,580	427,699	799,537	428,112
August 31, 2011	\$780,703	452,023	409,070	823,656	427,699

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(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 \$235,000 and \$196,000 as of August 31, 2012 and 2011, 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 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(2) Deposits, Investments, and Investment Return

Deposits

State statutes require banks either to give bond or to pledge government securities to the City Treasurer in the amount of the City's deposits. The System has been allocated a portion of the City's pooled cash and investments. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC insured institutions. For interest-bearing cash accounts, the City's cash deposits, including certificates of deposit, are insured up to \$250,000 by the FDIC. Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits are covered by collateral held in a Federal Reserve pledge account or by an agent for the City and thus no custodial risk exists. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Investments

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

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

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

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

At August 31, 2012 and 2011, the Lincoln Water System had the following investments and maturities:

Type	Carrying Value	August 31, 2012			
		Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Government Sponsored Agency	\$6,948,305	-	-	2,989,366	3,958,939

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

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(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, with the exception of funds held in accordance with the bond resolution, are limited to ten year maturities.

Credit Risk:

Credit Risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. As of August 31, 2012 and 2011, the Lincoln Water System investments in United States Government sponsored agencies not directly guaranteed by the United States government were rated AA+ by S & P and Aaa by Moody's.

Concentration of Credit Risk:

The City's investment policy places various limits on the amount that may be invested in any one issuer or security type. Per the policy, allocation limits do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument. As of August 31, 2012, and 2011, the Lincoln Water System investments in United States Government sponsored agencies obligations constituted 31% and 37% respectively, of its total funds available for investing. The above mentioned investments were made with funds from the bond debt reserve funds established.

The carrying amount of equity interests in pooled cash and investments at August 31, 2012 and 2011 are:

	<u>2012</u>	<u>2011</u>
Equity in pooled cash and investments	\$15,661,557	7,884,803

Investment Income

Investment income for the years ended August 31, 2012 and 2011 consisted of:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$418,549	452,394
Net change in fair value of investments	112,212	439,657
	<u>\$530,761</u>	<u>892,051</u>

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(3) Inventories

Balances of the major classes of inventory at August 31, 2012 and 2011, are shown below:

	2012	2011
Heavy materials	\$707,025	665,263
Diesel fuel	95,836	96,234
Water meters and parts	104,735	133,060
Chemicals	35,055	38,076
Total inventories	\$942,651	932,633

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(4) Utility Plant

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

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

During 2012, Lincoln Water System incurred \$2,942,846 of interest cost. Interest capitalized into construction in progress during 2012 was \$56,888. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 1.87% in 2012.

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(4) Utility Plant

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

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

During 2011, Lincoln Water System incurred \$3,179,819 of interest cost. Interest capitalized into construction in progress during 2011 was \$73,328. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 1.91% in 2011.

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(5) Long-term Liabilities

Long-term debt of the Lincoln Water System at August 31, 2012 and 2011 is summarized below:

2012

Type of Debt	August 31, 2011	Additions	Reductions	August 31, 2012	Due Within One Year
2.75% - 5.00% Water Revenue Bonds, Series 2002, refunded in 2012.	\$12,840,000	—	12,840,000	—	—
5.00% Water Revenue Bonds, Refunding Series 2003, final principal payment of \$2,630,000 paid on August 15, 2012.	2,630,000	—	2,630,000	—	—
3.00% - 5.00% Water Revenue Bonds, Series 2004, due in annual principal installments on August 15, increasing from \$1,885,000 in 2013 to the final payment of \$3,065,000 on August 15, 2025.	33,030,000	—	1,820,000	31,210,000	1,885,000
2.00% - 4.50% 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	465,000
1.00% - 4.00% Water Revenue Bonds, Refunding Series 2012, due in annual principal installments on August 15, increasing from \$1,010,000 in 2013 to the final payment of \$965,000 on August 15, 2022.	—	10,895,000	—	10,895,000	1,010,000
3.25% Nebraska Department of Environmental Quality 2011 (NDEQ) project loan payable, due in semi-annual principal installments on June 15 and December 15 from \$48,337 in 2014 to the final payment of \$86,702 in 2034.	—	2,628,391	—	2,628,391	—
Unamortized premium on bonds	1,474,077	1,093,705	496,144	2,071,638	—
Deferred for refunding	(130,061)	22,909	(129,500)	22,348	—
Total long-term debt	<u>\$65,264,016</u>	<u>14,640,005</u>	<u>17,656,644</u>	<u>62,247,377</u>	<u>3,360,000</u>

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(5) Long-term Liabilities (continued)

2011					
Type of Debt	August 31, 2010	Additions	Reductions	August 31, 2011	Due Within One Year
2.75% - 5.00% Water Revenue Bonds, Series 2002, due in annual principal installments on August 15, increasing from \$930,000 in 2012 to the final payment of \$1,465,000 on August 15, 2022.	\$13,735,000	-	895,000	12,840,000	930,000
5.00% Water Revenue Bonds, Refunding Series 2003, final principal payment of \$2,630,000 due on August 15, 2012.	6,965,000	-	4,335,000	2,630,000	2,630,000
3.00% - 5.00% Water Revenue Bonds, Series 2004, due in annual principal installments on August 15, increasing from \$1,820,000 in 2012 to the final payment of \$3,065,000 on August 15, 2025.	34,110,000	-	1,080,000	33,030,000	1,820,000
2.00% - 4.50% Water Revenue Bonds, Series 2009, due in annual principal installments on August 15, increasing from \$465,000 in 2013 to the final payment of \$1,080,000 on August 15, 2034.	15,420,000	-	-	15,420,000	-
Unamortized premium on bonds	1,809,087	-	335,010	1,474,077	-
Deferred for refunding	<u>(265,778)</u>	<u>-</u>	<u>(135,717)</u>	<u>(130,061)</u>	<u>-</u>
	<u>\$71,773,309</u>	<u>-</u>	<u>6,509,293</u>	<u>65,264,016</u>	<u>5,380,000</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, 2012 and 2011

(5) Long-term Liabilities (continued)

Maturities and sinking fund requirements on long-term debt at August 31, 2012 are as follows:

Years ending August 31	Principal	Interest	Total
2013	\$ 3,360,000	2,397,437	5,757,437
2014	3,498,337	2,323,460	5,821,797
2015	3,648,874	2,238,558	5,887,432
2016	3,751,882	2,106,701	5,858,583
2017	3,874,981	1,970,527	5,845,508
2018 - 2022	21,434,787	7,169,479	28,604,266
2023 - 2027	12,992,682	2,896,863	15,889,545
2028 - 2032	5,225,591	1,189,764	6,415,355
2033 - 2034	2,366,257	151,325	2,517,582
Total	\$60,153,391	22,444,114	82,597,505

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

The City has pledged future revenues derived from the operation of the Lincoln Water System, net of operating and maintenance expenses, to repay all outstanding water revenue bonds. Proceeds from the bonds and loan provided financing for improvements to the water supply system, as well as refunding prior water revenue bonds. The bonds are payable solely from the net earnings of the Water System and are payable through 2034. The total principal and interest remaining to be paid on the bonds is \$82,597,505, with annual payments expected to require 41 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$8,335,202 and \$20,348,397, respectively.

Lincoln Water System has entered into a \$15,000,000 loan agreement with Nebraska Department of Environmental Quality (NDEQ). This funding is available to fund certain water system extension and water repairs. The interest rate during the period of construction is 2%. After the date of initiation of operation, the interest rate will increase to 2.25%. In addition, an administrative fee of 1% will be incurred on the loan. During the year ended August 31, 2012, Lincoln Water System incurred project costs totaling \$3,432,815 resulting in the recognition of a project payable of \$2,628,391. The remaining available funds totaling \$12,371,609 are not reflected in the Lincoln Water System financial statements.

Construction contracts of the Lincoln Water System at August 31, 2012 and 2011 are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
August 31, 2012	\$2,362,977	1,755,564	2,169,341	1,949,200	1,758,562
August 31, 2011	\$2,621,631	1,135,377	1,394,031	2,362,977	2,169,341

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(6) Commitments and Contingencies

Lincoln Water System has commitments under major construction contracts in progress of approximately \$3,600,000 at August 31, 2012.

Lincoln Water System has entered into various agreements with developers to build infrastructure for new developments. These commitments are included in the System's current 6 year Capital Improvement Program or depending on when the commitment is due, will be included in the System's future Capital Improvement Programs. As of August 31, 2012, the System's commitment to these developers is estimated to be approximately \$7,272,000 over the next 10 - 15 years, of which some may be under current contract.

(7) Disclosure About the Fair Value of Financial Instruments

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

- *Cash, accounts receivable and accounts payable* - The carrying amount approximates fair value because of the short maturity of these instruments.
- *Long-term debt* - The estimated fair value of the System's long-term debt is approximately \$75,388,000 based on borrowing rates currently available as of August 31, 2012.
- *Investments* - The fair values of investments are based on quoted market prices for those investments as shown in Note 2.

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

(Continued)

LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2012 and 2011

(8) Related Party Transactions

The City billed the Water System approximately \$535,000 and \$447,000 for administrative services during 2012 and 2011, 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 \$2,925,000 and \$2,830,000 during 2012 and 2011, respectively. Further, the Water System collects payments from customers on behalf of LES. At August 31, 2012, approximately \$542,000 is included in accounts payable for amounts owed to LES for electricity used and customer payments collected.

A special revenue fund of the City collects and holds impact fees until they are disbursed in accordance with City ordinance. The Lincoln Water System was due impact fees of \$73,164 and \$39,915 as of August 31, 2012 and 2011, 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 \$299,582 and \$274,293 as of August 31, 2012 and 2011, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the balance sheets.

(9) Risk Management

Lincoln Water System participates in the City's self-insurance program administered by the City's Risk Management Division (the Division). The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On behalf of the City, the Division purchases insurance and administers funds for its self-insured program. The Division maintains a workers' compensation fund and a self-insurance loss fund. The Division provides first dollar coverage for all liability and workers' compensation exposure with insurance acting as an umbrella or excess coverage. The maximum exposure would be the deductible amounts for property and auto physical damage, as well as losses not covered by insurance. Lincoln Water System had no claims or judgments exceeding the policy limits during each of the last three prior years. Budgeted premium amounts charged to Lincoln Water System are placed in the appropriate fund maintained by the Division. Premium expense was approximately \$249,000 and \$317,000 in 2012 and 2011, 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. Contributions made by the System were approximately \$642,000 and \$652,000 for 2012 and 2011, respectively. Contributions made by the plan members were approximately \$352,000 for both 2012 and 2011.

SUPPLEMENTARY
INFORMATION

LINCOLN WATER SYSTEM

Schedule 1

Summary of Long-Term Debt

August 31, 2012

Due years ending August 31	Series 2004		Series 2009		Series 2012		NDEQ Loan (D311548) 2011		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2013	\$ 1,885,000	1,480,606	465,000	589,331	1,010,000	327,500	-	-	3,360,000	2,397,437	5,757,437
2014	1,950,000	1,386,356	475,000	580,031	1,025,000	317,400	48,337	39,673	3,498,337	2,323,460	5,821,797
2015	2,020,000	1,288,856	490,000	570,531	1,040,000	302,025	98,874	77,146	3,648,874	2,238,558	5,887,432
2016	2,095,000	1,187,856	500,000	558,281	1,055,000	286,425	101,882	74,139	3,751,882	2,106,701	5,858,583
2017	2,175,000	1,083,106	520,000	545,781	1,075,000	270,600	104,981	71,040	3,874,981	1,970,527	5,845,508
2018-2022	12,290,000	3,713,980	2,880,000	2,475,581	5,690,000	674,600	574,787	305,318	21,434,787	7,169,479	28,604,266
2023-2027	8,795,000	803,472	3,530,000	1,880,970	-	-	667,682	212,421	12,992,682	2,896,863	15,889,545
2028-2032	-	-	4,450,000	1,085,250	-	-	775,591	104,514	5,225,591	1,189,764	6,415,355
2033-2034	-	-	2,110,000	143,550	-	-	256,257	7,775	2,366,257	151,325	2,517,582
	\$ 31,210,000	10,944,232	15,420,000	8,429,306	10,895,000	2,178,550	2,628,391	892,026	60,153,391	22,444,114	82,597,505

LINCOLN WATER SYSTEM

Schedule 2

Debt Coverage Ratio

Last ten fiscal years

(Unaudited)

Fiscal Year Ending	Gross Revenue	Direct Operating Expenses	Net Available Balance	Debt Service Requirement on Revenue Bonds				Debt Service Requirement for all Debt			
				Principal	Interest	Total	Coverage	Principal	Interest	Total	Coverage
2003	22,094,721	11,631,496	10,463,225	3,010,000	2,898,489	5,908,489	1.77	3,010,000	2,898,489	5,908,489	1.77
2004	24,557,918	12,477,486	12,080,432	3,115,000	2,411,633	5,526,633	2.19	3,115,000	2,411,633	5,526,633	2.19
2005	27,153,937	13,145,665	14,008,272	4,895,000	3,517,932	8,412,932	1.67	4,895,000	3,517,932	8,412,932	1.67
2006	29,014,999	13,808,214	15,206,785	5,130,000	3,834,301	8,964,301	1.70	5,130,000	3,834,301	8,964,301	1.70
2007	29,386,495	14,351,136	15,035,359	5,340,000	3,612,001	8,952,001	1.68	5,340,000	3,612,001	8,952,001	1.68
2008	27,257,184	14,425,521	12,831,663	5,555,000	3,376,201	8,931,201	1.44	5,555,000	3,376,201	8,931,201	1.44
2009	27,838,187	14,995,077	12,843,110	5,795,000	3,128,414	8,923,414	1.44	5,795,000	3,128,414	8,923,414	1.44
2010	26,515,467	14,091,292	12,424,175	6,050,000	3,458,097	9,508,097	1.31	6,050,000	3,458,097	9,508,097	1.31
2011	30,629,506	15,455,027	15,174,479	6,310,000	3,191,857	9,501,857	1.60	6,310,000	3,191,857	9,501,857	1.60
2012	35,984,891	15,636,494	20,348,397	5,380,000	2,953,765	8,333,765	2.44	5,380,000	2,955,202	8,335,202	2.44

Operating Expenses

Years ended August 31, 2012 and 2011

	2012	2011
Lincoln Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 62,038	59,631
Electrical maintenance	430	-
Control System Maintenance	186	-
Wellfield maintenance	40,377	19,873
Wellfield operations	-	562
Depreciation of general plant	903	903
Total source of supply	\$ 103,934	80,969
Power and pumping expenses:		
Supervision, management and administrative support	\$ 116,680	132,795
Training and education	16,195	12,204
Data management	6,171	9,658
General operations	169,159	205,072
Structures maintenance	34,996	15,855
Control system maintenance	53,672	57,467
Electrical maintenance	136,819	117,791
Grounds maintenance	281,711	331,016
Main repair/maintenance	9,857	13,863
Customer services	60,013	33,777
Laboratory operations	-	52
Pumping and transmission maintenance	137,981	149,892
Pumping and transmission operations	1,846,011	1,859,803
Security maintenance	6,698	4,479
Depreciation of pumping equipment	435,444	434,111
Depreciation of general plant and improvements	-	78
Depreciation of structures and improvement	928,833	945,721
Total power and pumping	\$ 4,240,240	4,323,634
Total - Lincoln Water Plant	\$ 4,344,174	4,404,603
Ashland Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 151,079	143,305
Control system maintenance	29,654	33,763
Electrical maintenance	46,685	30,615
Grounds maintenance	107,948	98,055
Main repair/maintenance	5,686	1,979
Laboratory operations	8,123	12,047
Security maintenance	3,270	5,989
Wellfield maintenance	172,851	206,192
Wellfield operations	990,692	836,236
Depreciation of transmission mains	260,420	260,420
Depreciation of other production equipment	2,698	1,395
Depreciation of wells and houses	465,350	465,350
Total source of supply	\$ 2,244,456	2,095,346

LINCOLN WATER SYSTEMSchedule 3, Cont.**Operating Expenses**

	2012	2011
Power and pumping expenses:		
Supervision, management and administrative support	\$ 140,404	127,454
General operations	1,106	1,343
Structures maintenance	865	1,309
Control system maintenance	17,517	10,364
Electrical maintenance	30,111	36,085
Grounds maintenance	541	122
Main repair/maintenance	236	808
Pumping and transmission maintenance	78,050	42,950
Pumping and transmission operations	869,219	535,568
Depreciation of pumping equipment	385,121	377,468
Depreciation of structures and improvement	159,218	159,218
Depreciation of general plant	-	161
Depreciation of transmission mains	533,748	533,752
Depreciation of other production equipment	54,200	54,201
Total power and pumping	\$ 2,270,336	1,880,803
Purification expense:		
Supervision, management and administrative support	\$ 345,446	370,097
Training and education	178,946	104,714
General operations	165,320	180,052
Treatment and process control	132,889	183,718
Structures maintenance	27,337	16,179
Process equipment maintenance	7,744	7,788
Control system maintenance	143,939	142,493
Electrical maintenance	43,433	36,141
Grounds maintenance	461,717	530,566
Laboratory operations	372,831	358,858
Treatment operations	747,876	1,023,009
Security maintenance	7,058	8,571
Depreciation of structures and improvements	426,375	532,408
Depreciation of transmission mains	20,088	20,076
Depreciation of purification equipment	955,188	958,775
Depreciation of general plant & equipment	27,864	32,376
Total purification expenses	\$ 4,064,051	4,505,821
Total Ashland Water Plant	\$ 8,578,843	8,481,970
Total supply, pumping and purification	\$ 12,923,017	12,886,573

LINCOLN WATER SYSTEM

Schedule 3, Cont.

Operating Expenses

	2012	2011
Transmission and distribution expenses:		
Supervision and management	\$ 777,419	983,423
Administrative and support staff	471,207	467,377
Training and education	58,705	55,487
Data management	637,274	517,895
General operations	329,588	369,677
Main repair/maintenance	1,663,491	1,485,399
Contractor services	223,611	170,451
Customer services	1,399,836	1,331,245
Depreciation of structures and improvements	1,033	1,033
Depreciation of transmission mains	438,768	438,767
Depreciation of distribution mains	2,101,213	2,043,098
Depreciation of hydrants and fountains	69,942	69,942
Depreciation of general plant and equipment	34,173	107,652
Total transmission and distribution	\$ 8,206,260	8,041,446
Accounting and collecting expenses:		
Supervision and management	\$ 189,710	258,195
Administrative and support staff	3,607	3,694
Meter reading	142,693	131,115
Billing and accounting	325,151	336,240
Collections	118,524	118,725
Customer services and billing	148,972	158,638
Customer contracts and orders	42,130	35,416
Depreciation of general plant and equipment	7,650	5,738
Total accounting and collecting	\$ 978,437	1,047,761
Administrative and general expenses:		
Supervision and management	\$ 913,914	989,056
Administrative and support staff	127,202	119,938
Depreciation of general plant and equipment	16,636	15,299
Total administrative and general	\$ 1,057,752	1,124,293

LINCOLN WATER SYSTEM

Schedule 4

Utility Plant in Service

August 31, 2012

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2011	Increases	Decreases	August 31, 2012	August 31, 2011	Increases	Decreases	August 31, 2012	August 31, 2012
Lincoln Water Plant:									
Airport	\$ 42,172	-	-	42,172	(26,589)	(422)	-	(27,011)	15,161
Structures and improvements	15,064,729	363,868	-	15,428,597	(7,668,964)	(364,910)	-	(8,033,874)	7,394,723
Reservoirs	26,086,436	-	-	26,086,436	(8,724,431)	(550,099)	-	(9,274,530)	16,811,906
Other power and production equipment	37,856	-	-	37,856	(4,732)	(1,893)	-	(6,625)	31,231
Electric pumping equipment	15,252,739	992	-	15,253,731	(3,736,596)	(389,824)	-	(4,126,420)	11,127,311
Purification system	-	-	-	-	1,072	-	-	1,072	1,072
Transmission mains	33,680,814	-	-	33,680,814	(7,295,295)	(440,338)	-	(7,735,633)	25,945,181
Distribution mains and accessories	133,253,048	2,131,068	-	135,384,116	(25,371,971)	(1,522,576)	-	(26,894,547)	108,489,569
Hydrants	4,844,227	-	-	4,844,227	(3,484,439)	(69,942)	-	(3,554,381)	1,289,846
Office furniture and equipment	1,541,912	52,887	(208,948)	1,385,851	(1,327,857)	(40,124)	208,948	(1,159,033)	226,818
Shop equipment	181,432	-	-	181,432	(160,169)	(3,536)	-	(163,705)	17,727
Laboratory equipment	7,959	-	-	7,959	(2,874)	(796)	-	(3,670)	4,289
Tools and work equipment	195,403	-	-	195,403	(166,154)	(7,256)	-	(173,410)	21,993
Communications system	1,188,760	-	-	1,188,760	(415,062)	(58,585)	-	(473,647)	715,113
Meters	12,913,146	309,466	-	13,222,612	(6,729,562)	(584,296)	-	(7,313,858)	5,908,754
Lincoln depreciable assets	244,290,633	2,858,281	(208,948)	246,939,966	(65,113,623)	(4,034,597)	208,948	(68,939,272)	178,000,694
Land and land rights	1,546,121	51	-	1,546,172	-	-	-	-	1,546,172
Lincoln nondepreciable assets	1,546,121	51	-	1,546,172	-	-	-	-	1,546,172
Total Lincoln plant	245,836,754	2,858,332	(208,948)	248,486,138	(65,113,623)	(4,034,597)	208,948	(68,939,272)	179,546,866
Ashland Water Plant:									
Structures and improvements	52,298,702	-	-	52,298,702	(16,729,981)	(1,014,343)	-	(17,744,324)	34,554,378
Reservoirs	12,283,617	-	-	12,283,617	(2,582,119)	(177,261)	-	(2,759,380)	9,524,237
Transmission mains	48,989,007	395	-	48,989,402	(7,459,465)	(814,256)	-	(8,273,721)	40,715,681
Office furniture and equipment	307,057	-	(208,129)	98,928	(283,336)	(1,020)	208,129	(76,227)	22,701
Shop equipment	17,951	-	-	17,951	(17,951)	-	-	(17,951)	-
Laboratory equipment	403,236	-	(5,974)	397,262	(304,117)	(26,780)	5,974	(324,923)	72,339
Other power and production equipment	2,388,486	24,098	-	2,412,584	(1,534,602)	(56,896)	-	(1,591,498)	821,086
Electric pumping equipment	6,122,158	-	-	6,122,158	(4,872,362)	(146,146)	-	(5,018,508)	1,103,650
Purification system	28,912,064	-	-	28,912,064	(8,786,518)	(955,187)	-	(9,741,705)	19,170,359
Communications Systems	1,810,085	143,489	-	1,953,574	(110,175)	(98,315)	-	(208,490)	1,745,084
Tools and work equipment	100,212	-	-	100,212	(100,092)	(64)	-	(100,156)	56
Ashland depreciable assets	153,632,575	167,982	(214,103)	153,586,454	(42,780,718)	(3,290,268)	214,103	(45,856,883)	107,729,571
Land and land rights	3,899,046	4,480	-	3,903,526	-	-	-	-	3,903,526
Ashland nondepreciable assets	3,899,046	4,480	-	3,903,526	-	-	-	-	3,903,526
Total Ashland plant	157,531,621	172,462	(214,103)	157,489,980	(42,780,718)	(3,290,268)	214,103	(45,856,883)	111,633,097
Vehicles and work equipment (all locator)	2,815,716	419,313	(146,285)	3,088,744	(1,798,345)	(204,107)	127,520	(1,874,932)	1,213,812
Utility plant in service	\$ 406,184,091	3,450,107	(569,336)	409,064,862	(109,692,686)	(7,528,972)	550,571	(116,671,087)	292,393,775
Construction in progress	1,511,081	5,123,328	(2,233,713)	4,400,696	-	-	-	-	4,400,696
Total capital assets	\$ 407,695,172	8,573,435	(2,803,049)	413,465,558	(109,692,686)	(7,528,972)	550,571	(116,671,087)	296,794,471

GENERAL STATISTICS

Year Ended August 31, 2012

(Unaudited)

Altitude of Lincoln, Nebraska	1,167 Feet
Area of Lincoln, Nebraska	91.76 Square Miles
Population	265,594 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, 2012	19.34
Kind and Size of Mains Used	Cast Iron/Ductile Iron/PVC 4 Inches to 60 Inches
Kind and Size of Transmission Mains	
from Ashland to Lincoln	36-Inch Cast Iron 48-Inch Reinforced Concrete 54 / 60-Inch Steel
Length of Transmission Mains	
from Ashland to Lincoln	25.1 Miles
Total Miles of Distribution Mains in Use:	
Miles in use September 1, 2011	1,242.6
Estimated Added During Year	8.6
Estimated Removed During Year	0.9
Total as of August 31, 2012	1,250.3 Miles
Amount of Water Pumped During Year Ended August 31, 2012	14,032,320,000 gallons
Average Daily Consumption of Water	38,444,712 gallons
Average Daily Consumption Per Capita	145 gallons
Total Number of Active Residential Water Customers	
End of Fiscal Year	75,028
Total Number of Active Non-Residential Water Customers	
End of Fiscal Year	4,670
Bonded Debt of Lincoln Water System at August 31, 2012	\$59,718,123

LINCOLN WATER SYSTEM

Schedule 6

TOP TEN CUSTOMERS**Year Ended August 31, 2012**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	518,243	\$943,878
2. City of Lincoln	378,752	739,653
3. Archer-Daniels Midland Company	329,621	417,871
4. State of Nebraska	314,821	609,482
5. Veyance Technologies, Inc.	199,677	258,226
6. University of Nebraska Foundation	183,436	232,448
7. BryanLGH Medical Center	164,387	326,136
8. Lincoln Public Schools	138,545	277,230
9. Pfizer Animal Health	133,620	192,791
10. Lincoln Plating Company	111,902	214,597
Top Ten Users Totals	2,473,004	\$4,212,312



A86943

9

12R-176

Introduce: 7-30-12

RESOLUTION NO. A- 86943

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
3 of the 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
11 with the proposed rate increases will continue this tradition of competitive rates within the
12 region and nationally.

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

15 Effective with the "H" billing cycle commencing in November 2012 and November
16 2013, the following schedules of water use charges are hereby established and adopted:

17 SCHEDULE A

18 The following rate schedule shall apply to all residential property. "Residential

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

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

8 SCHEDULE B

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

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

14 SCHEDULE C

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

1 The following fees would apply:

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

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

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

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

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WATER RATES TO CUSTOMERS OUTSIDE
THE CITY LIMITS

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

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

Introduced by:

Jon A. Camp

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

Approved as to Form & Legality:

Dod Couper
City Attorney

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

ADOPTED
AUG - 8 2012
BY CITY COUNCIL

✓


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

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

REASONS OR JUSTIFICATION FOR PROPOSED LEGISLATION

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

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

REQUESTOR <input type="checkbox"/> DOES <input checked="" type="checkbox"/> DOES NOT	WISH TO REVIEW AND APPROVE THIS ORDINANCE PRIOR TO ITS INTRODUCTION	 DIRECTOR'S SIGNATURE	<u>7/24/12</u> DATE
TO BE USED BY THE FINANCE DEPARTMENT			
BUDGET REVIEW	DATE:	ACCOUNT NUMBER AND APPROPRIATE BALANCES	DATE:
			FUND AVAILABILITY APPROVED
			DIRECTOR OF FINANCE SIGNATURE
DISTRIBUTION Return two (2) copies to City Clerk for Docket Number			

City Council Introduction: July 30, 2012

Bill Number 12R-176

Public Hearing: August 6, 2012

FACT SHEET

TITLE: Proposed Resolution to increase Water Use Charges

SPONSOR: Public Works/Utilities

OTHER DEPARTMENTS AFFECTED:

OPPONENTS: Unknown

APPLICANT: Public Works/Utilities

STAFF RECOMMENDATION: For

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

DISCUSSION

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

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

FACT SHEET PREPARED BY: *Fran Meyer*

Public Works & Utilities Business Manager

REVIEWED BY: *Mike Espino*

Director of Public Works & Utilities

Quantitative Statistics

Years ended August 31, 2012 and 2011

(Unaudited)

	2012	2011	Increase (decrease)
Water pumpage in one hundred cubic feet: (H.C.F.) by months:			
September	1,606,230	1,566,845	39,385
October	1,499,586	1,599,840	(100,254)
November	971,698	1,080,722	(109,024)
December	1,001,364	913,061	88,302
January	1,050,588	900,722	149,866
February	1,002,834	827,968	174,866
March	1,120,842	973,971	146,872
April	1,324,452	1,010,668	313,783
May	1,711,297	1,340,053	371,243
June	2,169,184	1,491,818	677,366
July	2,942,179	2,095,481	846,698
August	2,359,532	1,821,912	537,620
Total H.C.F. pumped	18,759,786	15,623,061	3,136,725
H.C.F. sold and donated:			
Customer metered sales	17,482,179	15,211,581	2,270,598
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	42,441	27,344	15,097
Used for testing meters (estimated)	250	250	—
Used by Fire Department (estimated)	3,200	3,200	—
Lawn sprinkling and service shop water (estimated)	100	100	—
Total water accounted for	17,543,670	15,257,975	2,285,695
Total H.C.F. unaccounted for	1,216,116	365,086	851,030
Percent of H.C.F. unaccounted for	6.48%	2.34%	

LINCOLN WATER SYSTEM

Schedule 9

COMPARATIVE PUMPING REPORT

For Fiscal Years as Shown by Gallons

(Unaudited)

MONTH	August 31, 2012	August 31, 2011	August 31, 2010	August 31, 2009	August 31, 2008
September	1,201,460,000	1,172,000,000	1,078,830,000	1,122,830,000	1,336,190,000
October	1,121,690,000	1,196,680,000	817,530,000	952,000,000	971,640,000
November	726,830,000	808,380,000	697,300,000	759,790,000	848,660,000
December	749,020,000	682,970,000	682,290,000	789,130,000	796,270,000
January	785,840,000	673,740,000	747,470,000	847,930,000	818,900,000
February	750,120,000	619,320,000	690,540,000	698,790,000	783,230,000
March	838,390,000	728,530,000	756,830,000	819,680,000	780,350,000
April	990,690,000	755,980,000	857,960,000	798,590,000	773,220,000
May	1,280,050,000	1,002,360,000	959,180,000	1,231,090,000	893,870,000
June	1,622,550,000	1,115,880,000	1,056,010,000	1,087,110,000	890,790,000
July	2,200,750,000	1,567,420,000	1,284,390,000	1,502,970,000	1,374,170,000
August	1,764,930,000	1,362,790,000	1,710,020,000	1,331,280,000	1,716,280,000
Total	14,032,320,000	11,686,050,000	11,338,350,000	11,941,190,000	11,983,570,000

LINCOLN WATER SYSTEM
ANNUAL RAINFALL FOR THE PERIOD OF
September 1, 2011 to August 31, 2012
(Unaudited)

	Inches of <u>Rainfall</u>
September	1.33
October	0.93
November	1.66
December	1.58
January016
February	2.10
March	0.89
April	3.49
May	3.00
June	3.57
July033
August	<u>.030</u>
TOTAL INCHES FOR FISCAL YEAR	<u>19.34</u>

LINCOLN WATER SYSTEM

WATER ANALYSIS

(All Results in Parts Per Million)
(Collected August 6, 2012)
(Unaudited)

550 W. Cornhusker Hwy.

Hydrogen Ion Concentration (pH)	7.83
Total Dissolved Solids	380 ppm.
Total Iron (Fe)	<0.050 ppm.
Manganese (Mn)	2.25 ppb.
Calcium (as Ca)	57.2 ppm.
Total Alkalinity (CaCO ₃)	172 ppm.
Chloride (Cl)	23.6 ppm.
Fluoride (F)	0.92 ppm.
Nitrate (+Nitrite)	0.246 ppm.
Sodium (Na)	37.7 ppm.
Hardness as (CaCO ₂)	
Total Hardness	200 ppm.

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

Lincoln Water System

Summary of Insurance Coverage

August 31, 2012

(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	SEL3017304
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	FM840
Money and Securities	Inside/outside premises	50,000	500	0	Fidelity & Deposit	CCP003059514
Water Distribution	Water distribution center	25,000,000	50,000	10,000	FM Global	FM840
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FM840
Equipment Floater (911)	Radio tower floater	Replacement cost	50,000	2,500	FM Global	FM840
Equipment Floater (NON-LIC)	Nonlicensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM840
General Liability ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017304
Public Employee Blanket Bond	Employees blanket bond coverage	1,000,000	25,000	10,000	Fidelity & Deposit	CCP003059514
Public Officials Liability***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017304
Workers' Compensation Excess	Statutory	Statutory	800,000	0	Midwest Employers Casualty (MECC)	EWC007744

** Self-insured for both comp & collision.

*** Public Entity Policy

LINCOLN WATER SYSTEM

Summary of Insurance Coverage

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

AUTOMOBILE INSURANCE

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

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

PROPERTY INSURANCE

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

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

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

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

WATER DISTRIBUTION SYSTEM

Provides coverage for underground pipeline between Lincoln and Ashland.

GENERAL LIABILITY

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

PUBLIC EMPLOYEES BLANKET BOND

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

PUBLIC OFFICIALS LIABILITY (Claims-made)

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

WORKERS' COMPENSATION

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

Independent 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, 2012, and have issued our report thereon dated November 30, 2012. 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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to Lincoln Water System's management in a separate letter dated November 30, 2012.

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.

BKD, LLP

November 30, 2012