

Lincoln Water System

2016

Financial Statements
& Schedules

Fiscal Year Ended
August 31, 2016



ANNUAL FINANCIAL REPORT

DEPARTMENT OF PUBLIC WORKS & UTILITIES

CITY OFFICIALS

Chris Beutler Mayor

COUNCIL MEMBERS

Leirion Gaylor Baird.....Chair

Roy Christensen.....Vice-Chair

Jon Camp
Carl Eskridge
Trent Fellers
Cyndi Lamm
Jane Raybould

WATER SYSTEM

Miki Esposito..... Director of Public Works & Utilities

Donna Garden.....Assistant Director of Public Works & Utilities

Lincoln Water System
August 31, 2016 and 2015

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RSM US LLP

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
Lincoln Water System, an Enterprise Fund of City of Lincoln, Nebraska
Lincoln, Nebraska

Report on the Financial Statements

We have audited the accompanying financial statements of Lincoln Water System, an Enterprise Fund of City of Lincoln, Nebraska (the System), as of and for the years ended August 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System, as of August 31, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the activity of Lincoln Water System, an Enterprise Fund of City of Lincoln, Nebraska and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2016 and 2015, and the 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.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 – 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's 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. The supplementary information, as listed in the table of contents 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. Such information 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 supplementary information, as presented in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying other statistical information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

RSM US LLP

Omaha, Nebraska
January 4, 2017

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, 2016 and 2015. 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 statements of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the System, including resources held by the System but restricted for specific purposes by creditors, contributors, or enabling legislation. The System is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statements of Net Position and Statement of Revenues, Expenses and Changes in Net Position

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

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

The Statement of Cash Flows

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

The System's Net Position

The System's net position is the difference between its assets plus deferred outflows of resources and liabilities reported in the Statements of Net Position. The System's net position increased by \$13,107,323 in 2016 over 2015 as shown in Table 1.

Financial Analysis

The following comparative condensed financial statements summarize the System's financial position and operating results for the years ended August 31, 2016, 2015, and 2014.

Table 1

Condensed Statements of Net Position

	August 31		Change	
	2016	2015	Dollars	Percent
Current assets	\$ 30,112,135	\$ 24,810,631	\$ 5,301,504	21.37%
Capital assets	324,180,701	318,873,535	5,307,166	1.66%
Noncurrent assets	16,903,179	17,713,702	(810,523)	(4.58%)
Deferred outflows of resources	640,274	710,994	(70,720)	(9.95%)
Total assets and deferred outflows or resources	371,836,289	362,108,862	9,727,427	2.69%
Current liabilities	9,461,462	8,242,915	1,218,547	14.78%
Long-term liabilities	54,815,149	59,413,592	(4,598,443)	(7.74%)
Total liabilities	64,276,611	67,656,507	(3,379,896)	(5.00%)
Net position				
Net investment in capital assets	269,527,215	260,427,539	9,099,676	3.49%
Restricted for debt service	286,040	272,916	13,124	4.81%
Restricted for capital acquisition	3,458,279	2,462,771	995,508	40.42%
Unrestricted	34,288,144	31,289,129	2,999,015	9.58%
Total net position	307,559,678	294,452,355	13,107,323	4.45%
Total liabilities and net position	\$371,836,289	\$362,108,862	\$ 9,727,427	2.69%

Financial Highlights – Fiscal Year 2016

- Current assets increased due to an increase in cash and investments, as well as an increase in accounts receivable due from impact fees collected and not yet transferred to the System.
- Current liabilities increased due to timing of payments made to contractors on several construction projects.
- Capital assets increased due to the completion of various selected main replacement projects and treatment plant modifications completed during the year.

Table 2

Condensed Statements of Net Position

	August 31		Change	
	2015	2014	Dollars	Percent
Current assets	\$ 24,810,631	\$ 23,225,019	\$ 1,585,612	6.83%
Capital assets	318,873,535	314,866,338	4,007,197	1.27%
Noncurrent assets	17,713,702	16,957,527	756,175	4.46%
Deferred outflows of resources	710,994	781,716	(70,722)	(9.05%)
Total assets and deferred outflows or resources	362,108,862	355,830,600	6,278,262	1.76%
Current liabilities	8,242,915	8,881,999	(639,084)	(7.20%)
Long-term liabilities	59,413,592	63,038,636	(3,625,044)	(5.75%)
Total liabilities	67,656,507	71,920,635	(4,264,128)	(5.93%)
Net position				
Net investment in capital assets	260,427,539	251,668,822	8,758,717	3.48%
Restricted for debt service	272,916	267,083	5,833	2.18%
Restricted for capital acquisition	2,462,771	1,812,654	650,117	35.87%
Unrestricted	31,289,129	30,161,406	1,127,723	3.74%
Total net position	294,452,355	283,909,965	10,542,390	3.71%
Total liabilities and net position	\$362,108,862	\$355,830,600	\$ 6,278,262	1.76%

Financial Highlights – Fiscal Year 2015

- Current assets increased due to an increase in cash and investments, as well as an increase in accounts receivable due from impact fees collected and not yet transferred to the System.
- Current liabilities decreased due to the completion of several construction projects during the year.

Table 3**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	August 31		Change	
	2016	2015	Dollars	Percent
Operating revenues				
Water revenue	\$34,511,117	\$30,563,586	\$3,947,531	12.92%
Other revenue	889,862	759,891	129,971	17.10%
Total operating revenues	35,400,979	31,323,477	4,077,502	13.02%
Nonoperating revenues				
Investment income	621,416	442,287	179,129	40.50%
Gain on sale of assets	-	843,321	(843,321)	100.00%
FEMA reimbursements	18,559	-	18,559	100.00%
Total nonoperating revenues	639,975	1,285,608	(645,633)	(50.22%)
Total revenues	36,040,954	32,609,085	3,431,869	10.52%
Operating expenses				
Supply, pumping and purification	13,573,498	13,515,736	57,762	0.43%
Transmission and distribution	9,796,129	9,541,243	254,886	2.67%
Accounting and collecting	882,795	938,458	(55,663)	(5.93%)
Administrative and general	1,405,442	1,456,412	(50,970)	(3.50%)
Total operating expenses	25,657,864	25,451,849	206,015	0.81%
Nonoperating expenses				
Interest and amortization expense	1,536,395	1,711,506	(175,111)	(10.23%)
Net costs recoverable	48,767	48,767	-	0.00%
Total nonoperating expenses	1,585,162	1,760,273	(175,111)	(9.95%)
Total expenses	27,243,026	27,212,122	30,904	0.11%
Income before contributions	8,797,928	5,396,963	3,400,965	63.02%
Capital contributions	4,309,395	5,145,427	(836,032)	(16.25%)
Change in net position	\$13,107,323	\$10,542,390	\$2,564,933	24.33%

Financial Highlights – Fiscal Year 2016

- Water revenue increased during the year, due to a 3% revenue increase implemented November 2015 and applied solely to the service charge, as well as less precipitation in fiscal year 2016 as compared to 2015. See Schedule 8.

Table 4**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	August 31		Change	
	2015	2014	Dollars	Percent
Operating revenues				
Water revenue	\$30,563,586	\$31,647,555	(\$1,083,969)	(3.43%)
Other revenue	759,891	975,479	(215,558)	(22.10%)
Total operating revenues	31,323,477	32,623,034	(1,299,557)	(3.98%)
Nonoperating revenues				
Investment income	442,287	681,211	(238,924)	(35.07%)
Gain on sale of assets	843,321	-	843,321	100.00%
Total nonoperating revenues	1,285,608	681,211	604,397	88.72%
Total revenues	32,609,085	33,304,245	(695,160)	(2.09%)
Operating expenses				
Supply, pumping and purification	13,515,736	12,968,893	546,843	4.22%
Transmission and distribution	9,541,243	9,300,631	240,612	2.59%
Accounting and collecting	938,458	841,144	97,314	11.57%
Administrative and general	1,456,412	1,254,328	202,084	16.11%
Total operating expenses	25,451,849	24,364,996	1,086,853	4.46%
Nonoperating expenses				
Interest expense	1,711,506	1,527,980	183,526	12.01%
Net costs recoverable	48,767	48,767	-	0.00%
Total nonoperating expenses	1,760,273	1,576,747	183,526	11.64%
Total expenses	27,212,122	25,941,743	1,270,379	4.90%
Income before contributions	5,396,963	7,362,502	(1,965,539)	(26.70%)
Capital contributions	5,145,427	2,412,052	2,733,375	113.32%
Transfers out	-	(166,987)	166,987	(100.00%)
Change in net position	\$10,542,390	\$ 9,607,567	\$ 934,823	9.73%

Financial Highlights – Fiscal Year 2015

- Water revenue decreased during the year, due to more precipitation in fiscal year 2015 as compared to 2014. The City of Lincoln's rainfall for the fiscal year was 40.37". The 30 year average rainfall was 28.93". See Schedule 8.
- Total operating expenses increased primarily due to increased operating costs, including salary and fringe benefits.
- Capital contributions increased during the year because of increased development activity.

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 System entered into a \$15,000,000 loan agreement with the Nebraska Department of Environmental Quality (NDEQ) to fund certain water system extension and water repairs. All contracts are final as of August 31, 2016.

Capital Asset Activity

The System's investment in capital assets as of August 31, 2016 amounts to \$324,180,701 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment. Major capital asset events during 2016 include treatment plant modifications and selected main replacements for approximately \$3 million and \$2.7 million respectively.

System Credit and Bond Ratings

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

Commitments and Contingencies

The System has commitments under major construction contracts in progress of approximately \$3,900,000 at August 31, 2016.

Forward-Looking Information

The approved Capital Improvement Program for Fiscal Year 2016/17 - 2021/22 identifies the need for \$138,730,000 to fund capital improvements for the System. Approximately \$65,000,000 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 2016, the Lincoln City Council approved a 5% revenue increase, which will be attained through increases in the various service charges.

Contact Information

This financial report is intended to provide users with a general overview of the System's financial performance for 2016 and 2015. 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
An Enterprise Fund of the City of Lincoln, Nebraska

Statements of Net Position

August 31, 2016 and 2015

Assets and Deferred Outflows of Resources	2016	2015
Current assets:		
Equity in pooled cash and investments	\$ 17,643,432	\$ 14,173,631
Receivables:		
Accounts receivable	3,539,231	3,143,564
Unbilled revenues	4,229,512	3,978,456
Due from other governments	-	124,781
Impact fees	3,458,279	2,462,771
Total receivables	11,227,022	9,709,572
Inventories	1,241,681	927,428
Total current assets	30,112,135	24,810,631
Noncurrent assets:		
Equity in pooled cash and investments	8,596,708	9,736,519
Restricted assets:		
Equity in pooled cash	1,006,050	844,304
Investments	6,847,115	6,630,804
Total restricted assets	7,853,165	7,475,108
Utility plant:		
Non-depreciable	12,608,785	11,586,025
Depreciable	459,829,987	446,856,833
Less accumulated depreciation	(148,258,071)	(139,569,323)
Net utility plant	324,180,701	318,873,535
Costs recoverable from future billings	453,306	502,075
Total noncurrent assets	341,083,880	336,587,237
Total assets	371,196,015	361,397,868
Deferred outflows of resources:		
Deferred loss on refunding	640,274	710,994
Total assets and deferred outflows of resources	\$371,836,289	\$362,108,862
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 812,737	\$ 511,645
Accrued liabilities	956,489	798,987
Deposits liability	103,149	104,499
Accrued compensated absences	489,854	502,356
Construction contracts	2,561,154	1,821,804
Current maturities of long-term debt	4,408,451	4,307,000
Accrued interest	129,628	196,624
Total current liabilities	9,461,462	8,242,915
Long-term liabilities:		
Accrued liabilities	453,565	409,929
Accrued compensated absences	598,429	513,702
Construction contracts	84,336	84,336
Long-term debt, excluding current maturities	53,678,819	58,405,625
Total long-term liabilities	54,815,149	59,413,592
Total liabilities	64,276,611	67,656,507
Net position:		
Net investment in capital assets	269,527,215	260,427,539
Restricted for debt service	286,040	272,916
Restricted for capital acquisition	3,458,279	2,462,771
Unrestricted	34,288,144	31,289,129
Total net position	307,559,678	294,452,355
Total liabilities and net position	\$371,836,289	\$362,108,862

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

Statements of Revenues, Expenses and Changes in Net Position

Years ended August 31, 2016 and 2015

	2016	2015
Operating revenues:		
Water sales	\$ 34,511,117	\$ 30,563,586
Service and materials, net	889,862	759,891
Total operating revenues	35,400,979	31,323,477
Operating expenses:		
Supply, pumping and purification	13,573,498	13,515,736
Transmission and distribution	9,796,129	9,541,243
Accounting and collecting	882,795	938,458
Administrative and general	1,405,442	1,456,412
Total operating expenses	25,657,864	25,451,849
Operating income	9,743,115	5,871,628
Nonoperating revenues (expenses):		
Investment income	621,416	442,287
Interest and amortization expense	(1,536,395)	(1,711,506)
Gain on sale of assets	-	843,321
FEMA reimbursements	18,559	-
Net costs recoverable	(48,767)	(48,767)
Net nonoperating expenses	(945,187)	(474,665)
Increase in net position before capital contributions	8,797,928	5,396,963
Capital contributions from:		
Developer contributions	2,346,359	3,272,637
Impact fees	1,354,774	1,318,284
Tap fees	608,262	554,506
Total capital contributions	4,309,395	5,145,427
Increase in net position	13,107,323	10,542,390
Total net position - beginning	294,452,355	283,909,965
Total net position - ending	\$ 307,559,678	\$ 294,452,355

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

Statements of Cash Flows

Years ended August 31, 2016 and 2015

	2016	2015
Operating activities:		
Receipts from customers and users	\$33,757,399	\$31,128,689
Payments to suppliers	(8,134,090)	(8,241,841)
Payments to employees	(8,574,825)	(8,568,659)
Net cash provided by operating activities	17,048,484	14,318,189
Noncapital financing activities:		
Repayment from other funds, net	-	70,167
Net cash provided by noncapital financing activities	-	70,167
Capital and related financing activities:		
Acquisition and construction of capital assets	(8,684,509)	(7,961,352)
Proceeds from sale of assets	-	905,545
Principal paid on revenue bonds and long term obligations	(4,344,979)	(4,290,300)
Proceeds from NDEQ loan	172,823	1,359,650
Interest paid on revenue bonds and long term obligations	(2,123,747)	(2,116,261)
Other	18,559	-
Net cash used in capital and related financing activities	(14,961,853)	(12,102,718)
Investing activities:		
Purchases of investments	(23,154,795)	(22,313,350)
Proceeds from sales and investment maturities	21,389,253	18,607,731
Interest on investments	356,195	328,880
Net cash used in investing activities	(1,409,347)	(3,376,739)
Net increase (decrease) in cash and cash equivalents	677,284	(1,091,101)
Cash and cash equivalents at beginning of year	527,547	1,618,648
Cash and cash equivalents at end of year	\$ 1,204,831	\$ 527,547
Composition of equity in pooled cash and investments (current)		
Cash and cash equivalents	\$ 1,204,831	\$ 527,547
Investments	16,438,601	13,646,084
Total equity in pooled cash and investments (current)	\$17,643,432	\$14,173,631
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 9,743,115	\$ 5,871,628
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,688,748	8,496,791
Changes in operating assets and liabilities:		
Accounts receivable	(1,642,231)	(188,838)
Inventories	(314,253)	13,052
Accounts payable	301,092	50,763
Accrued liabilities and deposit liability	199,788	34,932
Accrued compensated absences	72,225	39,861
Total adjustments	7,305,369	8,446,561
Net cash provided by operating activities	\$17,048,484	\$14,318,189

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$2,346,359 and \$3,272,637 were added to utility plant in 2016 and 2015, respectively.

Accounts payable incurred for utility plant purchases were \$2,645,490 and \$1,906,140 in 2016 and 2015, respectively.

See accompanying notes to financial statements.

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

(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 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 System are prepared on the accrual basis of accounting using the economic resources measurement focus in accordance with generally accepted accounting principles (GAAP) as applied to enterprise activities of governmental units. The System follows the uniform system of accounts as prescribed by the National Association of Regulatory Utility Commissioners. In reporting financial activity, the System applies all applicable Government Accounting Standards Board (GASB) pronouncements including the regulated operations provisions of GASB Statement No. 62, which permits an entity with cost based rates to defer certain costs or income that would be otherwise recognized when incurred to the extent the rate-regulated entity is recovering or expecting to recover such amounts in rates charged to its customers.

The GASB periodically updates its codification of the existing Governmental and Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

The financial statements referred to above present only the Lincoln Water System, an enterprise fund of the City of Lincoln, Nebraska, and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2016 and 2015, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Operating Revenues and Expenses

As an enterprise fund, the 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 System's principal ongoing operations. The principal operating revenues of the 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.

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

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

Accounts Receivable and Unbilled Revenues

Water revenues are recorded based on the related period of customer usage. Billings for water revenues are rendered on a cycle basis bi-monthly. Unbilled revenues, representing estimated consumer usage for the period between the last billing date and the end of the period, are accrued in the period of consumption. Management does not believe an allowance for doubtful accounts is necessary at August 31, 2016 or 2015.

Restricted Assets

Certain proceeds of the System's revenue bonds and resources set aside for their repayment are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

Utility Plant (Capital Assets)

The 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 acquisition 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. Items with a cost greater than \$5,000 are capitalized. Items less than \$5,000 may be capitalized if they belong to a larger asset or if documentation is received stating that significant additions will be made to the item in the near future.

Depreciation expense is calculated using the composite and straight-line methods over the estimated useful lives of the assets. The following estimated useful lives are being used by the System:

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

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

(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 the 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, the 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 statements of net position, and is recorded at their interest in the City's pool, which includes both cash and investments reported at their estimated fair value.

The amounts held in the City's pool are considered liquid as they are available to be withdrawn on demand, with no redemption restrictions.

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 reported at fair 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.

Tap fees are the charges for customers to tap into the System and revenues are recorded at the amount received when they are received.

Impact Fees are charges levied against new construction, changes in land use, or an increase in water meter size to help generate revenue to build new infrastructure needed because of development. Impact fees collected are recognized as revenue as expenditures are incurred.

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

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

Unamortized Premium on Revenue Bonds

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

Deferred Outflow of Resources

Deferred outflow of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The System only has one item that qualifies for reporting in this capacity. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt using the straight-line method which approximates the effective interest rate method.

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

(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 System. The following rates were in effect for the years ended August 31, 2016 and 2015:

	<u>August 31, 2016</u>	<u>August 31, 2015</u>
<u>Water Usage</u>		
Residential:		
100 to 800 cubic feet	\$1.344	\$1.344
801 to 2,300 cubic feet	1.911	1.911
2,301 and up	2.961	2.961
Nonresidential low volume user:		
100 to 8,000 cubic feet	1.344	1.344
8,001 and up	1.911	1.911
Nonresidential high volume user:		
Base usage which is average water usage for previous three calendar years	1.276 to 1.407	1.276 to 1.407
<u>Service Charge</u>		
5/8 inch	\$ 4.95	\$ 4.37
5/8 x 3/4 inch	7.49	6.61
3/4 inch	7.49	6.61
1 inch	12.50	11.04
1 ½ inch	24.94	22.02
2 inch	39.91	35.25
3 inch	74.88	66.13
4 inch	124.82	110.24
6 inch	249.58	220.42
8 inch	399.34	352.68
10 inch	574.10	507.02

In August 2016, the Lincoln City Council approved rate increases for the next two years. The first rate increase of 5% is effective in November 2016 and the second increase of 5% is effective in November 2017.

Costs Recoverable from Future Billings

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

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

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

Net Position Classification

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

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

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

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

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

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 System accrues for vacation, sick leave and other compensated absences with similar characteristics.

Compensated absences of the System at August 31, 2016 and 2015 are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
August 31, 2016	\$1,016,058	574,581	502,356	1,088,283	489,854
August 31, 2015	\$ 976,197	522,651	482,790	1,016,058	502,356

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

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

Other Post-Employment Benefits (OPEB)

The System recorded a long-term accrued liability for the net OPEB obligation, which represents the cumulative difference between the annual OPEB cost and employer contributions, of approximately \$454,000 and \$410,000 as of August 31, 2016 and 2015, 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 the System has made a number of estimates and assumptions relating to the amounts reported in the financial statements and accompanying notes, 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.

(2) Deposits, Investments, and Investment Return

Deposits

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

Investments

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

Custodial Credit Risk

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. The System's investments in U.S. Government Sponsored Agency obligations are held in a book entry system in an account designated as a customer account at the Federal Reserve Bank and the custodian's internal records identify the City as owner.

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

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

Fair value measurements: During the fiscal year ending June 30, 2016, the System adopted GASB Statement No. 72, Fair Value Measurement and Application, which provides guidance for determining a fair value measurement for financial reporting purposes. The System categorizes its assets and liabilities measured at fair value within the hierarchy established by generally accepted accounting principles. Assets and liabilities valued at fair value are categorized based on inputs to valuation techniques as follows:

Level 1 input: Quoted prices for identical assets or liabilities in an active market that an entity has the ability to access.

Level 2 input: Inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.

Level 3 input: Inputs that are unobservable for the asset or liability which are typically based upon the System's own assumptions as there is little, if any, related market activity.

Hierarchy: The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

Inputs: If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

For the System, the following fair value techniques were utilized in measuring the fair value of its investments:

U.S. Government agency securities: U.S. Government securities are reported at fair value based on bullet (noncall) spread scale for each issuer for maturities going out to 40 years. These spreads represent credit risk and are obtained from the new issue market, secondary trading, and dealer quotes.

An Option Adjusted Spread (OAS) model is incorporated to adjust spreads of issues that have early redemption features. Final spreads are added to a U.S. Treasury curve. A cash discounting yield/price routine calculates prices from final yields to accommodate odd coupon payment dates typical of medium-term notes.

LINCOLN WATER SYSTEM**An Enterprise Fund of the City of Lincoln, Nebraska**

Notes to Financial Statements

August 31, 2016 and 2015

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

At August 31, 2016 and 2015, the System had the following investments and maturities:

Type	August 31, 2016				Fair Value Measurement
	Fair Value	Maturities in Years			
		Less than 1	1 - 5	6 - 10	
U.S. Government Sponsored Agencies	\$6,847,115	\$ -	\$2,844,021	\$4,003,094	Level 2

Type	August 31, 2015				Fair Value Measurement
	Fair Value	Maturities in Years			
		Less than 1	1 - 5	6 - 10	
U.S. Government Sponsored Agencies	\$6,630,804	\$ -	\$1,144,508	\$5,486,296	Level 2

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

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

Interest Rate Risk:

Interest rate risk is the risk that a change in interest rates will adversely affect the value of an investment. 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 shall have a term appropriate to the need for funds and in accordance with debt covenants.

Credit Risk:

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of August 31, 2016 and 2015, the System investments in United States government sponsored agencies not directly guaranteed by the United States government were rated AA+ by Standard & Poor's (S & P) and Aaa by Moody's Investors Service (Moody's).

Concentration of Credit Risk:

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, allocations limits do not apply to the investment of debt proceeds. These investments shall be governed by the debt covenant included in the debt instrument. The investments mentioned below were made with funds from the bond debt reserve funds established. Concentrations greater than 5% at August 31 are shown below:

	<u>2016</u>	<u>2015</u>
U.S. Government Agency Obligations		
Federal Farm Credit Bank	16.8%	17.6%

The carrying amount of equity interests in pooled cash and investments at August 31, 2016 and 2015 are:

	<u>2016</u>	<u>2015</u>
Equity in pooled cash and investments	\$27,246,190	\$24,754,454
Percentage of City's Pool	8.3%	8.1%

Please refer to the City's Comprehensive Annual Financial Report for additional information on the City's pooled cash and investments, including required disclosures of risk and fair value measurements. A copy of the City's separately issued report can be obtained at <http://lincoln.ne.gov/city/finance/account/cafr.htm>.

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

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

Investment Income

Investment income for the years ended August 31, 2016 and 2015 consisted of:

	2016	2015
Interest and dividend income	\$355,994	\$340,030
Net change in fair value of investments	265,422	102,257
	<u>\$621,416</u>	<u>\$442,287</u>

(3) Inventories

Balances of the major classes of inventory at August 31, 2016 and 2015, are shown below:

	2016	2015
Heavy materials	\$884,133	\$642,447
Diesel fuel	118,310	108,058
Water meters and parts	180,854	127,017
Chemicals	58,384	49,906
	<u>\$1,241,681</u>	<u>\$927,428</u>

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

(4) Utility Plant

Utility plant is summarized by major classification at August 31, 2016 as follows:

Asset Class	Capital Assets			August 31, 2016	Accumulated Depreciation			August 31, 2016	Net Capital Assets August 31, 2016
	August 31, 2015	Increases	Decreases		August 31, 2015	Increases	Decreases		
Airport	\$ 42,172	\$ -	\$ -	\$ 42,172	\$ (28,278)	\$ (422)	\$ -	\$ (28,700)	\$ 13,472
Structures and improvements	79,967,560	751,094	-	80,718,654	(29,251,530)	(1,623,921)	-	(30,875,451)	49,843,203
Reservoirs	39,166,270	295,483	-	39,461,753	(14,166,113)	(735,104)	-	(14,901,217)	24,560,536
Other power and production equipment	2,458,732	50,156	-	2,508,888	(1,777,009)	(50,382)	-	(1,827,391)	681,497
Electric pumping equipment	23,704,990	-	-	23,704,990	(10,927,192)	(619,832)	-	(11,547,024)	12,157,966
Purification system	31,372,466	3,070,868	-	34,443,334	(12,617,268)	(1,038,300)	-	(13,655,568)	20,787,766
Transmission mains	82,670,216	29,200	-	82,699,416	(19,703,286)	(1,222,762)	-	(20,926,048)	61,773,368
Distribution mains and accessories	158,463,113	7,920,195	-	166,383,308	(32,145,227)	(1,998,018)	-	(34,143,245)	132,240,063
Hydrants	4,844,227	-	-	4,844,227	(3,764,207)	(69,942)	-	(3,834,149)	1,010,078
Office furniture and equipment	2,323,146	95,816	-	2,418,962	(1,808,085)	(278,100)	-	(2,086,185)	332,777
Shop equipment	199,383	-	-	199,383	(192,264)	(3,536)	-	(195,800)	3,583
Laboratory equipment	458,188	-	-	458,188	(381,820)	(13,890)	-	(395,710)	62,478
Tools and work equipment	326,088	11,614	-	337,702	(306,083)	(7,562)	-	(313,645)	24,057
Communications system	3,159,664	-	-	3,159,664	(1,155,765)	(157,876)	-	(1,313,641)	1,846,023
Meters	14,159,158	535,674	-	14,694,832	(9,087,829)	(607,793)	-	(9,695,622)	4,999,210
Vehicles	3,541,460	213,054	-	3,754,514	(2,257,367)	(261,308)	-	(2,518,675)	1,235,839
Total depreciable assets	446,856,833	12,973,154	-	459,829,987	(139,569,323)	(8,688,748)	-	(148,258,071)	311,571,916
Land and land rights	5,391,676	53,340	-	5,445,016	-	-	-	-	5,445,016
Construction in progress	6,194,349	10,812,257	(9,842,837)	7,163,769	-	-	-	-	7,163,769
Total nondepreciable assets	11,586,025	10,865,597	(9,842,837)	12,608,785	-	-	-	-	12,608,785
Total capital assets	\$ 458,442,858	\$ 23,838,751	\$ (9,842,837)	\$ 472,438,772	\$ (139,569,323)	\$ (8,688,748)	\$ -	\$ (148,258,071)	\$ 324,180,701

During 2016, the System incurred \$2,056,750 of interest cost. Interest capitalized into construction in progress during 2016 was \$262,658. 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 1.89% in 2016.

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

(4) Utility Plant

Utility plant is summarized by major classification at August 31, 2015 as follows:

Asset Class	Capital Assets			Accumulated Depreciation			Net Capital Assets		
	August 31, 2014	Increases	Decreases	August 31, 2015	August 31, 2014	Increases	Decreases	August 31, 2015	
Airport	\$ 42,172	\$ -	\$ -	\$ 42,172	\$ (27,856)	\$ (422)	\$ -	\$ (28,278)	\$ 13,894
Structures and improvements	79,793,575	173,985	-	79,967,560	(27,658,498)	(1,593,032)	-	(29,251,530)	50,716,030
Reservoirs	39,166,270	-	-	39,166,270	(13,443,758)	(722,355)	-	(14,166,113)	25,000,157
Other power and production equipment	2,455,992	2,740	-	2,458,732	(1,717,003)	(60,006)	-	(1,777,009)	681,723
Electric pumping equipment	23,704,990	-	-	23,704,990	(10,307,332)	(619,860)	-	(10,927,192)	12,777,798
Purification system	28,944,826	2,427,640	-	31,372,466	(11,641,529)	(975,739)	-	(12,617,268)	18,755,198
Transmission mains	82,670,216	-	-	82,670,216	(18,480,930)	(1,222,356)	-	(19,703,286)	62,966,930
Distribution mains and accessories	151,102,392	7,360,721	-	158,463,113	(30,253,199)	(1,892,028)	-	(32,145,227)	126,317,886
Hydrants	4,844,227	-	-	4,844,227	(3,694,265)	(69,942)	-	(3,764,207)	1,080,020
Office furniture and equipment	2,282,651	40,495	-	2,323,146	(1,528,488)	(279,597)	-	(1,808,085)	515,061
Shop equipment	199,383	-	-	199,383	(188,728)	(3,536)	-	(192,264)	7,119
Laboratory equipment	405,221	52,967	-	458,188	(369,102)	(12,718)	-	(381,820)	76,368
Tools and work equipment	326,088	-	-	326,088	(295,345)	(10,738)	-	(306,083)	20,005
Communications system	3,159,664	-	-	3,159,664	(997,889)	(157,876)	-	(1,155,765)	2,003,899
Meters	13,754,254	404,904	-	14,159,158	(8,488,135)	(599,694)	-	(9,087,829)	5,071,329
Vehicles	3,388,139	291,308	(137,987)	3,541,460	(2,068,561)	(276,892)	88,086	(2,257,367)	1,284,093
Total depreciable assets	436,240,060	10,754,760	(137,987)	446,856,833	(131,160,618)	(8,496,791)	88,086	(139,569,323)	307,287,510
Land and land rights	5,453,772	128	(62,224)	5,391,676	-	-	-	-	5,391,676
Construction in progress	4,333,124	8,548,502	(6,687,277)	6,194,349	-	-	-	-	6,194,349
Total nondepreciable assets	9,786,896	8,548,630	(6,749,501)	11,586,025	-	-	-	-	11,586,025
Total capital assets	\$ 446,026,956	\$ 19,303,390	\$ (6,887,488)	\$ 458,442,858	\$(131,160,618)	\$ (8,496,791)	\$ 88,086	\$ (139,569,323)	\$ 318,873,535

During 2015, the System incurred \$2,164,645 of interest cost. Interest capitalized into construction in progress during 2015 was \$195,441. 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 1.90% in 2015.

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

(5) Long-term Liabilities

Long-term debt of the System at August 31, 2016 and 2015 is summarized below:

2016					
Type of Debt	August 31, 2015	Additions	Reductions	August 31, 2016	Due Within One Year
2.0% - 4.5% Water Revenue Bonds, Series 2009. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2017 through 2034. Redeemable at par on or after August 15, 2019.	\$13,990,000	\$ -	\$500,000	\$13,490,000	\$520,000
1.0% - 4.0% Water Revenue Bonds, Refunding Series 2012. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2017 through 2022.	7,820,000	-	1,055,000	6,765,000	1,075,000
1.0% - 5.0% Water Revenue Bonds, Refunding Series 2013. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2017 through 2025. Redeemable at par on or after August 15, 2023.	23,855,000	-	2,185,000	21,670,000	2,195,000
3.25% Nebraska Department of Environmental Quality (NDEQ) 2011 project loan payable. Principal and interest due semi-annually on June 15 and December 15, with final payment in 2034.	14,111,487	48,042	604,979	13,554,550	618,451
Unamortized premium on bonds	2,936,138	-	328,418	2,607,720	-
Total long-term debt	<u>\$62,712,625</u>	<u>\$48,042</u>	<u>\$4,673,397</u>	<u>\$58,087,270</u>	<u>\$4,408,451</u>

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

(5) Long-term Liabilities (continued)

Type of Debt	2015				
	August 31, 2014	Additions	Reductions	August 31, 2015	Due Within One Year
2.0% - 4.5% Water Revenue Bonds, Series 2009. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2016 through 2034. Redeemable at par on or after August 15, 2019.	\$14,480,000	\$ -	\$490,000	\$13,990,000	\$500,000
1.0% - 4.0% Water Revenue Bonds, Refunding Series 2012. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2016 through 2022.	8,860,000	-	1,040,000	7,820,000	1,055,000
1.0% - 5.0% Water Revenue Bonds, Refunding Series 2013. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2016 through 2025. Redeemable at par on or after August 15, 2023.	26,035,000	-	2,180,000	23,855,000	2,185,000
3.25% Nebraska Department of Environmental Quality (NDEQ) 2011 project loan payable. Principal and interest due semi-annually on June 15 and December 15, with final payment in 2034.	13,775,127	916,660	580,300	14,111,487	567,000
Unamortized premium on bonds	3,264,557	-	328,419	2,936,138	-
Total long-term debt	<u>\$66,414,684</u>	<u>\$916,660</u>	<u>\$4,618,719</u>	<u>\$62,712,625</u>	<u>\$4,307,000</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.

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

(5) Long-term Liabilities (continued)

Maturities and sinking fund requirements on long-term debt at August 31, 2016 are as follows:

Due years ending August 31	Bonds		Loans		Total
	Principal	Interest	Principal	Interest	
2017	\$ 3,790,000	\$ 1,586,181	\$ 618,451	\$ 301,518	\$ 6,296,150
2018	3,885,000	1,461,731	632,444	287,525	6,266,700
2019	3,990,000	1,334,031	646,755	273,214	6,244,000
2020	4,130,000	1,179,981	661,388	258,581	6,229,950
2021	4,305,000	995,594	676,353	243,616	6,220,563
2022 - 2026	14,495,000	2,978,370	3,618,364	981,481	22,073,215
2027 - 2031	4,240,000	1,265,994	4,046,669	553,178	10,105,841
2032 - 2034	3,090,000	282,600	2,654,126	105,472	6,132,198
Total	\$41,925,000	\$11,084,482	\$13,554,550	\$3,004,585	\$69,568,617

The City has pledged future revenues derived from the operation of the System, net of operating and maintenance expenses, to repay all outstanding water revenue bonds. Proceeds from the bonds and loans provided financing for improvements to the water supply system, as well as refunding prior water revenue bonds. The bonds and loans are payable solely from the net earnings of the System and are payable through 2034. The total principal and interest remaining to be paid on the bonds and loan is \$69,568,617, with annual payments expected to require 30 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$6,468,726 and \$21,016,315, respectively.

The System has entered into a loan agreement with Nebraska Department of Environmental Quality (NDEQ), borrowing \$14,977,829 to fund certain water system extension and water repairs. The interest rate throughout the term of the loan is 2.25%. In addition, an administrative fee of 1% will be incurred on the loan. The terms of the project loan payable are reflected in the summary of long-term debt. During the year ended August 31, 2016, the System incurred project costs totaling \$48,042 resulting in the recognition of a project payable of \$13,554,550, which is shown net of \$1,423,279 of principal repayments. All contracts are final as of year ended August 31, 2016.

Construction contract payables of the System at August 31, 2016 and 2015 are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
August 31, 2016	\$1,906,140	2,561,154	1,821,804	2,645,490	2,561,154
August 31, 2015	\$2,642,148	1,821,804	2,557,812	1,906,140	1,821,804

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

(6) Commitments and Contingencies

Construction Commitments:

The System has commitments under major construction contracts in progress of approximately \$3,900,000 at August 31, 2016.

Risk Management:

The 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. The System had no claims or judgments exceeding the policy limits during each of the last three prior years. Budgeted premium amounts charged to the System are placed in the appropriate fund maintained by the Division. Premium expense was approximately \$339,000 and \$309,000 in 2016 and 2015, respectively.

Litigation:

The System is involved in lawsuits arising in the ordinary course of activities, including claims regarding construction contract issues, personal injury and discriminatory personnel practices, property condemnation proceedings, and suits contesting the legality of certain taxes. While these cases may have future financial effect, management, based on advice of counsel, believes that their ultimate outcome will not be material to the basic financial statements.

(7) Related Party Transactions

The City billed the System approximately \$660,000 and \$700,000 for administrative services during 2016 and 2015, respectively. The 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 \$1,490,000 and \$1,437,000 during 2016 and 2015, respectively. At August 31, 2016 and 2015, approximately \$344,000 and \$199,000, respectively are included in accounts payable for amounts owed to LES for electricity used.

A special revenue fund of the City collects and holds impact fees until they are disbursed in accordance with City ordinance. The System was due impact fees of \$3,458,279 and \$2,462,771 as of August 31, 2016 and 2015, respectively.

LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2016 and 2015

(8) Pension Plan

Employees of the 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. The 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 \$635,000 and \$624,000 for 2016 and 2015, respectively. Contributions made by the plan members were approximately \$348,000 and \$344,000 for 2016 and 2015, respectively.

SUPPLEMENTARY
INFORMATION

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

Schedule 1

Summary of Long-Term Debt

August 31, 2016

Due years ending August 31	Series 2009		Series 2012		Series 2013		NDEQ Loan (D311548) 2011		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2017	\$ 520,000	\$ 545,781	\$ 1,075,000	\$ 270,600	\$ 2,195,000	\$ 769,800	\$ 618,451	\$ 301,518	\$ 4,408,451	\$ 1,887,699	\$ 6,296,150
2018	535,000	530,181	1,115,000	227,600	2,235,000	703,950	632,444	287,525	4,517,444	1,749,256	6,266,700
2019	555,000	514,131	1,155,000	183,000	2,280,000	636,900	646,755	273,214	4,636,755	1,607,245	6,244,000
2020	575,000	497,481	1,205,000	136,800	2,350,000	545,700	661,388	258,581	4,791,388	1,438,562	6,229,950
2021	595,000	478,794	1,250,000	88,600	2,460,000	428,200	676,353	243,616	4,981,353	1,239,210	6,220,563
2022-2026	3,380,000	2,016,170	965,000	38,600	10,150,000	923,600	3,618,364	981,481	18,113,364	3,959,851	22,073,215
2027-2031	4,240,000	1,265,994	-	-	-	-	4,046,669	553,178	8,286,669	1,819,172	10,105,841
2032-2034	3,090,000	282,600	-	-	-	-	2,654,126	105,472	5,744,126	388,072	6,132,198
	\$ 13,490,000	\$ 6,131,132	\$ 6,765,000	\$ 945,200	\$ 21,670,000	\$ 4,008,150	\$ 13,554,550	\$ 3,004,585	\$ 55,479,550	\$ 14,089,067	\$ 69,568,617

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

Schedule 2

Debt Coverage Ratio

Last ten fiscal years

Fiscal Year Ending	Gross Revenue	Direct Operating Expenses	Net Available Balance	Debt Service Requirement on Revenue Bonds				Debt Service Requirement for all Debt			
				Principal	Interest	Total	Coverage	Principal	Interest	Total	Coverage
2007	29,386,495	14,351,136	15,035,359	5,340,000	3,612,001	8,952,001	1.68	5,340,000	3,612,001	8,952,001	1.68
2008	27,257,184	14,425,521	12,831,663	5,555,000	3,376,201	8,931,201	1.44	5,555,000	3,376,201	8,931,201	1.44
2009	27,838,187	14,995,077	12,843,110	5,795,000	3,128,414	8,923,414	1.44	5,795,000	3,128,414	8,923,414	1.44
2010	26,515,467	14,091,292	12,424,175	6,050,000	3,458,097	9,508,097	1.31	6,050,000	3,458,097	9,508,097	1.31
2011	30,629,506	15,455,027	15,174,479	6,310,000	3,191,857	9,501,857	1.60	6,310,000	3,191,857	9,501,857	1.60
2012	35,984,891	15,636,494	20,348,397	5,380,000	2,953,765	8,333,765	2.44	5,380,000	2,955,202	8,335,202	2.44
2013	33,432,631	16,113,390	17,319,241	1,850,000	2,253,368	4,103,368	4.22	1,850,000	2,345,562	4,195,562	4.13
2014	34,933,647	16,308,059	18,625,588	3,685,000	1,754,556	5,439,556	3.42	3,923,000	2,044,417	5,967,417	3.12
2015	33,638,554	16,955,058	16,683,496	3,710,000	1,707,831	5,417,831	3.08	4,290,300	2,116,262	6,406,562	2.60
2016	37,985,431	16,969,116	21,016,315	3,740,000	1,647,281	5,387,281	3.90	4,344,979	2,123,746	6,468,725	3.25

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

Schedule 3

Operating Expenses

Years ended August 31, 2016 and 2015

	2016	2015
Lincoln Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 31,923	\$ 34,741
Control System Maintenance	1,781	45
Electrical maintenance	7,485	-
Wellfield maintenance	4,847	17,171
Wellfield operations	1,621	1,717
Depreciation of general plant	451	903
Total source of supply	\$ 48,108	\$ 54,577
Power and pumping expenses:		
Supervision, management and administrative support	\$ 122,295	\$ 120,779
Training and education	17,750	22,776
Data management	2,374	4,677
General operations	171,150	177,783
Structures maintenance	60,389	29,406
Control system maintenance	51,420	54,421
Electrical maintenance	192,722	172,727
Grounds maintenance	226,840	296,189
Main repair/maintenance	743	26,209
Customer services	76,363	72,480
Pumping and transmission maintenance	246,260	231,613
Pumping and transmission operations	1,680,914	1,628,349
Security maintenance	1,678	1,391
Depreciation of pumping equipment	403,876	403,876
Depreciation of general plant and improvements	37,999	20,440
Depreciation of structures and improvement	939,242	923,608
Total power and pumping	\$ 4,232,015	\$ 4,186,724
Total - Lincoln Water Plant	\$ 4,280,123	\$ 4,241,301
Ashland Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 167,907	\$ 158,330
Training and education	2,557	360
Control system maintenance	28,204	47,616
Electrical maintenance	29,166	32,878
Grounds maintenance	136,194	137,439
Main repair/maintenance	4,576	10,090
Laboratory operations	29,012	22,525
Security maintenance	2,214	1,531
Wellfield maintenance	319,090	254,522
Wellfield operations	986,811	1,109,658
Depreciation of transmission mains	260,420	260,420
Depreciation of other production equipment	29,299	6,211
Depreciation of Pumping Equipment	6,354	6,354
Depreciation of wells and houses	830,262	830,124
Total source of supply	\$ 2,832,066	\$ 2,878,058

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

Schedule 3, Cont.

Operating Expenses

Years ended August 31, 2016 and 2015

	2016	2015
Power and pumping expenses:		
Supervision, management and administrative support	\$ 111,824	\$ 117,601
General operations	5,218	1,724
Control system maintenance	16,647	20,309
Electrical maintenance	38,323	27,441
Grounds maintenance	-	7,047
Main repair/maintenance	-	34,767
Pumping and transmission maintenance	80,714	121,282
Pumping and transmission operations	880,246	866,700
Depreciation of pumping equipment	502,926	502,954
Depreciation of structures and improvement	159,218	159,218
Depreciation of transmission mains	533,748	533,748
Depreciation of other production equipment	44,814	54,201
Total power and pumping	\$ 2,373,678	\$ 2,446,992
Purification expense:		
Supervision, management and administrative support	\$ 418,116	\$ 357,925
Training and education	231,016	224,469
General operations	188,644	177,399
Treatment and process control	133,335	114,729
Structures maintenance	22,020	29,267
Process equipment maintenance	25,058	23,767
Control system maintenance	160,613	183,404
Electrical maintenance	52,404	29,584
Grounds maintenance	367,495	519,240
Laboratory operations	387,552	408,954
Treatment operations	752,036	603,116
Security maintenance	6,325	3,211
Depreciation of structures and improvements	276,443	271,904
Depreciation of transmission mains	20,088	20,088
Depreciation of purification equipment	1,033,083	970,143
Depreciation of general plant & equipment	13,403	12,185
Total purification expenses	\$ 4,087,631	\$ 3,949,385
Total Ashland Water Plant	\$ 9,293,375	\$ 9,274,435
Total supply, pumping and purification	\$13,573,498	\$13,515,736

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

Schedule 3, Cont.

Operating Expenses

Years ended August 31, 2016 and 2015

	2016	2015
Transmission and distribution expenses:		
Supervision and management	\$ 831,912	\$ 837,549
Administrative and support staff	475,900	538,701
Training and education	58,341	42,470
Data management	633,467	591,901
General operations	628,448	557,550
Main repair/maintenance	2,049,506	1,978,206
Contractor services	306,149	288,731
Customer services	1,675,951	1,685,960
Depreciation of structures and improvements	1,033	1,033
Depreciation of transmission mains	406,935	406,528
Depreciation of distribution mains	2,605,892	2,486,064
Depreciation of hydrants and fountains	69,942	69,942
Depreciation of general plant and equipment	52,653	56,608
Total transmission and distribution	\$ 9,796,129	\$ 9,541,243
Accounting and collecting expenses:		
Supervision and management	\$ 216,979	\$ 250,239
Administrative and support staff	11,242	18,841
Meter reading	134,918	128,171
Billing and accounting	259,886	284,295
Collections	120,138	105,110
Customer services and billing	100,216	108,538
Customer contracts and orders	37,503	35,614
Depreciation of general plant and equipment	1,913	7,650
Total accounting and collecting	\$ 882,795	\$ 938,458
Administrative and general expenses:		
Supervision and management	\$ 1,076,825	\$ 1,117,072
Administrative and support staff	131,171	123,643
Depreciation of general plant and equipment	197,446	215,697
Total administrative and general	\$ 1,405,442	\$ 1,456,412

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

Schedule 4

Utility Plant in Service

August 31, 2016 and 2015

Asset Class	Capital Assets			Accumulated Depreciation			Net Capital Assets		
	August 31, 2015	Increases	Decreases	August 31, 2016	August 31, 2015	Increases	Decreases	August 31, 2016	
Lincoln Water Plant:									
Airport	\$ 42,172	\$ -	\$ -	\$ 42,172	\$ (28,278)	\$ (422)	\$ -	\$ (28,700)	\$ 13,472
Structures and improvements	15,686,727	243,308	-	15,930,035	(8,458,692)	(368,973)	-	(8,827,665)	7,102,370
Reservoirs	26,882,653	295,483	-	27,178,136	(10,874,950)	(557,843)	-	(11,432,793)	15,745,343
Other power and production equipment	37,856	-	-	37,856	(12,304)	(1,893)	-	(14,197)	23,659
Electric pumping equipment	15,239,337	-	-	15,239,337	(5,222,432)	(356,858)	-	(5,579,290)	9,660,047
Purification system	-	-	-	-	1,072	-	-	1,072	1,072
Transmission mains	33,680,814	29,200	-	33,710,014	(8,986,798)	(408,506)	-	(9,395,304)	24,314,710
Distribution mains and accessories	158,463,113	7,920,195	-	166,383,308	(32,145,227)	(1,998,018)	-	(34,143,245)	132,240,063
Hydrants	4,844,227	-	-	4,844,227	(3,764,207)	(69,942)	-	(3,834,149)	1,010,078
Office furniture and equipment	2,224,218	95,816	-	2,320,034	(1,728,797)	(277,080)	-	(2,005,877)	314,157
Shop equipment	181,432	-	-	181,432	(174,313)	(3,536)	-	(177,849)	3,583
Laboratory equipment	7,959	-	-	7,959	(6,058)	(796)	-	(6,854)	1,105
Tools and work equipment	225,876	6,514	-	232,390	(205,895)	(7,137)	-	(213,032)	19,358
Communications system	1,188,760	-	-	1,188,760	(649,402)	(58,585)	-	(707,987)	480,773
Meters	14,159,158	535,674	-	14,694,832	(9,087,829)	(607,793)	-	(9,695,622)	4,999,210
Lincoln depreciable assets	272,864,302	9,126,190	-	281,990,492	(81,344,110)	(4,717,382)	-	(86,061,492)	195,929,000
Land and land rights	1,548,510	53,340	-	1,601,850	-	-	-	-	1,601,850
Lincoln nondepreciable assets	1,548,510	53,340	-	1,601,850	-	-	-	-	1,601,850
Total Lincoln plant	274,412,812	9,179,530	-	283,592,342	(81,344,110)	(4,717,382)	-	(86,061,492)	197,530,850
Ashland Water Plant:									
Structures and improvements	64,280,833	507,786	-	64,788,619	(20,792,838)	(1,254,948)	-	(22,047,786)	42,740,833
Reservoirs	12,283,617	-	-	12,283,617	(3,291,163)	(177,261)	-	(3,468,424)	8,815,193
Transmission mains	48,989,402	-	-	48,989,402	(10,716,488)	(814,256)	-	(11,530,744)	37,458,658
Office furniture and equipment	98,928	-	-	98,928	(79,288)	(1,020)	-	(80,308)	18,620
Shop equipment	17,951	-	-	17,951	(17,951)	-	-	(17,951)	-
Laboratory equipment	450,229	-	-	450,229	(375,762)	(13,094)	-	(388,856)	61,373
Other power and production equipment	2,420,876	50,156	-	2,471,032	(1,764,705)	(48,489)	-	(1,813,194)	657,838
Electric pumping equipment	8,465,653	-	-	8,465,653	(5,704,760)	(262,974)	-	(5,967,734)	2,497,919
Purification system	31,372,466	3,070,868	-	34,443,334	(12,618,340)	(1,038,300)	-	(13,656,640)	20,786,694
Communications Systems	1,970,904	-	-	1,970,904	(506,363)	(99,291)	-	(605,654)	1,365,250
Tools and work equipment	100,212	5,100	-	105,312	(100,188)	(425)	-	(100,613)	4,699
Ashland depreciable assets	170,451,071	3,633,910	-	174,084,981	(55,967,846)	(3,710,058)	-	(59,677,904)	114,407,077
Land and land rights	3,843,166	-	-	3,843,166	-	-	-	-	3,843,166
Ashland nondepreciable assets	3,843,166	-	-	3,843,166	-	-	-	-	3,843,166
Total Ashland plant	174,294,237	3,633,910	-	177,928,147	(55,967,846)	(3,710,058)	-	(59,677,904)	118,250,243
Vehicles and work equipment (all locations)	3,541,460	213,054	-	3,754,514	(2,257,367)	(261,308)	-	(2,518,675)	1,235,839
Utility plant in service	\$ 452,248,509	\$ 13,026,494	\$ -	\$ 465,275,003	\$ (139,569,323)	\$ (8,688,748)	\$ -	\$ (148,258,071)	\$ 317,016,932
Construction in progress	6,194,349	10,812,257	(9,842,837)	7,163,769	-	-	-	-	7,163,769
Total capital assets	\$ 458,442,858	\$ 23,838,751	\$ (9,842,837)	\$ 472,438,772	\$ (139,569,323)	\$ (8,688,748)	\$ -	\$ (148,258,071)	\$ 324,180,701

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

Schedule 5

GENERAL STATISTICS

Year Ended August 31, 2016

(Unaudited)

Altitude of Lincoln, Nebraska.....	1,167 Feet
Area of Lincoln, Nebraska	94.90 Square Miles
Population.....	277,348 Estimate
Source of Water Supply.....	Wells
Location of Supply - Platte River, Ashland, Nebraska	
Maximum Well Capacity – Ashland	130 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, 2016	33.22
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 Wellfield to Lincoln	73 Miles
Total Miles of Distribution Mains in Use:	
Miles in use September 1, 2015	1,211.0
Estimated Added During Year	6.5
Estimated Removed During Year	1.3
Total as of August 31, 2016	1,216.2 Miles
Amount of Water Pumped During Year Ended August 31, 2016.....	12,723,071,000 gallons
Average Daily Consumption of Water	34,857,700 gallons
Average Daily Consumption Per Capita.....	126 gallons
Total Number of Active Residential Water Customers	
End of Fiscal Year.....	77,982
Total Number of Active Non-Residential Water Customers	
End of Fiscal Year.....	4,871
Total Debt of Lincoln Water System at August 31, 2016	\$55,479,550

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

TOP TEN CUSTOMERS

Year Ended August 31, 2016

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	517,391	\$1,090,338
2. State of Nebraska	296,140	614,439
3. City of Lincoln	293,220	663,256
4. Archer-Daniels Midland Company	278,865	360,746
5. University of Nebraska Foundation	156,547	203,621
6. Lincoln Public Schools	146,449	348,050
7. Bryan Health	132,065	284,377
8. Zoetis	126,214	170,353
9. Veyance Technologies, Inc.	124,903	251,819
10. Lincoln Industries	113,878	223,978
Top Ten Users Totals	2,185,672	\$4,210,977

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

Schedule 7

COMPARATIVE PUMPING REPORT

For Fiscal Years as Shown by Gallons
(Unaudited)

MONTH	August 31, 2016	August 31, 2015	August 31, 2014	August 31, 2013	August 31, 2012
September	1,155,406,000	1,070,452,000	1,449,500,000	1,463,360,000	1,201,460,000
October	1,125,392,000	940,973,000	1,024,210,000	1,134,460,000	1,121,690,000
November	844,195,000	795,572,000	769,860,000	856,170,000	726,830,000
December	800,997,000	799,134,000	787,860,000	818,550,000	749,020,000
January	810,486,000	786,647,000	798,960,000	821,820,000	785,840,000
February	753,974,000	729,911,000	744,020,000	741,180,000	750,120,000
March	822,242,000	833,814,000	817,383,000	813,070,000	838,390,000
April	922,688,000	852,106,000	871,885,000	812,550,000	990,690,000
May	921,848,000	875,008,000	1,087,779,000	991,120,000	1,280,050,000
June	1,597,790,000	1,018,410,000	1,089,234,000	1,157,410,000	1,622,550,000
July	1,583,224,000	1,497,202,000	1,694,026,000	1,860,820,000	2,200,750,000
August	1,384,829,000	1,395,539,000	1,511,387,000	1,623,000,000	1,764,930,000
Total	12,723,071,000	11,594,768,000	12,646,104,000	13,093,510,000	14,032,320,000

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

Schedule 8

Annual Rainfall (by month)

Last ten fiscal years

(Unaudited)

	30 Yr Avg	125 Yr Avg	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
September	3.02	2.99	4.93	6.89	1.99	1.73	1.33	3.73	1.25	4.10	3.10	3.93
October	1.97	1.88	0.50	2.46	2.83	1.92	0.93	0.13	4.24	4.79	4.50	0.90
November	1.43	1.24	1.98	0.47	1.22	0.15	1.66	1.97	0.06	1.22	0.05	0.09
December	0.95	0.82	4.42	1.22	0.22	1.50	1.58	0.24	2.42	0.80	2.09	3.05
January	0.64	0.67	0.83	0.91	0.24	0.73	0.16	1.07	0.82	0.38	0.44	0.64
February	0.77	0.94	0.76	0.93	0.62	0.54	2.10	0.79	0.99	0.64	0.55	1.31
March	1.93	1.58	0.93	0.77	0.13	2.12	0.89	0.66	1.77	0.18	1.13	2.79
April	2.71	2.57	4.37	1.99	3.50	4.02	3.49	3.27	2.53	1.52	3.80	3.44
May	4.29	3.81	5.42	10.90	5.26	8.44	3.00	6.00	3.70	1.17	4.12	8.13
June	4.34	4.16	0.58	7.66	5.90	2.49	3.57	3.44	9.90	6.18	8.59	2.28
July	3.40	3.41	4.67	2.39	0.51	1.00	0.33	1.55	5.83	1.84	3.58	1.22
August	3.48	3.47	3.83	3.78	7.54	1.11	0.30	6.89	2.81	3.20	1.78	5.80
Total	28.93	27.54	33.22	40.37	29.96	25.75	19.34	29.74	36.32	26.02	33.73	33.58

LINCOLN WATER SYSTEM
An Enterprise Fund of the City of Lincoln, Nebraska

WATER ANALYSIS

(All Results in Parts Per Million)
(Collected August 10, 2016)
(Unaudited)

550 W. Cornhusker Hwy.

Hydrogen Ion Concentration (pH)	7.54
Total Dissolved Solids.....	411 ppm.
Total Iron (Fe).....	<0.050 ppm.
Manganese (Mn).....	1.78 ppb.
Calcium (as Ca)	63.6 ppm.
Total Alkalinity (CaCO ₃).....	182 ppm.
Chloride (Cl).....	24.3 ppm.
Fluoride (F)	0.92 ppm.
Nitrate (+Nitrite)	1.58 ppm.
Sodium (Na).....	36.6 ppm.
Hardness as (CaCO ₂)	
Total Hardness	248 ppm.

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

Lincoln Water System
An Enterprise Fund of the City of Lincoln, Nebraska

Summary of Insurance Coverage

August 31, 2016

(Unaudited)

Type of policy	Insurance coverage	Policy limits	Self-insured retention deductible	Department self-insurance deductible	Insurance carrier	Policy number
Automobile Fleet Liability	Self-Insured Excess Coverage	0 - 250,000	250,000		States	SEL3017308
	Excess Coverage	250,000 - 1,000,000				
		1,000,000 - 6,000,000				
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	FN215
Money and Securities	Inside/outside premises	3,000,000	25,000	10,000	Hartford Fire	83FA029203115
Water Distribution	Water distribution center	25,000,000	50,000	10,000	FM Global	FN215
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FN215
Equipment Floater (911)	Radio tower floater	Replacement cost	50,000	2,500	FM Global	FN215
Equipment Floater (NON-LIC)	Nonlicensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FN215
General Liability ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017308
Public Employee Blanket Bond	Employees blanket bond coverage	3,000,000	25,000	10,000	Hartford Fire	83FA029203115
Public Officials Liability***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017308
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
An Enterprise Fund of the City of Lincoln, Nebraska

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. Also covers credit/debit card forgery or alteration. 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.