

# LINCOLN WATER SYSTEM



**Financial Statements  
& Schedules  
Fiscal Year Ended  
August 31, 2014**

# **ANNUAL FINANCIAL REPORT**

## **DEPARTMENT OF PUBLIC WORKS/UTILITIES**

### **CITY OFFICIALS**

Chris Beutler ..... Mayor

### **COUNCIL MEMBERS**

Doug Emery ..... Chair

Trent Fellers ..... Vice-Chair

Jon Camp  
Roy Christensen  
Jonathan Cook  
Carl Eskridge  
Leirion Gaylor Baird

### **WATER SYSTEM**

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

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

**Lincoln Water System**  
**August 31, 2014 and 2013**

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying basic financial statements of Lincoln Water System, which are comprised of balance sheets as of August 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the 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 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 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 entity'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 entity'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 Lincoln Water System as of August 31, 2014 and 2013, and the changes in its financial position and its cash flows 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 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, 2014 and 2013, 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.

### ***Other Matters***

#### ***Required Supplementary Information***

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.

#### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the 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 audits 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 as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014, 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* in considering Lincoln Water System's internal control over financial reporting and compliance.

**BKD, LLP**

Lincoln, Nebraska  
December 8, 2014

## **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, 2014 and 2013. 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 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 Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position***

The Balance Sheet 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 Balance Sheet. The System's net position increased by \$9,607,567 in 2014 over 2013 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, 2014, 2013, and 2012.

**Table 1**

### Condensed Balance Sheets

	August 31		Change	
	2014	2013	Dollars	Percent
Current assets	\$ 23,225,019	\$ 26,162,545	(\$ 2,937,526)	(11.23%)
Capital assets	314,866,338	302,925,239	11,941,099	3.94%
Noncurrent assets	16,957,527	17,619,038	(661,511)	(3.75%)
Deferred outflows of resources	781,716	852,436	(70,720)	(8.30%)
<b>Total assets and deferred outflows of resources</b>	<b>355,830,600</b>	<b>347,559,258</b>	<b>8,271,342</b>	<b>2.38%</b>
Current liabilities	8,881,999	9,873,880	(991,881)	(10.05%)
Long-term liabilities	63,038,636	63,382,980	(344,344)	(0.54%)
<b>Total liabilities</b>	<b>71,920,635</b>	<b>73,256,860</b>	<b>(1,336,225)</b>	<b>(1.82%)</b>
Net position				
Net investment in capital assets	251,668,822	238,693,102	12,975,720	5.44%
Restricted for debt service	267,083	153,543	113,540	73.95%
Restricted for capital acquisition	1,812,654	195,924	1,616,730	825.18%
Unrestricted	30,161,406	35,259,829	(5,098,423)	(14.46%)
<b>Total net position</b>	<b>283,909,965</b>	<b>274,302,398</b>	<b>9,607,567</b>	<b>3.50%</b>
<b>Total liabilities and net position</b>	<b>\$355,830,600</b>	<b>\$347,559,258</b>	<b>\$ 8,271,342</b>	<b>2.38%</b>

### Financial Highlights – Fiscal Year 2014

- Current assets decreased in 2014 primarily due to a decrease in accounts receivable from the Nebraska Department of Environmental Quality (NDEQ), which was partially offset by an increase in a receivable from the impact fee fund.
- Capital assets increased due to the completion of various selected main replacement projects which were funded with loan proceeds from Nebraska Department of Environmental Quality (NDEQ). In addition a horizontal collector well project was completed during the year.
- Current liabilities decreased due to the completion of several construction projects.

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

	August 31		Change	
	2013	2012	Dollars	Percent
Current assets	\$ 26,162,545	\$ 20,220,886	\$ 5,941,659	29.38%
Capital assets	302,925,239	296,794,471	6,130,768	2.07%
Noncurrent assets	17,619,038	14,943,168	2,675,870	17.91%
Deferred outflows of resources	852,436	–	852,436	100.00%
<b>Total assets and deferred outflows of resources</b>	<b>347,559,258</b>	<b>331,958,525</b>	<b>15,600,733</b>	<b>4.70%</b>
Current liabilities	9,873,880	7,528,808	2,345,072	31.15%
Long-term liabilities	63,382,980	59,662,325	3,720,655	6.24%
Deferred inflows of resources	–	22,348	(22,348)	(100.00%)
<b>Total liabilities and deferred inflows of resources</b>	<b>73,256,860</b>	<b>67,213,481</b>	<b>6,043,379</b>	<b>8.99%</b>
Net position				
Net investment in capital assets	238,693,102	238,567,894	125,208	0.05%
Restricted for debt service	153,543	149,097	4,445	2.98%
Restricted for capital acquisition	195,924	299,582	(103,658)	(34.60%)
Unrestricted	35,259,829	25,728,471	9,531,359	37.05%
<b>Total net position</b>	<b>274,302,398</b>	<b>264,745,044</b>	<b>9,557,354</b>	<b>3.61%</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$347,559,258</b>	<b>\$331,958,525</b>	<b>\$15,600,733</b>	<b>4.70%</b>

**Financial Highlights – Fiscal Year 2013**

- Current assets increased in 2013 primarily due to increased cash and investments and as a result of a receivable due from the Nebraska Department of Environmental Quality (NDEQ).
- Capital assets increased due to the completion of several construction projects funded by the Nebraska Department of Environmental Quality (NDEQ). (See Note 5)
- Noncurrent assets increased in 2013 primarily due to increased cash and investments.
- Deferred outflows of resources consists of the deferred loss on refunded debt. The Lincoln Water System refunded \$31,210,000 of Water Revenue Bonds, Series 2004 resulting in a deferred loss. (See Note 5)
- Current liabilities increased due to an increase in construction projects and timing of when invoices are paid and received.
- Long-term liabilities increased due to the increase in the loan balance with the Nebraska Department of Environmental Quality (NDEQ).

**Table 3**

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

	August 31		Change	
	2014	2013	Dollars	Percent
Operating revenues				
Water revenue	\$31,647,555	\$31,051,639	\$ 595,916	1.92%
Other revenue	975,479	930,094	45,385	4.88%
Total operating revenues	<u>32,623,034</u>	<u>31,981,733</u>	<u>641,301</u>	<u>2.01%</u>
Operating expenses				
Supply, pumping and purification	12,968,893	12,876,786	92,107	0.72%
Transmission and distribution	9,300,631	8,814,582	486,049	5.51%
Accounting and collecting	841,144	850,068	(8,924)	(1.05%)
Administrative and general	1,254,328	1,021,684	232,644	22.77%
Total operating expenses	<u>24,364,996</u>	<u>23,563,120</u>	<u>801,876</u>	<u>3.40%</u>
Operating income	8,258,038	8,418,613	(160,575)	(1.91%)
Net nonoperating expenses	(895,536)	(1,595,616)	700,080	(43.88%)
Capital contributions	2,412,052	3,539,430	(1,127,378)	(31.85%)
Transfers out	(166,987)	(805,073)	638,086	(79.26%)
Change in net position	<u>\$ 9,607,567</u>	<u>\$ 9,557,354</u>	<u>\$ 50,213</u>	<u>0.53%</u>

**Financial Highlights – Fiscal Year 2014**

- Water revenue from consumption decreased by 3.8% due to more precipitation in 2014, especially in the summer months as compared to 2013. Pumpage was also down by 3.4%. Revenue from service charges increased by approximately 27% because the 5% revenue increase approved by City Council was applied only to the service charge, effective November 2013. (See Note 1)
- Total operating expenses increased primarily due to higher personnel costs and increased depreciation expense.
- Capital contributions decreased in 2014 because of decreased development activity.

**Table 4**

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

	August 31		Change	
	2013	2012	Dollars	Percent
Operating revenues				
Water revenue	\$31,051,639	\$33,527,885	(\$2,476,246)	(7.39%)
Other revenue	930,094	622,407	307,687	49.44%
Total operating revenues	<u>31,981,733</u>	<u>34,150,292</u>	<u>(2,168,559)</u>	<u>(6.35%)</u>
Operating expenses				
Supply, pumping and purification	12,876,786	12,923,017	(46,231)	(0.36%)
Transmission and distribution	8,814,582	8,206,260	608,322	7.41%
Accounting and collecting	850,068	978,437	(128,369)	(13.12%)
Administrative and general	1,021,684	1,057,752	(36,068)	(3.41%)
Total operating expenses	<u>23,563,120</u>	<u>23,165,466</u>	<u>397,654</u>	<u>1.72%</u>
Operating income	8,418,613	10,984,826	(2,566,213)	(23.36%)
Net nonoperating expenses	(1,595,616)	(2,212,360)	616,744	(27.88%)
Capital contributions	3,539,430	1,791,452	1,747,978	97.57%
Transfers in (out)	(805,073)	20,605	(825,678)	(4007.17%)
Change in net position	<u>\$ 9,557,354</u>	<u>\$10,584,523</u>	<u>(\$1,027,169)</u>	<u>(9.70%)</u>

**Financial Highlights – Fiscal Year 2013**

- Total operating revenues decreased due to lower demand for water. Pumpage decreased by 6.7% in 2013.
- Total operating expenses increased primarily due to higher personnel costs and a slight increase in other operating costs.
- Capital contributions increased in 2013 because of increased development activity during the year.

### ***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 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. Loan funds are drawn from NDEQ as the related project costs are incurred and paid for by the Water System.

### ***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***

Lincoln Water System has commitments under major construction contracts in progress of approximately \$3,400,000 at August 31, 2014.

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

The approved Capital Improvement Program for Fiscal Year 2014/15 -2019/20 identifies the need for \$101,700,200 to fund capital improvements for the Water System. Approximately \$19,000,000 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 2014, the Lincoln City Council approved the budget allowing for revenue increases for the next two years, which will be attained through increases in the various service charges. (See Note 1)

### ***Contact Information***

This financial report is intended to provide users with a general overview of the System's financial performance for 2014 and 2013. If you have questions about this report or need additional financial information, please contact the Business Office of the Public Works & Utilities Department at 555 South 10<sup>th</sup> Street, Lincoln, NE 68508.

**LINCOLN WATER SYSTEM**

**Balance Sheets**

**August 31, 2014 and 2013**

<b>Assets and Deferred Outflows of Resources</b>	<b>2014</b>	<b>2013</b>
Current assets:		
Equity in pooled cash and investments	\$ 12,250,648	12,478,713
Receivables:		
Accounts receivable	3,334,203	3,327,419
Unbilled revenues	4,249,096	4,610,645
Due from other governments	567,771	3,618,166
Due from other funds	70,167	195,924
Impact fees	1,812,654	867,183
Total receivables	10,033,891	12,619,337
Inventories	940,480	1,064,495
Total current assets	23,225,019	26,162,545
Noncurrent assets:		
Equity in pooled cash and investments	9,229,200	10,386,865
Restricted assets:		
Equity in pooled cash and investments	604,114	268,490
Investments	6,573,371	6,364,074
Total restricted assets	7,177,485	6,632,564
Utility plant	446,026,956	426,959,823
Less accumulated depreciation	131,160,618	124,034,584
Net utility plant	314,866,338	302,925,239
Costs recoverable from future billings	550,842	599,609
Total noncurrent assets	331,823,865	320,544,277
Total assets	355,048,884	346,706,822
Deferred outflows of resources:		
Deferred loss on refunding	781,716	852,436
Total assets and deferred outflows of resources	\$ 355,830,600	347,559,258
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable	\$ 460,882	761,691
Accrued liabilities	811,825	842,757
Deposits liability	110,449	107,150
Accrued compensated absences	482,790	465,257
Construction contracts	2,557,812	3,899,892
Current maturities of long-term debt	4,310,000	3,685,000
Accrued interest	148,241	112,133
Total current liabilities	8,881,999	9,873,880
Long-term liabilities:		
Accrued liabilities	356,209	321,582
Accrued compensated absences	493,407	485,117
Construction contracts	84,336	168,713
Long-term debt, excluding current maturities	62,104,684	62,407,568
Total long-term liabilities	63,038,636	63,382,980
Total liabilities	71,920,635	73,256,860
Net position:		
Net investment in capital assets	251,668,822	238,693,102
Restricted for debt service	267,083	153,543
Restricted for capital acquisition	1,812,654	195,924
Unrestricted	30,161,406	35,259,829
Total net position	283,909,965	274,302,398
Total liabilities and net position	\$ 355,830,600	347,559,258

See accompanying notes to financial statements.

## LINCOLN WATER SYSTEM

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

Years ended August 31, 2014 and 2013

	2014	2013
Operating revenues:		
Water sales	\$ 31,647,555	31,051,639
Service and materials, net	975,479	930,094
Total operating revenues	32,623,034	31,981,733
Operating expenses:		
Supply, pumping and purification	12,968,893	12,876,786
Transmission and distribution	9,300,631	8,814,582
Accounting and collecting	841,144	850,068
Administrative and general	1,254,328	1,021,684
Total operating expenses	24,364,996	23,563,120
Operating income	8,258,038	8,418,613
Nonoperating revenues (expenses):		
Investment income (loss)	681,211	(468,499)
Interest expense	(1,527,980)	(1,893,857)
Net costs recoverable	(48,767)	(42,444)
Settlement proceeds	-	809,184
Net nonoperating expenses	(895,536)	(1,595,616)
Increase in net position before capital contributions	7,362,502	6,822,997
Capital contributions from:		
Developer contributions	782,650	1,620,034
Impact fees	1,051,865	1,383,528
Tap fees	577,537	535,868
Total capital contributions	2,412,052	3,539,430
Transfers Out	(166,987)	(805,073)
Increase in net position	9,607,567	9,557,354
Total net position - beginning	274,302,398	264,745,044
Total net position - ending	\$ 283,909,965	274,302,398

See accompanying notes to financial statements.

**LINCOLN WATER SYSTEM**

**Statements of Cash Flows**

**Years ended August 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
Operating activities:		
Receipts from customers and users	\$ 32,035,627	32,450,665
Payments to suppliers	(7,831,929)	(7,782,378)
Payments to employees	(8,623,406)	(8,378,508)
Net cash provided by operating activities	15,580,292	16,289,779
Noncapital financing activities:		
Settlement proceeds	-	809,184
Transfer to other funds	(166,987)	(750,000)
Repayment from other funds, net	125,757	103,658
Net cash provided by (used in) noncapital financing activities	(41,230)	162,842
Capital and related financing activities:		
Acquisition and construction of capital assets	(18,717,593)	(7,728,257)
Principal paid on revenue bonds and long term obligations	(3,923,000)	(1,850,000)
Proceeds from NDEQ loan	7,623,929	4,693,992
System funds used for bond refunding	-	(1,866,014)
Interest paid on revenue bonds and long term obligations	(2,044,418)	(2,345,563)
Net cash used in capital and related financing activities	(17,061,082)	(9,095,842)
Investing activities:		
Purchases of investments	(17,333,170)	(27,415,533)
Proceeds from sales and investment maturities	17,627,345	21,329,159
Interest on investments	322,792	284,650
Net cash provided by (used in) investing activities	616,967	(5,801,724)
Net increase (decrease) in cash and cash equivalents	(905,053)	1,555,055
Cash and cash equivalents at beginning of year	2,523,701	968,646
Cash and cash equivalents at end of year	\$ 1,618,648	2,523,701
Composition of equity in pooled cash and investments (current)		
Cash and cash equivalents	\$ 1,618,648	2,523,701
Investments	10,632,000	9,955,012
Total equity in pooled cash and investments (current)	\$ 12,250,648	12,478,713
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 8,258,038	8,418,613
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,056,937	7,449,730
Changes in operating assets and liabilities:		
Accounts receivable	(590,706)	466,631
Inventories	124,015	(121,844)
Accounts payable	(300,809)	(54,662)
Accrued liabilities and deposit liability	6,994	(19,526)
Accrued compensated absences	25,823	150,837
Total adjustments	7,322,254	7,871,166
Net cash provided by operating activities	\$ 15,580,292	16,289,779

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$782,650 and \$1,620,034 were added to utility plant in 2014 and 2013, respectively.

Accounts payable incurred for utility plant purchases were \$2,642,148 and \$4,068,605, in 2014 and 2013, respectively.

See accompanying notes to financial statements.

# LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

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

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

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

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

The financial statements of the Lincoln Water System are prepared on the accrual basis of accounting using the economic resources measurement focus. Lincoln Water System follows the uniform system of accounts as prescribed by the National Association of Regulatory Utility Commissioners. In reporting financial activity, Lincoln Water System applies all applicable Government Accounting Standards Board (GASB) pronouncements 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 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, 2014 and 2013, 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 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.

### ***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, 2014 or 2013.

(Continued)

# LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

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

### *Utility Plant (Capital Assets)*

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

Depreciation expense is calculated on the straight-line method over the estimated useful lives of the assets. 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, 2014 and 2013

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

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

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

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

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

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

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

U.S. Treasury and Agency obligations are carried at fair value as determined based on quoted market prices.

### ***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, 2014 and 2013

### (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 in effect for the years ended August 31, 2014 and 2013:

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	<u>August 31, 2014</u>	<u>August 31, 2013</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	\$ 3.80	\$ 3.60
5/8 x 3/4 inch	5.75	4.55
3/4 inch	5.75	4.55
1 inch	9.60	7.60
1 1/2 inch	19.15	15.15
2 inch	30.65	24.25
3 inch	57.50	45.50
4 inch	95.85	75.85
6 inch	191.65	151.65
8 inch	306.65	242.65
10 inch	440.85	348.85

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In August 2014, the Lincoln City Council approved rate increases for the next two years. The first rate increase of 3% is effective in November 2014 and the second increase of 3% is effective in November 2015.

(Continued)

# LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

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

### ***Costs Recoverable from Future Billings***

Certain income and expense items which would be recognized during the current period are deferred and 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.

### ***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 bonds, mortgages, notes, or other borrowings 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, deferred outflows of resources, 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.

(Continued)

# LINCOLN WATER SYSTEM

Notes to Financial Statements

August 31, 2014 and 2013

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

### ***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, 2014 and 2013 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, 2014	\$950,374	491,080	465,257	976,197	482,790
August 31, 2013	\$799,537	578,949	428,112	950,374	465,257

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

The Water System recorded a liability for the annual required contribution (ARC) of approximately \$356,000 and \$322,000 as of August 31, 2014 and 2013, 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 balance sheet amounts and the disclosure of contingent items to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2014 and 2013

### (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.

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. 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.

At August 31, 2014 and 2013, the Lincoln Water System had the following investments and maturities:

Type	August 31, 2014				
	Carrying Value	Less than 1	1-5	6-10	More than 10
U.S. Government Sponsored Agency	<u>\$6,573,371</u>	<u>-</u>	<u>1,130,096</u>	<u>1,695,602</u>	<u>3,747,673</u>

Type	August 31, 2013				
	Carrying Value	Less than 1	1-5	6-10	More than 10
U.S. Government Sponsored Agency	<u>\$6,364,074</u>	<u>-</u>	<u>-</u>	<u>2,758,116</u>	<u>3,605,958</u>

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2014 and 2013

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

#### Interest Rate Risk:

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits current operating funds to be invested with maturities of no longer than twenty-four months. Fixed income investments in construction funds, operating funds, and other non-operating funds are limited to ten year maturities.

#### 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, 2014 and 2013, the Lincoln Water 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>2014</u>	<u>2013</u>
U.S. Government Agency Obligations		
Federal Farm Credit Bank	19.0%	17.8%

The carrying amount of equity interests in pooled cash and investments at August 31, 2014 and 2013 are:

	<u>2014</u>	<u>2013</u>
Equity in pooled cash and investments	<u>\$22,083,962</u>	<u>23,134,068</u>

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

Investment income (loss) for the years ended August 31, 2014 and 2013 consisted of:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$319,696	293,981
Net change in fair value of investments	<u>361,515</u>	<u>(762,480)</u>
	<u>\$681,211</u>	<u>(468,499)</u>

(Continued)

**LINCOLN WATER SYSTEM**

Notes to Financial Statements

August 31, 2014 and 2013

**(3) Inventories**

Balances of the major classes of inventory at August 31, 2014 and 2013, are shown below:

	<b>2014</b>	<b>2013</b>
Heavy materials	\$693,246	827,262
Diesel fuel	83,646	87,745
Water meters and parts	124,430	109,200
Chemicals	39,158	40,288
Total inventories	\$940,480	1,064,495

(Continued)

## LINCOLN WATER SYSTEM

### Notes to Financial Statements

August 31, 2014 and 2013

#### (4) Utility Plant

Utility plant is summarized by major classification at August 31, 2014 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2013	Increases	Decreases	August 31, 2014	August 31, 2013	Increases	Decreases	August 31, 2014	August 31, 2014
Airport	\$ 42,172	-	-	42,172	(27,433)	(423)	-	(27,856)	14,316
Structures and improvements	68,002,744	12,521,171	(730,340)	79,793,575	(27,009,184)	(1,344,654)	695,340	(27,658,498)	52,135,077
Reservoirs	39,217,281	2,989	(54,000)	39,166,270	(12,756,049)	(736,709)	49,000	(13,443,758)	25,722,512
Other power and production equipment	2,455,992	-	-	2,455,992	(1,657,100)	(59,903)	-	(1,717,003)	738,989
Electric pumping equipment	23,685,464	24,026	(4,500)	23,704,990	(9,687,154)	(620,178)	-	(10,307,332)	13,397,658
Purification system	28,944,826	-	-	28,944,826	(10,691,050)	(950,479)	-	(11,641,529)	17,303,297
Transmission mains	82,670,216	-	-	82,670,216	(17,258,575)	(1,222,355)	-	(18,480,930)	64,189,286
Distribution mains and accessories	143,516,782	7,585,610	-	151,102,392	(28,483,405)	(1,769,794)	-	(30,253,199)	120,849,193
Hydrants	4,844,227	-	-	4,844,227	(3,624,323)	(69,942)	-	(3,694,265)	1,149,962
Office furniture and equipment	1,719,005	563,646	-	2,282,651	(1,277,051)	(251,437)	-	(1,528,488)	754,163
Shop equipment	199,383	-	-	199,383	(185,192)	(3,536)	-	(188,728)	10,655
Laboratory equipment	405,221	-	-	405,221	(353,310)	(15,792)	-	(369,102)	36,119
Tools and work equipment	326,088	-	-	326,088	(283,485)	(11,860)	-	(295,345)	30,743
Communications system	3,159,664	-	-	3,159,664	(840,013)	(157,876)	-	(997,889)	2,161,775
Meters	13,349,575	404,679	-	13,754,254	(7,898,543)	(589,592)	-	(8,488,135)	5,266,119
Vehicles	3,270,408	342,203	(224,472)	3,388,139	(2,002,717)	(252,407)	186,563	(2,068,561)	1,319,578
<b>Total depreciable assets</b>	<b>415,809,048</b>	<b>21,444,324</b>	<b>(1,013,312)</b>	<b>436,240,060</b>	<b>(124,034,584)</b>	<b>(8,056,937)</b>	<b>930,903</b>	<b>(131,160,618)</b>	<b>305,079,442</b>
Land and land rights	5,451,747	2,025	-	5,453,772	-	-	-	-	5,453,772
Construction in progress	5,699,028	18,678,560	(20,044,464)	4,333,124	-	-	-	-	4,333,124
<b>Total nondepreciable assets</b>	<b>11,150,775</b>	<b>18,680,585</b>	<b>(20,044,464)</b>	<b>9,786,896</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,786,896</b>
<b>Total capital assets</b>	<b>\$ 426,959,823</b>	<b>40,124,909</b>	<b>(21,057,776)</b>	<b>446,026,956</b>	<b>(124,034,584)</b>	<b>(8,056,937)</b>	<b>930,903</b>	<b>(131,160,618)</b>	<b>314,866,338</b>

During 2014, Lincoln Water System incurred \$2,080,526 of interest cost. Interest capitalized into construction in progress during 2014 was \$294,848. 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 1.85% in 2014.

**LINCOLN WATER SYSTEM**

Notes to Financial Statements

August 31, 2014 and 2013

**(4) Utility Plant**

Utility plant is summarized by major classification at August 31, 2013 as follows:

Asset Class	Capital Assets			Accumulated Depreciation			Net Capital Assets		
	August 31, 2012	Increases	Decreases	August 31, 2013	August 31, 2012	Increases	Decreases	August 31, 2013	
Airport	\$ 42,172	-	-	42,172	(27,011)	(422)	-	(27,433)	14,739
Structures and improvements	67,727,299	275,445	-	68,002,744	(25,778,198)	(1,230,986)	-	(27,009,184)	40,993,560
Reservoirs	38,370,053	847,228	-	39,217,281	(12,033,910)	(722,139)	-	(12,756,049)	26,461,232
Other power and production equipment	2,450,440	5,552	-	2,455,992	(1,598,123)	(58,977)	-	(1,657,100)	798,892
Electric pumping equipment	21,375,889	2,309,575	-	23,685,464	(9,144,928)	(542,226)	-	(9,687,154)	13,998,310
Purification system	28,912,064	32,762	-	28,944,826	(9,740,633)	(950,417)	-	(10,691,050)	18,253,776
Transmission mains	82,670,216	-	-	82,670,216	(16,009,354)	(1,249,221)	-	(17,258,575)	65,411,641
Distribution mains and accessories	135,384,116	8,132,666	-	143,516,782	(26,894,547)	(1,588,858)	-	(28,483,405)	115,033,377
Hydrants	4,844,227	-	-	4,844,227	(3,554,381)	(69,942)	-	(3,624,323)	1,219,904
Office furniture and equipment	1,484,779	234,226	-	1,719,005	(1,235,260)	(41,791)	-	(1,277,051)	441,954
Shop equipment	199,383	-	-	199,383	(181,656)	(3,536)	-	(185,192)	14,191
Laboratory equipment	405,221	-	-	405,221	(328,593)	(24,717)	-	(353,310)	51,911
Tools and work equipment	295,615	30,473	-	326,088	(273,566)	(9,919)	-	(283,485)	42,603
Communications system	3,142,334	17,330	-	3,159,664	(682,137)	(157,876)	-	(840,013)	2,319,651
Meters	13,222,612	126,963	-	13,349,575	(7,313,858)	(584,685)	-	(7,898,543)	5,451,032
Vehicles	3,088,744	280,789	(99,125)	3,270,408	(1,874,932)	(214,018)	86,233	(2,002,717)	1,267,691
<b>Total depreciable assets</b>	<b>403,615,164</b>	<b>12,293,009</b>	<b>(99,125)</b>	<b>415,809,048</b>	<b>(116,671,087)</b>	<b>(7,449,730)</b>	<b>86,233</b>	<b>(124,034,584)</b>	<b>291,774,464</b>
Land and land rights	5,449,698	2,049	-	5,451,747	-	-	-	-	5,451,747
Construction in progress	4,400,696	11,585,123	(10,286,791)	5,699,028	-	-	-	-	5,699,028
<b>Total nondepreciable assets</b>	<b>9,850,394</b>	<b>11,587,172</b>	<b>(10,286,791)</b>	<b>11,150,775</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,150,775</b>
<b>Total capital assets</b>	<b>\$ 413,465,558</b>	<b>23,880,181</b>	<b>(10,385,916)</b>	<b>426,959,823</b>	<b>(116,671,087)</b>	<b>(7,449,730)</b>	<b>86,233</b>	<b>(124,034,584)</b>	<b>302,925,239</b>

During 2013, Lincoln Water System incurred \$2,347,697 of interest cost. Interest capitalized into construction in progress during 2013 was \$248,479. 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 1.79% in 2013.

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2014 and 2013

### (5) Long-term Liabilities

Long-term debt of the Lincoln Water System at August 31, 2014 and 2013 is summarized below:

#### 2014

Type of Debt	August 31, 2013	Additions	Reductions	August 31, 2014	Due Within One Year
2.00% - 4.50% Water Revenue Bonds, Series 2009. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2015 through 2034. Redeemable at par on or after August 15, 2019.	\$14,955,000	—	475,000	14,480,000	490,000
1.00% - 4.00% Water Revenue Bonds, Refunding Series 2012. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2015 through 2022.	9,885,000	—	1,025,000	8,860,000	1,040,000
1.00% - 5.00% Water Revenue Bonds, Refunding Series 2013. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2015 through 2025. Redeemable at par on or after August 15, 2023.	28,220,000	—	2,185,000	26,035,000	2,180,000
3.25% Nebraska Department of Environmental Quality (NDEQ) 2011 project loan payable. Principal and interest due semi-annually on June 15 and December 15.	9,439,593	4,573,534	238,000	13,775,127	600,000
Unamortized premium on bonds	3,592,975	—	328,418	3,264,557	—
Total long-term debt	<u>\$66,092,568</u>	<u>4,573,534</u>	<u>4,251,418</u>	<u>66,414,684</u>	<u>4,310,000</u>

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2014 and 2013

### (5) Long-term Liabilities (continued)

2013					
Type of Debt	August 31, 2012	Additions	Reductions	August 31, 2013	Due Within One Year
3.00% - 5.00% Water Revenue Bonds, Series 2004, refunded in 2013.	\$31,210,000	-	31,210,000	-	-
2.00% - 4.50% Water Revenue Bonds, Series 2009. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2014 through 2034. Redeemable at par on or after August 15, 2019.	15,420,000	-	465,000	14,955,000	475,000
1.00% - 4.00% Water Revenue Bonds, Refunding Series 2012. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2014 through 2022.	10,895,000	-	1,010,000	9,885,000	1,025,000
1.00% - 5.00% Water Revenue Bonds, Refunding Series 2013. Interest due semi-annually on February 15 and August 15. Principal payments due annually on August 15, 2014 through 2025. Redeemable at par on or after August 15, 2023.	-	28,595,000	375,000	28,220,000	2,185,000
3.25% Nebraska Department of Environmental Quality (NDEQ) 2011 project loan payable. Interest due semi-annually on June 15 and December 15. Principal due semi-annually on June 15 and December 15 after construction is complete.	2,628,391	6,811,202	-	9,439,593	-
Unamortized premium on bonds	<u>2,071,638</u>	<u>2,719,106</u>	<u>1,197,769</u>	<u>3,592,975</u>	-
Total long-term debt	<u>\$62,225,029</u>	<u>38,125,308</u>	<u>34,257,769</u>	<u>66,092,568</u>	<u>3,685,000</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, 2014 and 2013

### (5) Long-term Liabilities (continued)

Maturities and sinking fund requirements on long-term debt at August 31, 2014 are as follows:

Years ending August 31	Principal	Interest	Total
2015	\$ 4,310,000	2,154,530	6,464,530
2016	4,253,659	2,077,576	6,331,235
2017	4,320,604	1,999,532	6,320,136
2018	4,433,108	1,857,578	6,290,686
2019	4,556,189	1,711,796	6,267,985
2020 - 2024	22,328,743	5,931,987	28,260,730
2025 - 2029	9,824,113	2,728,015	12,552,128
2030 - 2034	9,123,711	1,082,541	10,206,252
<b>Total</b>	<b>\$63,150,127</b>	<b>19,543,555</b>	<b>82,693,682</b>

In June 2013, the Lincoln Water System issued \$28,595,000 in Water Revenue Refunding Bonds at an average interest rate of 3.42% to refund \$31,210,000 of Water Revenue Bonds, Series 2004 with interest rates ranging from 4.25% to 5.00%. The System completed the advance refunding to reduce its total debt service payments over the next 12 years by \$5,748,864 for an economic gain of \$3,315,926.

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 and loan is \$82,693,682, with annual payments expected to require 32 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$5,967,417 and \$18,625,588, 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, 2014, Lincoln Water System incurred project costs totaling \$4,726,232 resulting in the recognition of a project payable of \$13,775,127, which is shown net of \$238,000 of principal repayments. The remaining available funds totaling \$986,873 are not reflected in the Lincoln Water System financial statements.

Construction contracts of the Lincoln Water System at August 31, 2014 and 2013 are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
August 31, 2014	\$4,068,605	2,473,435	3,899,892	2,642,148	2,557,812
August 31, 2013	\$1,949,200	3,877,967	1,758,562	4,068,605	3,899,892

(Continued)

# LINCOLN WATER SYSTEM

## Notes to Financial Statements

August 31, 2014 and 2013

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### **(6) Commitments and Contingencies**

Lincoln Water System has commitments under major construction contracts in progress of approximately \$3,400,000 at August 31, 2014.

### **(7) Related Party Transactions**

The City billed the Water System approximately \$620,000 and \$580,000 for administrative services during 2014 and 2013, 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 \$1,512,000 and \$1,562,000 during 2014 and 2013, respectively. At August 31, 2014 and 2013, approximately \$181,000 and \$315,000, 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 Lincoln Water System was due impact fees of \$1,812,654 and \$867,183 as of August 31, 2014 and 2013, 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 \$70,167 and \$195,924 as of August 31, 2014 and 2013, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the balance sheets.

### **(8) 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 \$302,000 and \$288,000 in 2014 and 2013, respectively.

### **(9) 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 \$632,000 and \$619,000 for 2014 and 2013, respectively. Contributions made by the plan members were approximately \$355,000 and \$344,000 for 2014 and 2013, respectively.

SUPPLEMENTARY  
INFORMATION

**LINCOLN WATER SYSTEM**

Schedule 1

Summary of Long-Term Debt

August 31, 2014

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
2015	\$ 490,000	570,531	1,040,000	302,025	2,180,000	835,275	600,000	446,699	4,310,000	2,154,530	6,464,530
2016	500,000	558,281	1,055,000	286,425	2,185,000	802,575	513,659	430,295	4,253,659	2,077,576	6,331,235
2017	520,000	545,781	1,075,000	270,600	2,195,000	769,800	530,604	413,351	4,320,604	1,999,532	6,320,136
2018	535,000	530,181	1,115,000	227,600	2,235,000	703,950	548,108	395,847	4,433,108	1,857,578	6,290,686
2019	555,000	514,131	1,155,000	183,000	2,280,000	636,900	566,189	377,765	4,556,189	1,711,796	6,267,985
2020-2024	3,110,000	2,265,857	3,420,000	264,000	12,675,000	1,806,100	3,123,743	1,596,030	22,328,743	5,931,987	28,260,730
2025-2029	3,865,000	1,590,957	-	-	2,285,000	91,400	3,674,113	1,045,658	9,824,113	2,728,015	12,552,128
2030-2034	4,905,000	684,225	-	-	-	-	4,218,711	398,316	9,123,711	1,082,541	10,206,252
	\$ 14,480,000	7,259,944	8,860,000	1,533,650	26,035,000	5,646,000	13,775,127	5,103,961	63,150,127	19,543,555	82,693,682

**LINCOLN WATER SYSTEM**

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
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
2013	34,241,815	16,113,390	18,128,425	1,850,000	2,253,368	4,103,368	4.42	1,850,000	2,345,562	4,195,562	4.32
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

**LINCOLN WATER SYSTEM**

Schedule 3

**Operating Expenses**

**Years ended August 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
Lincoln Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 59,913	63,089
Electrical maintenance	-	813
Control System Maintenance	-	228
Wellfield maintenance	15,088	16,745
Wellfield operations	1,892	1,069
Depreciation of general plant	903	903
<b>Total source of supply</b>	<b>\$ 77,796</b>	<b>82,847</b>
Power and pumping expenses:		
Supervision, management and administrative support	\$ 137,110	125,837
Training and education	17,825	14,813
Data management	7,010	4,003
General operations	179,511	198,880
Structures maintenance	39,938	18,842
Control system maintenance	50,312	40,803
Electrical maintenance	192,049	171,536
Grounds maintenance	330,960	340,632
Main repair/maintenance	2,506	3,424
Customer services	43,436	68,028
Pumping and transmission maintenance	154,951	153,212
Pumping and transmission operations	1,714,182	1,736,722
Security maintenance	2,739	6,229
Depreciation of pumping equipment	402,944	427,917
Depreciation of general plant and improvements	7,735	1,886
Depreciation of structures and improvement	957,161	928,419
<b>Total power and pumping</b>	<b>\$ 4,240,369</b>	<b>4,241,183</b>
<b>Total - Lincoln Water Plant</b>	<b>\$ 4,318,165</b>	<b>4,324,030</b>
Ashland Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 145,628	157,785
Training and education	698	597
Control system maintenance	35,165	20,809
Electrical maintenance	33,780	32,551
Grounds maintenance	95,880	101,070
Main repair/maintenance	3,705	1,093
Laboratory operations	7,964	6,231
Security maintenance	527	131
Wellfield maintenance	200,787	192,626
Wellfield operations	1,054,529	1,074,318
Depreciation of transmission mains	260,420	260,420
Depreciation of other production equipment	3,810	2,884
Depreciation of wells and houses	565,898	465,350
<b>Total source of supply</b>	<b>\$ 2,408,791</b>	<b>2,315,865</b>

**LINCOLN WATER SYSTEM**

Schedule 3, Cont.

**Operating Expenses**

	<b>2014</b>	<b>2013</b>
Power and pumping expenses:		
Supervision, management and administrative support	\$ 143,519	136,312
General operations	956	1,035
Structures maintenance	-	-
Control system maintenance	16,729	17,037
Electrical maintenance	36,845	35,827
Grounds maintenance	875	-
Main repair/maintenance	230	800
Pumping and transmission maintenance	71,659	73,230
Pumping and transmission operations	925,156	864,635
Depreciation of pumping equipment	503,272	399,882
Depreciation of structures and improvement	159,218	159,218
Depreciation of transmission mains	533,748	533,748
Depreciation of other production equipment	54,201	54,201
<b>Total power and pumping</b>	<b>\$ 2,446,408</b>	<b>2,275,925</b>
Purification expense:		
Supervision, management and administrative support	\$ 368,573	361,640
Training and education	159,174	229,367
General operations	169,622	179,956
Treatment and process control	81,611	118,480
Structures maintenance	20,099	44,973
Process equipment maintenance	8,269	19,592
Control system maintenance	144,156	158,588
Electrical maintenance	23,227	31,385
Grounds maintenance	494,749	475,538
Laboratory operations	400,293	398,749
Treatment operations	658,067	664,216
Security maintenance	9,322	9,703
Depreciation of structures and improvements	271,784	273,300
Depreciation of transmission mains	20,088	20,088
Depreciation of purification equipment	950,479	950,417
Depreciation of general plant & equipment	16,016	24,974
<b>Total purification expenses</b>	<b>\$ 3,795,529</b>	<b>3,960,966</b>
<b>Total Ashland Water Plant</b>	<b>\$ 8,650,728</b>	<b>8,552,756</b>
<b>Total supply, pumping and purification</b>	<b>\$ 12,968,893</b>	<b>12,876,786</b>

**LINCOLN WATER SYSTEM**

Schedule 3, Cont.

**Operating Expenses**

	<b>2014</b>	<b>2013</b>
<b>Transmission and distribution expenses:</b>		
Supervision and management	\$ 886,462	985,747
Administrative and support staff	493,793	481,008
Training and education	75,024	85,960
Data management	681,544	651,443
General operations	765,275	365,493
Main repair/maintenance	1,705,081	1,674,568
Contractor services	278,434	302,697
Customer services	1,541,512	1,567,055
Depreciation of structures and improvements	1,033	1,033
Depreciation of transmission mains	406,529	433,394
Depreciation of distribution mains	2,353,728	2,167,886
Depreciation of hydrants and fountains	69,942	69,942
Depreciation of general plant and equipment	42,274	28,356
<b>Total transmission and distribution</b>	<b>\$ 9,300,631</b>	<b>8,814,582</b>
<b>Accounting and collecting expenses:</b>		
Supervision and management	\$ 200,605	191,948
Administrative and support staff	2,317	2,817
Meter reading	128,972	130,302
Billing and accounting	263,114	258,058
Collections	104,467	95,410
Customer services and billing	98,898	133,086
Customer contracts and orders	35,121	30,797
Depreciation of general plant and equipment	7,650	7,650
<b>Total accounting and collecting</b>	<b>\$ 841,144</b>	<b>850,068</b>
<b>Administrative and general expenses:</b>		
Supervision and management	\$ 911,236	873,164
Administrative and support staff	127,395	124,676
Depreciation of general plant and equipment	215,697	23,844
<b>Total administrative and general</b>	<b>\$ 1,254,328</b>	<b>1,021,684</b>

LINCOLN WATER SYSTEM

Schedule 4

Utility Plant in Service

August 31, 2014

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2013	Increases	Decreases	August 31, 2014	August 31, 2013	Increases	Decreases	August 31, 2014	August 31, 2014
Lincoln Water Plant:									
Airport	\$ 42,172	-	-	42,172	(27,433)	(423)	-	(27,856)	14,316
Structures and improvements	15,698,644	718,423	(730,340)	15,686,727	(8,403,591)	(384,354)	695,340	(8,092,605)	7,594,122
Reservoirs	26,933,664	2,989	(54,000)	26,882,653	(9,819,408)	(559,448)	49,000	(10,329,856)	16,552,797
Other power and production equipment	37,856	-	-	37,856	(8,518)	(1,893)	-	(10,411)	27,445
Electric pumping equipment	15,215,311	24,026	-	15,239,337	(4,508,716)	(356,858)	-	(4,865,574)	10,373,763
Purification system	-	-	-	-	1,072	-	-	1,072	-
Transmission mains	33,680,814	-	-	33,680,814	(8,170,598)	(408,100)	-	(8,578,698)	25,102,116
Distribution mains and accessories	143,516,782	7,585,610	-	151,102,392	(28,483,405)	(1,769,794)	-	(30,253,199)	120,849,193
Hydrants	4,844,227	-	-	4,844,227	(3,624,323)	(69,942)	-	(3,694,265)	1,149,962
Office furniture and equipment	1,620,077	563,646	-	2,183,723	(1,199,803)	(250,417)	-	(1,450,220)	733,503
Shop equipment	181,432	-	-	181,432	(167,241)	(3,536)	-	(170,777)	10,655
Laboratory equipment	7,959	-	-	7,959	(4,466)	(796)	-	(5,262)	2,697
Tools and work equipment	225,876	-	-	225,876	(183,297)	(11,860)	-	(195,157)	30,719
Communications system	1,188,760	-	-	1,188,760	(532,232)	(58,585)	-	(590,817)	597,943
Meters	13,349,575	404,679	-	13,754,254	(7,898,543)	(589,592)	-	(8,488,135)	5,266,119
<b>Lincoln depreciable assets</b>	<b>256,543,149</b>	<b>9,299,373</b>	<b>(784,340)</b>	<b>265,058,182</b>	<b>(73,030,502)</b>	<b>(4,465,598)</b>	<b>744,340</b>	<b>(76,751,760)</b>	<b>188,306,422</b>
Land and land rights	1,548,221	161	-	1,548,382	-	-	-	-	1,548,382
<b>Lincoln nondepreciable assets</b>	<b>1,548,221</b>	<b>161</b>	<b>-</b>	<b>1,548,382</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,548,382</b>
<b>Total Lincoln plant</b>	<b>258,091,370</b>	<b>9,299,534</b>	<b>(784,340)</b>	<b>266,606,564</b>	<b>(73,030,502)</b>	<b>(4,465,598)</b>	<b>744,340</b>	<b>(76,751,760)</b>	<b>189,854,804</b>
Ashland Water Plant:									
Structures and improvements	52,304,100	11,802,748	-	64,106,848	(18,605,593)	(960,300)	-	(19,565,893)	44,540,955
Reservoirs	12,283,617	-	-	12,283,617	(2,936,641)	(177,261)	-	(3,113,902)	9,169,715
Transmission mains	48,989,402	-	-	48,989,402	(9,087,977)	(814,255)	-	(9,902,232)	39,087,170
Office furniture and equipment	98,928	-	-	98,928	(77,248)	(1,020)	-	(78,268)	20,660
Shop equipment	17,951	-	-	17,951	(17,951)	-	-	(17,951)	-
Laboratory equipment	397,262	-	-	397,262	(348,844)	(14,996)	-	(363,840)	33,422
Other power and production equipment	2,418,136	-	-	2,418,136	(1,648,582)	(58,010)	-	(1,706,592)	711,544
Electric pumping equipment	8,470,153	-	(4,500)	8,465,653	(5,178,438)	(263,320)	-	(5,441,758)	3,023,895
Purification system	28,944,826	-	-	28,944,826	(10,692,122)	(950,479)	-	(11,642,601)	17,302,225
Communications Systems	1,970,904	-	-	1,970,904	(307,781)	(99,291)	-	(407,072)	1,563,832
Tools and work equipment	100,212	-	-	100,212	(100,188)	-	-	(100,188)	24
<b>Ashland depreciable assets</b>	<b>155,995,491</b>	<b>11,802,748</b>	<b>(4,500)</b>	<b>167,793,739</b>	<b>(49,001,365)</b>	<b>(3,338,932)</b>	<b>-</b>	<b>(52,340,297)</b>	<b>115,453,442</b>
Land and land rights	3,903,526	1,864	-	3,905,390	-	-	-	-	3,905,390
<b>Ashland nondepreciable assets</b>	<b>3,903,526</b>	<b>1,864</b>	<b>-</b>	<b>3,905,390</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,905,390</b>
<b>Total Ashland plant</b>	<b>159,899,017</b>	<b>11,804,612</b>	<b>(4,500)</b>	<b>171,699,129</b>	<b>(49,001,365)</b>	<b>(3,338,932)</b>	<b>-</b>	<b>(52,340,297)</b>	<b>119,358,832</b>
Vehicles and work equipment (all locations)	3,270,408	342,203	(224,472)	3,388,139	(2,002,717)	(252,407)	186,563	(2,068,561)	1,319,578
<b>Utility plant in service</b>	<b>\$ 421,260,795</b>	<b>21,446,349</b>	<b>(1,013,312)</b>	<b>441,693,832</b>	<b>(124,034,584)</b>	<b>(8,056,937)</b>	<b>930,903</b>	<b>(131,160,618)</b>	<b>310,533,214</b>
Construction in progress	5,699,028	18,678,560	(20,044,464)	4,333,124	-	-	-	-	4,333,124
<b>Total capital assets</b>	<b>\$ 426,959,823</b>	<b>40,124,909</b>	<b>(21,057,776)</b>	<b>446,026,956</b>	<b>(124,034,584)</b>	<b>(8,056,937)</b>	<b>930,903</b>	<b>(131,160,618)</b>	<b>314,866,338</b>

**GENERAL STATISTICS**

**Year Ended August 31, 2014**

(Unaudited)

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Altitude of Lincoln, Nebraska .....	1,167 Feet
Area of Lincoln, Nebraska .....	92.82 Square Miles
Population .....	272,592 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, 2014 .....	29.96
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, 2013	1,186.3
Estimated Added During Year	17.8
Estimated Removed During Year	10.2
Total as of August 31, 2014 .....	1,194 Miles
Amount of Water Pumped During Year Ended August 31, 2014 .....	12,646,103,000 gallons
Average Daily Consumption of Water .....	34,584,000 gallons
Average Daily Consumption Per Capita .....	128 gallons
Total Number of Active Residential Water Customers End of Fiscal Year .....	76,373
Total Number of Active Non-Residential Water Customers End of Fiscal Year .....	4,823
Total Debt of Lincoln Water System at August 31, 2014 .....	\$63,150,127

**LINCOLN WATER SYSTEM**

Schedule 6

**TOP TEN CUSTOMERS****Year Ended August 31, 2014**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	469,440	\$898,284
2. City of Lincoln	360,768	766,248
3. State of Nebraska	306,656	618,436
4. Archer-Daniels Midland Company	280,754	361,928
5. University of Nebraska Foundation	151,252	195,897
6. Lincoln Public Schools	140,317	311,676
7. Bryan Health	132,077	276,503
8. Veyance Technologies, Inc.	112,414	154,072
9. Zoetis	109,358	146,677
10. Lincoln Industries	104,155	203,649
<b>Top Ten Users Totals</b>	<b>2,167,191</b>	<b>\$3,933,368</b>

**LINCOLN WATER SYSTEM**

Schedule 7

**COMPARATIVE PUMPING REPORT**

For Fiscal Years as Shown by Gallons

(Unaudited)

<b>MONTH</b>	<b>August 31, 2014</b>	<b>August 31, 2013</b>	<b>August 31, 2012</b>	<b>August 31, 2011</b>	<b>August 31, 2010</b>
<b>September</b>	1,449,500,000	1,463,360,000	1,201,460,000	1,172,000,000	1,078,830,000
<b>October</b>	1,024,210,000	1,134,460,000	1,121,690,000	1,196,680,000	817,530,000
<b>November</b>	769,860,000	856,170,000	726,830,000	808,380,000	697,300,000
<b>December</b>	787,860,000	818,550,000	749,020,000	682,970,000	682,290,000
<b>January</b>	798,960,000	821,820,000	785,840,000	673,740,000	747,470,000
<b>February</b>	744,020,000	741,180,000	750,120,000	619,320,000	690,540,000
<b>March</b>	817,383,000	813,070,000	838,390,000	728,530,000	756,830,000
<b>April</b>	871,885,000	812,550,000	990,690,000	755,980,000	857,960,000
<b>May</b>	1,087,779,000	991,120,000	1,280,050,000	1,002,360,000	959,180,000
<b>June</b>	1,089,234,000	1,157,410,000	1,622,550,000	1,115,880,000	1,056,010,000
<b>July</b>	1,694,026,000	1,860,820,000	2,200,750,000	1,567,420,000	1,284,390,000
<b>August</b>	1,511,387,000	1,623,000,000	1,764,930,000	1,362,790,000	1,710,020,000
<b>Total</b>	<b>12,646,104,000</b>	<b>13,093,510,000</b>	<b>14,032,320,000</b>	<b>11,686,050,000</b>	<b>11,338,350,000</b>

**LINCOLN WATER SYSTEM**

**Annual Rainfall (by month)**

**Last ten fiscal years**

(Unaudited)

	30 Yr Avg	125 Yr Avg	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
September	3.02	2.99	1.99	1.73	1.33	3.73	1.25	4.10	3.10	3.93	0.28	3.24
October	1.97	1.88	2.83	1.92	0.93	0.13	4.24	4.79	4.50	0.90	2.76	0.45
November	1.43	1.24	1.22	0.15	1.66	1.97	0.06	1.22	0.05	0.09	2.03	2.61
December	0.95	0.82	0.22	1.50	1.58	0.24	2.42	0.80	2.09	3.05	0.52	0.43
January	0.64	0.67	0.24	0.73	0.16	1.07	0.82	0.38	0.44	0.64	0.91	1.03
February	0.77	0.94	0.62	0.54	2.10	0.79	0.99	0.64	0.55	1.31	0.07	2.22
March	1.93	1.58	0.13	2.12	0.89	0.66	1.77	0.18	1.13	2.79	3.03	0.65
April	2.71	2.57	3.50	4.02	3.49	3.27	2.53	1.52	3.80	3.44	3.83	2.22
May	4.29	3.81	5.26	8.44	3.00	6.00	3.70	1.17	4.12	8.13	2.09	2.18
June	4.34	4.16	5.90	2.49	3.57	3.44	9.90	6.18	8.59	2.28	0.65	2.85
July	3.40	3.41	0.51	1.00	0.33	1.55	5.83	1.84	3.58	1.22	2.08	5.30
August	3.48	3.47	7.54	1.11	0.30	6.89	2.81	3.20	1.78	5.80	4.05	2.55
<b>Total</b>	<b>28.93</b>	<b>27.54</b>	<b>29.96</b>	<b>25.75</b>	<b>19.34</b>	<b>29.74</b>	<b>36.32</b>	<b>26.02</b>	<b>33.73</b>	<b>33.58</b>	<b>22.30</b>	<b>25.73</b>

**LINCOLN WATER SYSTEM**

WATER ANALYSIS

(All Results in Parts Per Million)  
(Collected September 4, 2014)  
(Unaudited)

550 W. Cornhusker Hwy.

Hydrogen Ion Concentration (pH) .....	7.83
Total Dissolved Solids .....	348 ppm.
Total Iron (Fe) .....	<0.050 ppm.
Manganese (Mn) .....	1.70 ppb.
Calcium (as Ca) .....	56.1 ppm.
Total Alkalinity (CaCO <sub>3</sub> ) .....	162 ppm.
Chloride (Cl) .....	20.5 ppm.
Fluoride (F) .....	0.94 ppm.
Nitrate (+Nitrite) .....	0.64 ppm.
Sodium (Na) .....	34.1 ppm.
Hardness as (CaCO <sub>2</sub> )	
Total Hardness .....	196 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, 2014

(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	SEL3017306
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	FM969
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	FM969
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FM969
Equipment Floater (911)	Radio tower floater	Replacement cost	50,000	2,500	FM Global	FM969
Equipment Floater (NON-LIC)	Nonlicensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FM969
General Liability ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017306
Public Employee Blanket Bond	Employees blanket bond coverage	2,000,000	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	SEL3017306
Workers' Compensation Excess	Statutory	Statutory	800,000	0	Midwest Employers Casualty (MECC)	EWC007744

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

\*\*\* Public Entity Policy

## LINCOLN WATER SYSTEM

### Summary of Insurance Coverage

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

#### **AUTOMOBILE INSURANCE**

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

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

#### **PROPERTY INSURANCE**

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

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

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

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

#### **WATER DISTRIBUTION SYSTEM**

Provides coverage for underground pipeline between Lincoln and Ashland.

#### **GENERAL LIABILITY**

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

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

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

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

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

#### **WORKERS' COMPENSATION**

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

**Independent Auditor's 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, 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, the basic financial statements of Lincoln Water System, which comprise the balance sheet as of August 31, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2014, which contained an emphasis of matter paragraph indicating that the financial statements do not purport to, and do not, present fairly the financial position and changes in financial position of the City of Lincoln, Nebraska as a whole.

***Internal Control Over Financial Reporting***

Management of Lincoln Water System is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered Lincoln Water System's internal control to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Lincoln Water System's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

### ***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*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln Water System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Lincoln, Nebraska  
December 8, 2014