

# Lincoln Water System

# 2018

Financial Statements  
& Schedules

Fiscal Year Ended  
August 31, 2018



# ANNUAL FINANCIAL REPORT

## DEPARTMENT OF PUBLIC WORKS & UTILITIES

### CITY OFFICIALS

Chris Beutler ..... Mayor

### COUNCIL MEMBERS

Bennie Shobe..... Chair

Cyndi Lamm ..... Vice-Chair

Leirion Gaylor Baird

Jon Camp

Roy Christensen

Carl Eskridge

Jane Raybould

### WATER SYSTEM

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

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

**Lincoln Water System**  
**August 31, 2018 and 2017**

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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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Lincoln Water System, an Enterprise Fund of the City of Lincoln, Nebraska (the System), as of and for the years ended August 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the System's 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 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 the System, as of August 31, 2018 and 2017, 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 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, 2018 and 2017, 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.

As discussed in Note 9 to the financial statements, the System adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which restated beginning net position of the financial statements to record the total OPEB liability. Our opinion is not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*RSM US LLP*

Omaha, Nebraska  
February 14, 2019

## **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, 2018 and 2017. 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 \$20,275,734 in 2018 over 2017 as shown in Table 3.

## Financial Analysis

The following comparative condensed financial statements summarize the System's financial position and operating results for the years ended August 31, 2018, 2017, and 2016.

**Table 1**

### Condensed Net Position Information

	August 31		Change	
	2018 Restated	2017 Not Restated	Dollars	Percent
Current assets	\$ 35,907,572	\$ 30,193,290	\$ 5,714,282	18.93%
Capital assets	343,885,063	330,572,291	13,312,772	4.03%
Noncurrent assets	14,256,252	16,576,160	(2,319,908)	(14.00%)
Deferred outflows of resources	544,311	569,553	(25,242)	(4.43%)
<b>Total assets and deferred outflows or resources</b>	<b>394,593,198</b>	<b>377,911,294</b>	<b>16,681,904</b>	<b>4.41%</b>
Current liabilities	9,600,339	8,240,831	1,359,508	16.50%
Long-term liabilities	45,407,877	50,108,906	(4,701,029)	(9.38%)
Deferred inflows	39,798	-	39,798	100.00%
<b>Total liabilities and deferred inflows of resources</b>	<b>55,048,014</b>	<b>58,349,737</b>	<b>(3,301,723)</b>	<b>(5.66%)</b>
Net position				
Net investment in capital assets	293,310,868	276,316,388	16,994,480	6.15%
Restricted for debt service	5,687,536	5,703,048	(15,512)	(0.27%)
Restricted for capital acquisition	5,554,340	4,434,434	1,119,906	25.25%
Unrestricted	34,992,440	33,107,687	1,884,753	5.69%
<b>Total net position</b>	<b>339,545,184</b>	<b>319,561,557</b>	<b>19,983,627</b>	<b>6.25%</b>
<b>Total liabilities and net position</b>	<b>\$394,593,198</b>	<b>\$377,911,294</b>	<b>\$16,681,904</b>	<b>4.41%</b>

### Financial Highlights – Fiscal Year 2018

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented during fiscal year 2018. The beginning net position for the System was restated (\$292,107) to retroactively report the total other postemployment benefits (OPEB) liability as of September 1, 2017. The financial statement amounts for fiscal year 2017 OPEB obligation, OPEB expense, deferred outflows of resources and deferred inflows of resources were not restated because information was not available.
- 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.
- Capital assets increased due to the additional construction of water distribution mains.
- Current liabilities increased due to timing of payments made to contractors on several construction projects.
- Long term liabilities decreased primarily due to debt service payments made during the year. No new debt was issued in the fiscal year.

**Table 2**

**Condensed Net Position Information**

	August 31		Change	
	2017	2016	Dollars	Percent
Current assets	\$ 30,193,290	\$ 30,112,135	\$ 81,155	0.27%
Capital assets	330,572,291	324,180,701	6,391,591	1.97%
Noncurrent assets	16,576,160	16,903,179	(327,020)	(1.93%)
Deferred outflows of resources	569,553	640,274	(70,721)	(11.05%)
Total assets and deferred outflows or resources	377,911,294	371,836,289	6,075,005	1.63%
Current liabilities	8,240,831	9,461,462	(1,220,631)	(12.90%)
Long-term liabilities	50,108,906	54,815,149	(4,706,243)	(8.59%)
Total liabilities	58,349,737	64,276,611	(5,926,874)	(9.22%)
Net position				
Net investment in capital assets	276,316,388	264,088,215	12,228,173	4.63%
Restricted for debt service	5,703,048	5,725,040	(21,992)	(0.38%)
Restricted for capital acquisition	4,434,434	3,458,279	976,155	28.23%
Unrestricted	33,107,687	34,288,144	(1,180,488)	(3.44%)
Total net position	319,561,557	307,559,678	12,001,879	3.90%
Total liabilities and net position	\$377,911,294	\$371,836,289	\$6,075,005	1.63%

**Financial Highlights – Fiscal Year 2017**

- Current liabilities decreased due to timing of payments made to contractors on several construction projects.
- Long term liabilities decreased primarily due to debt service payments made during the year. No new debt was issued in the fiscal year.
- Capital assets increased due to various selected main replacement projects and construction of new water supply wells.

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

	August 31		Change	
	2018 Restated	2017 Not Restated	Dollars	Percent
Operating revenues				
Water revenue	\$37,799,102	\$35,504,717	\$2,294,385	6.46%
Other revenue	1,182,714	717,681	465,033	64.80%
Total operating revenues	38,981,816	36,222,398	2,759,418	7.62%
Nonoperating revenues				
Investment income	260,148	204,904	55,244	26.96%
Grant revenues	3,404,124	438,422	2,965,702	676.45%
Total nonoperating revenues	3,664,272	643,326	3,020,946	469.58%
Total revenues	42,646,088	36,865,724	5,780,364	15.68%
Operating expenses				
Supply, pumping and purification	13,952,446	14,435,495	(483,049)	(3.35%)
Transmission and distribution	10,592,236	9,871,559	720,677	7.30%
Accounting and collecting	886,721	913,206	(26,485)	(2.90%)
Administrative and general	1,183,929	1,338,518	(154,589)	(11.55%)
Total operating expenses	26,615,332	26,558,778	56,554	0.21%
Nonoperating expenses				
Interest and amortization expense	1,611,061	1,503,727	107,334	7.14%
Net costs recoverable	48,767	48,767	-	0.00%
Well abandonment	-	1,193,597	(1,193,597)	(100.00%)
Total nonoperating expenses	1,659,828	2,746,091	(1,086,263)	(39.56%)
Total expenses	28,275,160	29,304,869	(1,029,709)	(3.51%)
Income before contributions	14,370,928	7,560,855	6,810,073	90.07%
Capital contributions	5,904,806	4,441,024	1,463,782	32.96%
Change in net position	\$20,275,734	\$12,001,879	\$8,273,855	68.94%

**Financial Highlights – Fiscal Year 2018**

- Increase in operating revenues primarily due to a 5% revenue increase implemented November 2017 and applied solely to the service charge.
- Increase in nonoperating revenues due to a grant received from the State Water Sustainability fund providing partial funding for the construction of a new horizontal well.
- Capital contributions increased during the year because of increased development activity.

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

	August 31		Change	
	2017	2016	Dollars	Percent
Operating revenues				
Water revenue	\$35,504,717	\$34,511,117	\$ 993,600	2.88%
Other revenue	717,681	889,862	(172,181)	(19.35%)
Total operating revenues	36,222,398	35,400,979	821,419	2.32%
Nonoperating revenues				
Investment income	204,904	621,416	(416,512)	(67.03%)
Grant revenues	438,422	-	438,422	100.00%
FEMA reimbursements	-	18,559	(18,559)	(100.00%)
Total nonoperating revenues	643,326	639,975	3,351	0.52%
Total revenues	36,865,724	36,040,954	824,770	2.29%
Operating expenses				
Supply, pumping and purification	14,435,495	13,573,498	861,997	6.35%
Transmission and distribution	9,871,559	9,796,129	75,430	0.77%
Accounting and collecting	913,206	882,795	30,411	3.44%
Administrative and general	1,338,518	1,405,442	(66,924)	(4.76%)
Total operating expenses	26,558,778	25,657,864	900,914	3.51%
Nonoperating expenses				
Interest and amortization expense	1,503,727	1,536,395	(32,668)	(2.13%)
Net costs recoverable	48,767	48,767	-	0.00%
Well abandonment	1,193,597	-	1,193,597	100.00%
Total nonoperating expenses	2,746,091	1,585,162	1,160,929	73.24%
Total expenses	29,304,869	27,243,026	2,061,843	7.57%
Income before contributions	7,560,855	8,797,928	(1,237,073)	(14.06%)
Capital contributions	4,441,024	4,309,395	131,629	3.05%
Change in net position	\$12,001,879	\$13,107,323	(\$1,105,444)	(8.43%)

**Financial Highlights – Fiscal Year 2017**

- Increase in nonoperating revenues due to a grant received from the State Water Sustainability Fund providing partial funding for the construction of a new horizontal well.
- Total nonoperating expenses increased due to the one-time cost of abandonment for two water reservoirs in Lincoln.

### ***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.

### ***Capital Asset Activity***

The System's investment in capital assets as of August 31, 2018 amounts to \$343,885,063 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment. Major capital asset events during 2018 include select main replacements for approximately \$5.6 million. Additional information regarding capital assets can be found in the Notes to Financial Statements, Note 4, of this report.

### ***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. Additional information regarding debt can be found in the Notes to Financial Statements, Note 5, of this report.

### ***Commitments and Contingencies***

The System has commitments under major construction contracts in progress of approximately \$7,200,000 at August 31, 2018 to be paid with revenue proceeds.

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

The approved Capital Improvement Program for Fiscal Year 2018/19 - 2023/24 identifies the need for \$159,339,400 to fund capital improvements for the System. A portion 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 2018, the Lincoln City Council approved a 5% revenue increase in Fiscal Years 2019 and 2020. This will be attained through increases in the usage rates and service charges.

### ***Contact Information***

This financial report is intended to provide users with a general overview of the System's financial performance for 2018 and 2017. 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**  
**An Enterprise Fund of the City of Lincoln, Nebraska**

**Statements of Net Position**

**August 31, 2018 and 2017**

<b>Assets and Deferred Outflows of Resources</b>	<b>2018</b>	<b>2017</b>
Current assets:		
Equity in pooled cash and investments	\$ 20,933,684	\$ 16,551,508
Receivables:		
Accounts receivable	3,235,520	3,232,127
Unbilled revenues	4,408,747	4,470,638
Due from other funds	137,509	-
Total receivables	7,781,776	7,702,765
Inventories	1,637,772	1,504,583
Total current assets	30,353,232	25,758,856
Noncurrent assets:		
Equity in pooled cash and investments	6,150,992	8,356,159
Restricted assets:		
Equity in pooled cash and investments	1,435,113	1,220,441
Investments	6,314,374	6,595,020
Impact fees receivable	5,554,340	4,434,434
Total restricted assets	13,303,827	12,249,895
Utility plant:		
Non-depreciable	24,674,583	13,706,815
Depreciable	484,857,592	473,735,068
Less accumulated depreciation	(165,647,112)	(156,869,592)
Net utility plant	343,885,063	330,572,291
Costs recoverable from future billings	355,773	404,540
Total noncurrent assets	363,695,655	351,582,885
Total assets	394,048,887	377,341,741
Deferred outflows of resources:		
Deferred loss on refunding	498,832	569,553
Deferred outflow for OPEB	45,479	-
Total Deferred Outflows	544,311	569,553
Total assets and deferred outflows of resources	\$ 394,593,198	\$ 377,911,294

**Liabilities, Deferred Inflows of Resources, and Net Position**

Current liabilities:		
Accounts payable	\$ 909,695	\$ 691,424
Accrued liabilities	761,829	783,518
Deposits liability	122,049	147,249
Accrued compensated absences	488,262	504,596
Construction contracts	2,568,490	1,475,056
Current maturities of long-term debt	4,636,755	4,517,445
Accrued interest	113,259	121,543
Total current liabilities	9,600,339	8,240,831
Long-term liabilities:		
Accrued liabilities	760,902	500,150
Accrued compensated absences	779,193	775,801
Long-term debt, excluding current maturities, net of premiums	43,867,782	48,832,955
Total long-term liabilities	45,407,877	50,108,906
Total liabilities	55,008,216	58,349,737
Deferred inflows of resources:		
Deferred inflow for OPEB	39,798	-
Total Deferred Inflow of Resources	39,798	-
Net position:		
Net investment in capital assets	293,310,868	276,316,388
Restricted for debt service	5,687,536	5,703,048
Restricted for capital acquisition	5,554,340	4,434,434
Unrestricted	34,992,440	33,107,687
Total net position	339,545,184	319,561,557
Total liabilities, deferred inflows of resources, and net position	\$ 394,593,198	\$ 377,911,294

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, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Operating revenues:		
Water sales	\$ 37,799,102	\$ 35,504,717
Service and materials, net	1,182,714	717,681
Total operating revenues	38,981,816	36,222,398
Operating expenses:		
Supply, pumping and purification	13,952,446	14,435,495
Transmission and distribution	10,592,236	9,871,559
Accounting and collecting	886,721	913,206
Administrative and general	1,183,929	1,338,518
Total operating expenses	26,615,332	26,558,778
Operating income	12,366,484	9,663,620
Nonoperating revenues (expenses):		
Investment income	260,148	204,904
Interest and amortization expense	(1,611,061)	(1,503,727)
State grant revenues	3,404,124	438,422
Net costs recoverable	(48,767)	(48,767)
Miscellaneous expense - well abandonment costs	-	(1,193,597)
Net nonoperating expenses	2,004,444	(2,102,765)
Increase in net position before capital contributions	14,370,928	7,560,855
Capital contributions from:		
Developer contributions	3,673,573	2,373,425
Impact fees	1,595,346	1,386,944
Tap fees	635,887	680,655
Total capital contributions	5,904,806	4,441,024
Increase in net position	20,275,734	12,001,879
Total net position - beginning, as restated	319,269,450	307,559,678
Total net position - ending	\$ 339,545,184	\$ 319,561,557

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, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating activities:</b>		
Receipts from customers and users	\$37,895,208	\$35,356,321
Payments to suppliers	(8,879,950)	(10,587,946)
Payments to employees	(8,875,080)	(8,817,572)
Net cash provided by operating activities	20,140,178	15,950,803
<b>Noncapital financing activities:</b>		
Increase in due from other funds	(137,509)	-
Net cash (used in) noncapital financing activities	(137,509)	-
<b>Capital and related financing activities:</b>		
Acquisition and construction of capital assets	(15,161,419)	(11,518,901)
Principal paid on revenue bonds and long term obligations	(4,517,445)	(4,408,451)
Interest paid on revenue bonds and long term obligations	(1,877,042)	(2,021,708)
State Grant proceeds	3,404,124	438,422
Other	-	(15,246)
Net cash used in capital and related financing activities	(18,151,782)	(17,525,884)
<b>Investing activities:</b>		
Purchases of investments	(19,655,018)	(21,209,477)
Proceeds from sales and investment maturities	17,568,597	22,131,162
Interest on investments	570,128	411,221
Net cash (used in) provided by investing activities	(1,516,293)	1,332,906
Net increase (decrease) in cash and cash equivalents	334,594	(242,175)
Cash and cash equivalents at beginning of year	962,656	1,204,831
Cash and cash equivalents at end of year	\$ 1,297,250	\$ 962,656
<b>Composition of equity in pooled cash and investments (current)</b>		
Cash and cash equivalents	\$ 1,297,250	\$ 962,656
Investments	21,071,547	16,809,293
Total equity in pooled cash and investments (current)	\$22,368,797	\$17,771,949
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$12,366,484	\$ 9,663,620
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
<b>provided by operating activities:</b>		
Depreciation	8,846,888	8,665,344
Well abandonment	-	(1,193,597)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(1,061,408)	(910,177)
Inventories	(133,189)	(262,902)
Accounts payable	218,271	(121,313)
Accrued liabilities and deposit liability	(78,245)	(82,286)
Deferred Outflows	(45,479)	-
Deferred Inflows	39,798	-
Accrued compensated absences	(12,942)	192,114
Total adjustments	7,773,694	6,287,183
Net cash provided by operating activities	\$20,140,178	\$15,950,803

**Supplemental disclosure of noncash transactions:**

Contributed capital improvements of \$3,673,573 and \$2,373,425 were added to utility plant in 2018 and 2017, respectively.

Accounts payable incurred for utility plant purchases were \$2,568,490 and \$1,475,056 in 2018 and 2017, 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, 2018 and 2017

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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 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, 2018 and 2017, 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, 2018 and 2017

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#### (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, 2018 or 2017.

##### ***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. The System impact fees can pay for water supply, transmission mains, pumping and storage reservoirs, and water lines 16-inches and larger.

##### ***Utility Plant (Capital Assets)***

The cost of additions and replacements to utility plant are capitalized. Cost includes labor, materials, payments to contractors, and equipment use. 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 expense appropriation or collection of directed impact fees. 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. Expenses 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. The System adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, as a result no interest costs were capitalized in the current fiscal year. Interest cost of \$267,444 was capitalized during fiscal year 2017.

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, 2018 and 2017

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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 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. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market based measurement, not an entity specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, it might not be available. However, the objective of a fair value measurement in both cases is the same, that is, to determine the price at which an orderly transaction to sell the asset or to transfer the liability would take place between the market participants at the measurement date under current market conditions. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability.

# LINCOLN WATER SYSTEM

## An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2018 and 2017

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

#### ***Capital Contributions***

Developer contributions are water system improvements made to developments. Revenues from developer contributions are recorded at acquisition 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 expenses are incurred. These fees are used by the System to defray the cost of acquiring, constructing or improving capital assets, and are therefore not reported as operating revenue.

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

The premiums received on bond issuances are being amortized over the life of the bonds using a method that approximates 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 has two items that qualify 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. Deferred outflows for Other Postemployment Benefits (OPEB) include OPEB related amounts not yet recognized against OPEB expense.

#### ***Deferred Inflow of Resources***

Deferred inflows for Other Postemployment Benefits (OPEB) include OPEB related amounts not yet recognized against OPEB expense.

# LINCOLN WATER SYSTEM

## An Enterprise Fund of the City of Lincoln, Nebraska

### Notes to Financial Statements

August 31, 2018 and 2017

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#### (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, 2018 and 2017:

	<u>August 31, 2018</u>	<u>August 31, 2017</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	\$ 6.56	\$ 5.70
5/8 x 3/4 inch	9.92	8.62
3/4 inch	9.92	8.62
1 inch	16.56	14.39
1 1/2 inch	33.03	28.70
2 inch	52.86	45.93
3 inch	99.17	86.18
4 inch	165.31	143.66
6 inch	330.55	287.25
8 inch	528.89	459.62
10 inch	760.34	660.76

In August 2018, the Lincoln City Council approved revenue increases for the next two years. The first revenue increase of 5% is effective in November 2018 and the second increase of 5% is effective in November 2019.

##### **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, 2018 and 2017

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#### (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, 2018 and 2017 are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
August 31, 2018	\$1,280,397	491,654	504,596	1,267,455	488,262
August 31, 2017	\$1,088,283	681,968	489,854	1,280,397	504,596

##### ***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.

# LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2018 and 2017

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

### *Reclassification*

The System reclassified certain items in the accompanying basic financial statements for the prior year to conform to the current-year presentation. These reclassifications had no effect on previously reported change in net position or net position.

## (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, 2018 and 2017

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

**Fair value measurements:** 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, 2018 and 2017

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

At August 31, 2018 and 2017, the System had the following investments and maturities:

Type	August 31, 2018				Fair Value Measurement
	Fair Value	Maturities in Years			
		Less than 1	1 - 5	6 - 10	
U.S. Government Sponsored Agencies	\$6,314,374	\$1,123,459	\$1,569,245	\$3,621,670	Level 2

Type	August 31, 2017				Fair Value Measurement
	Fair Value	Maturities in Years			
		Less than 1	1 - 5	6 - 10	
U.S. Government Sponsored Agencies	\$6,595,020	\$ -	\$2,772,925	\$3,822,095	Level 2

# LINCOLN WATER SYSTEM

## An Enterprise Fund of the City of Lincoln, Nebraska

### Notes to Financial Statements

August 31, 2018 and 2017

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#### (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, 2018 and 2017, 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>2018</u>	<u>2017</u>
U.S. Government Agency Obligations		
Federal Farm Credit Bank	14.9%	16.8%

The carrying amount of equity interests in pooled cash and investments at August 31, 2018 and 2017 are:

	<u>2018</u>	<u>2017</u>
Equity in pooled cash and investments	\$28,519,789	\$26,128,108
Percentage of City's Pool	7.5%	7.2%

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, 2018 and 2017

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

Investment income for the years ended August 31, 2018 and 2017 consisted of:

	<b>2018</b>	<b>2017</b>
Interest and dividend income	\$570,128	\$466,201
Net change in fair value of investments	(309,980)	(261,297)
	<u>\$260,148</u>	<u>\$204,904</u>

**(3) Inventories**

Balances of the major classes of inventory at August 31, 2018 and 2017, are shown below:

	<b>2018</b>	<b>2017</b>
Heavy materials	\$1,207,222	\$1,123,617
Diesel fuel	113,350	113,538
Water meters and parts	261,458	212,542
Chemicals	55,742	54,886
Total inventories	<u>\$1,637,772</u>	<u>\$1,504,583</u>

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

Notes to Financial Statements

August 31, 2018 and 2017

**(4) Utility Plant**

Utility plant is summarized by major classification at August 31, 2018 as follows:

Asset Class	Capital Assets				Accumulated Depreciation				Net Capital Assets
	August 31, 2017	Increases	Decreases	August 31, 2018	August 31, 2017	Increases	Decreases	August 31, 2018	August 31, 2018
Airport	\$ 42,172	\$ -	\$ -	\$ 42,172	\$ (29,122)	\$ (422)	\$ -	\$ (29,544)	\$ 12,628
Structures and improvements	82,113,847	-	-	82,113,847	(32,531,362)	(1,675,606)	-	(34,206,968)	47,906,879
Reservoirs	39,535,571	220,680	-	39,756,251	(15,614,369)	(712,028)	-	(16,326,397)	23,429,854
Other power and production equipment	2,575,818	12,032	-	2,587,850	(1,880,511)	(58,695)	-	(1,939,206)	648,644
Electric pumping equipment	23,998,237	-	-	23,998,237	(12,160,994)	(612,972)	-	(12,773,966)	11,224,271
Purification system	34,443,334	-	-	34,443,334	(14,701,359)	(1,039,750)	-	(15,741,109)	18,702,225
Transmission mains	82,862,028	-	-	82,862,028	(22,150,100)	(1,225,414)	-	(23,375,514)	59,486,514
Distribution mains and accessories	177,237,097	10,014,606	-	187,251,703	(36,281,784)	(2,258,668)	-	(38,540,452)	148,711,251
Hydrants	4,844,227	-	-	4,844,227	(3,903,955)	(69,616)	-	(3,973,571)	870,656
Office furniture and equipment	2,433,541	145,776	-	2,579,317	(2,166,005)	(101,959)	-	(2,267,964)	311,353
Shop equipment	199,383	-	-	199,383	(197,863)	-	-	(197,863)	1,520
Laboratory equipment	574,333	155,300	-	729,633	(421,937)	(32,744)	-	(454,681)	274,952
Tools and work equipment	454,859	42,802	-	497,661	(329,719)	(27,742)	-	(357,461)	140,200
Communications system	3,159,664	-	-	3,159,664	(1,471,517)	(156,375)	-	(1,627,892)	1,531,772
Meters	15,380,079	542,522	-	15,922,601	(10,321,301)	(631,761)	-	(10,953,062)	4,969,539
Vehicles	3,880,878	71,813	(83,007)	3,869,684	(2,707,694)	(243,136)	69,368	(2,881,462)	988,222
<b>Total depreciable assets</b>	<b>473,735,068</b>	<b>11,205,531</b>	<b>(83,007)</b>	<b>484,857,592</b>	<b>(156,869,592)</b>	<b>(8,846,888)</b>	<b>69,368</b>	<b>(165,647,112)</b>	<b>319,210,480</b>
Land and land rights	5,532,620	204,727	-	5,737,347	-	-	-	-	5,737,347
Construction in progress	8,174,195	18,217,780	(7,454,739)	18,937,236	-	-	-	-	18,937,236
<b>Total nondepreciable assets</b>	<b>13,706,815</b>	<b>18,422,507</b>	<b>(7,454,739)</b>	<b>24,674,583</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,674,583</b>
<b>Total capital assets</b>	<b>\$ 487,441,883</b>	<b>\$ 29,628,038</b>	<b>\$ (7,537,746)</b>	<b>\$ 509,532,175</b>	<b>\$ (156,869,592)</b>	<b>\$ (8,846,888)</b>	<b>\$ 69,368</b>	<b>\$ (165,647,112)</b>	<b>\$ 343,885,063</b>

The Systems adopted GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period, as a result no internal costs were capitalized in the current fiscal year.

The composite depreciation rate was approximately 1.82% in 2018.

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

Notes to Financial Statements

August 31, 2018 and 2017

**(4) Utility Plant**

Utility plant is summarized by major classification at August 31, 2017 as follows:

Asset Class	Capital Assets			August 31, 2017	Accumulated Depreciation			August 31, 2017	Net Capital Assets
	August 31, 2016	Increases	Decreases		August 31, 2016	Increases	Decreases		August 31, 2017
Airport	\$ 42,172	\$ -	\$ -	\$ 42,172	\$ (28,700)	\$ (422)	\$ -	\$ (29,122)	\$ 13,050
Structures and improvements	80,718,654	1,395,193	-	82,113,847	(30,875,451)	(1,655,911)	-	(32,531,362)	49,582,485
Reservoirs	39,461,753	73,818	-	39,535,571	(14,901,217)	(713,152)	-	(15,614,369)	23,921,202
Other power and production equipment	2,508,888	66,930	-	2,575,818	(1,827,391)	(53,120)	-	(1,880,511)	695,307
Electric pumping equipment	23,704,990	293,247	-	23,998,237	(11,547,024)	(613,970)	-	(12,160,994)	11,837,243
Purification system	34,443,334	-	-	34,443,334	(13,655,568)	(1,045,791)	-	(14,701,359)	19,741,975
Transmission mains	82,699,416	162,612	-	82,862,028	(20,926,048)	(1,224,052)	-	(22,150,100)	60,711,928
Distribution mains and accessories	166,383,308	10,853,789	-	177,237,097	(34,143,245)	(2,138,539)	-	(36,281,784)	140,955,313
Hydrants	4,844,227	-	-	4,844,227	(3,834,149)	(69,806)	-	(3,903,955)	940,272
Office furniture and equipment	2,418,962	14,579	-	2,433,541	(2,086,185)	(79,820)	-	(2,166,005)	267,536
Shop equipment	199,383	-	-	199,383	(195,800)	(2,063)	-	(197,863)	1,520
Laboratory equipment	458,188	116,145	-	574,333	(395,710)	(26,227)	-	(421,937)	152,396
Tools and work equipment	337,702	117,157	-	454,859	(313,645)	(16,074)	-	(329,719)	125,140
Communications system	3,159,664	-	-	3,159,664	(1,313,641)	(157,876)	-	(1,471,517)	1,688,147
Meters	14,694,832	685,247	-	15,380,079	(9,695,622)	(625,679)	-	(10,321,301)	5,058,778
Vehicles	3,754,514	192,337	(65,973)	3,880,878	(2,518,675)	(242,842)	53,823	(2,707,694)	1,173,184
<b>Total depreciable assets</b>	<b>459,829,987</b>	<b>13,971,054</b>	<b>(65,973)</b>	<b>473,735,068</b>	<b>(148,258,071)</b>	<b>(8,665,344)</b>	<b>53,823</b>	<b>(156,869,592)</b>	<b>316,865,476</b>
Land and land rights	5,445,016	87,604	-	5,532,620	-	-	-	-	5,532,620
Construction in progress	7,163,769	12,236,224	(11,225,798)	8,174,195	-	-	-	-	8,174,195
<b>Total nondepreciable assets</b>	<b>12,608,785</b>	<b>12,323,828</b>	<b>(11,225,798)</b>	<b>13,706,815</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,706,815</b>
<b>Total capital assets</b>	<b>\$ 472,438,772</b>	<b>\$ 26,294,882</b>	<b>\$ (11,291,771)</b>	<b>\$ 487,441,883</b>	<b>\$ (148,258,071)</b>	<b>\$ (8,665,344)</b>	<b>\$ 53,823</b>	<b>\$ (156,869,592)</b>	<b>\$ 330,572,291</b>

During 2017, the System incurred \$2,013,623 of interest cost. Interest capitalized into construction in progress during 2017 was \$267,444. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 1.83% in 2017.

# LINCOLN WATER SYSTEM

## An Enterprise Fund of the City of Lincoln, Nebraska

### Notes to Financial Statements

August 31, 2018 and 2017

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#### (5) Long-term Liabilities

Long-term debt of the System at August 31, 2018 and 2017 is summarized below:

<b>2018</b>					
Type of Debt	August 31, 2017	Additions	Reductions	August 31, 2018	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 through 2034. Redeemable at par on or after August 15, 2019.	\$12,970,000	\$ -	\$535,000	\$12,435,000	\$555,000
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 through 2022.	5,690,000	-	1,115,000	4,575,000	1,155,000
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 through 2025. Redeemable at par on or after August 15, 2023.	19,475,000	-	2,235,000	17,240,000	2,280,000
2.25% 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.	12,936,099	-	632,445	12,303,654	646,755
Unamortized premium on bonds	2,279,301	-	328,418	1,950,883	-
Total long-term debt	<u>\$53,350,400</u>	<u>-</u>	<u>\$4,845,863</u>	<u>\$48,504,537</u>	<u>\$4,636,755</u>

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

## Notes to Financial Statements

August 31, 2018 and 2017

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

<b>2017</b>					
Type of Debt	August 31, 2016	Additions	Reductions	August 31, 2017	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 through 2034. Redeemable at par on or after August 15, 2019.	\$13,490,000	\$ -	\$520,000	\$12,970,000	\$535,000
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 through 2022.	6,765,000	-	1,075,000	5,690,000	1,115,000
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 through 2025. Redeemable at par on or after August 15, 2023.	21,670,000	-	2,195,000	19,475,000	2,235,000
2.25% 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.	13,554,550	-	618,451	12,936,099	632,445
Unamortized premium on bonds	2,607,720	-	328,419	2,279,301	-
Total long-term debt	<u>\$58,087,270</u>	<u>-</u>	<u>\$4,736,870</u>	<u>\$53,350,400</u>	<u>\$4,517,445</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, 2018 and 2017

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

Maturities and sinking fund requirements on long-term debt at August 31, 2018 are as follows:

Due years ending August 31	Bonds		Loans		Total
	Principal	Interest	Principal	Interest	
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	4,125,000	847,994	691,657	228,312	5,892,963
2023	3,265,000	708,394	707,307	212,662	4,893,363
2024 - 2028	8,685,000	2,030,770	3,783,958	815,887	15,315,615
2029 - 2033	4,670,000	891,206	4,231,865	367,982	10,161,053
2034	1,080,000	48,600	904,371	15,288	2,048,259
Total	\$34,250,000	\$8,036,570	\$12,303,654	\$2,415,542	\$57,005,766

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 \$57,005,766, with annual payments expected to require 31 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$6,394,487 and \$23,704,752, 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.

Construction contract payables of the System at August 31, 2018 and 2017 are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
August 31, 2018	\$1,475,056	2,568,490	1,475,056	2,568,490	2,568,490
August 31, 2017	\$2,645,490	1,390,720	2,561,154	1,475,056	1,475,056

## LINCOLN WATER SYSTEM

### An Enterprise Fund of the City of Lincoln, Nebraska

#### Notes to Financial Statements

August 31, 2018 and 2017

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

##### Construction Commitments:

The System has commitments under major construction contracts in progress of approximately \$7,200,000 at August 31, 2018 to be paid with revenue proceeds.

##### 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 City 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 \$383,000 and \$351,000 in 2018 and 2017, 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 \$585,000 and \$740,000 for administrative services during 2018 and 2017, 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 \$1,435,000 and \$1,462,000 during 2018 and 2017, respectively. At August 31, 2018 and 2017, approximately \$176,000 and \$163,000, 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 \$5,554,340 and \$4,434,434 as of August 31, 2018 and 2017, respectively.

The City of Lincoln general fund borrowed monies from the pooled cash and investment account. The System's allocated share of the borrowing is \$137,509 as of August 31, 2018. This amount is reflected as a current asset and is included in Due from Other Funds on the statement of net position.

# LINCOLN WATER SYSTEM

## An Enterprise Fund of the City of Lincoln, Nebraska

### Notes to Financial Statements

August 31, 2018 and 2017

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#### (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 \$627,000 and \$651,000 for 2018 and 2017, respectively. Contributions made by the plan members were approximately \$377,000 and \$363,000 for 2018 and 2017, respectively. In fiscal year 2018 the system changed the process of how the contributions by plan members is calculated.

#### (9) Other Postemployment Benefits (OPEB)

In fiscal year 2018, the System adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The net OPEB obligation recorded in accordance with GASB Statement No. 45 was removed, and the total OPEB liability was recorded in accordance with GASB Statement No. 75.

For the year ended August 31, 2018, management determined that the following adjustment was to be made to the beginning net position balance:

	Water System
Net position September 1, 2017, as previously reported	\$319,561,557
Total OPEB liability	(792,257)
Removal of net OPEB obligation	500,150
Net position September 1, 2017, as restated	<u>\$319,269,450</u>

The City offers employees and their families the opportunity to continue their health care coverage when there is a qualifying event, such as retirement, that would result in a loss of coverage under the City's plan. The City's plan is a single-employer defined benefit plan. The System does not sponsor its own OPEB plan, as an enterprise fund of the City, the System is allocated a portion of the City's total OPEB liability, and related deferred inflows of resources and deferred outflows of resources. This allocation is based on the estimated headcount of the employees in the System compared to the total headcount of participants in the plan. As of August 31, 2018, the City's total OPEB liability for the Civilians plan was \$9,131,185, and the System's allocation proportion was 8.33 percent.

The System has recognized a long-term accrued liability for its allocated portion of the City's total OPEB liability of approximately \$761,000 as of August 31, 2018, in connection with GASB Statement No. 75. The System has also recognized a deferred outflow of resources and deferred inflow of resources of approximately \$45,000 and \$40,000, respectively for its allocated portion. The total OPEB liability estimate is based on several key assumptions, such as the discount rate, inflation rate, salary increases, healthcare cost trend rates and mortality assumptions. The complete disclosures required by GASB Statement No. 75, including the key assumptions used in actuarial valuation, are included in the City of Lincoln's Comprehensive Annual Financial Report (CAFR).

SUPPLEMENTARY  
INFORMATION

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

Schedule 1

Summary of Long-Term Debt

August 31, 2018

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
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	620,000	454,994	965,000	38,600	2,540,000	354,400	691,657	228,312	4,816,657	1,076,306	5,892,963
2023	645,000	430,194	-	-	2,620,000	278,200	707,307	212,662	3,972,307	921,056	4,893,363
2024-2028	3,695,000	1,739,770	-	-	4,990,000	291,000	3,783,958	815,887	12,468,958	2,846,657	15,315,615
2029-2033	4,670,000	891,206	-	-	-	-	4,231,865	367,982	8,901,865	1,259,188	10,161,053
2034	1,080,000	48,600	-	-	-	-	904,371	15,288	1,984,371	63,888	2,048,259
	\$ 12,435,000	\$ 5,055,170	\$ 4,575,000	\$ 447,000	\$ 17,240,000	\$ 2,534,400	\$ 12,303,654	\$ 2,415,542	\$ 46,553,654	\$ 10,452,112	\$ 57,005,766

**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
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
2017	38,494,901	17,893,434	20,601,467	3,790,000	1,586,181	5,376,181	3.83	4,408,451	2,021,708	6,430,159	3.20
2018	41,473,196	17,768,444	23,704,752	3,885,000	1,461,731	5,346,731	4.43	4,517,445	1,877,042	6,394,487	3.71

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

Schedule 3

**Operating Expenses**

**Years ended August 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Lincoln Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 30,399	\$ 33,409
Control System Maintenance	-	217
Electrical maintenance	161	2,133
Wellfield maintenance	3,415	12,022
Wellfield operations	-	-
Depreciation of general plant	-	-
<b>Total source of supply</b>	<b>\$ 33,975</b>	<b>\$ 47,781</b>
Power and pumping expenses:		
Supervision, management and administrative support	\$ 126,394	\$ 124,947
Training and education	22,899	18,114
Data management	-	-
General operations	126,934	159,258
Treatment and process control	1,969	-
Structures maintenance	18,923	10,776
Control system maintenance	36,453	63,587
Electrical maintenance	117,757	223,215
Grounds maintenance	221,185	187,688
Main repair/maintenance	3,641	845
Customer services	82,433	107,706
Pumping and transmission maintenance	248,784	297,402
Pumping and transmission operations	1,590,259	1,669,563
Security maintenance	5,947	2,321
Depreciation of pumping equipment	380,853	393,127
Depreciation of general plant and improvements	77,518	37,999
Depreciation of transmission mains	2,168	723
Depreciation of structures and improvement	902,544	909,500
Depreciation of distribution mains	1,691	423
<b>Total power and pumping</b>	<b>\$ 3,968,352</b>	<b>\$ 4,207,194</b>
<b>Total - Lincoln Water Plant</b>	<b>\$ 4,002,327</b>	<b>\$ 4,254,975</b>
Ashland Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 162,184	\$ 162,300
Training and education	1,547	1,077
Control system maintenance	25,421	44,197
Electrical maintenance	35,453	56,312
Grounds maintenance	36,590	84,940
Main repair/maintenance	1,599	11,537
Laboratory operations	55,333	53,084
Security maintenance	3,764	1,972
Wellfield maintenance	367,416	339,489
Wellfield operations	828,175	993,067
Depreciation of pumping equipment	14,662	4,887
Depreciation of transmission mains	260,336	260,420
Depreciation of other production equipment	51,987	51,623
Depreciation of purification equipment	6,354	6,354
Depreciation of wells and houses	830,263	830,263
<b>Total source of supply</b>	<b>\$ 2,681,084</b>	<b>\$ 2,901,522</b>

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

Schedule 3, Cont.

**Operating Expenses**

**Years ended August 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Power and pumping expenses:		
Supervision, management and administrative support	\$ 103,423	\$ 114,452
General operations	14,188	9,682
Control system maintenance	33,725	51,200
Electrical maintenance	36,624	31,578
Grounds maintenance	314	105
Main repair/maintenance	139	4,427
Pumping and transmission maintenance	226,519	138,519
Pumping and transmission operations	977,527	1,054,885
Depreciation of pumping equipment	502,926	502,925
Depreciation of structures and improvement	159,218	159,218
Depreciation of general plant & equipment	4,876	2,897
Depreciation of transmission mains	533,748	533,748
Depreciation of other production equipment	44,814	44,814
<b>Total power and pumping</b>	<b>\$ 2,638,041</b>	<b>\$ 2,648,450</b>
Purification expense:		
Supervision, management and administrative support	388,342	\$ 467,559
Training and education	311,844	316,451
General operations	198,207	192,688
Treatment and process control	150,355	150,821
Structures maintenance	40,855	19,755
Process equipment maintenance	39,332	200,274
Control system maintenance	196,186	195,980
Electrical maintenance	85,563	54,231
Grounds maintenance	418,476	402,817
Laboratory operations	410,980	456,032
Pumping and transmission operation	4,646	-
Treatment operations	970,144	788,721
Security maintenance	10,577	3,547
Depreciation of structures and improvements	310,438	292,869
Depreciation of other production equipment	1,321	440
Depreciation of transmission mains	20,088	20,088
Depreciation of purification equipment	1,051,125	1,053,019
Depreciation of general plant & equipment	22,515	15,256
<b>Total purification expenses</b>	<b>\$ 4,630,994</b>	<b>\$ 4,630,548</b>
<b>Total Ashland Water Plant</b>	<b>\$ 9,950,119</b>	<b>\$ 10,180,520</b>
<b>Total supply, pumping and purification</b>	<b>\$ 13,952,446</b>	<b>\$ 14,435,495</b>

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

Schedule 3, Cont.

**Operating Expenses**

**Years ended August 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Transmission and distribution expenses:</b>		
Supervision and management	\$ 998,835	\$ 914,680
Administrative and support staff	450,401	521,949
Training and education	67,471	54,844
Data management	604,571	549,485
General operations	805,981	658,811
Main repair/maintenance	2,071,407	1,827,446
Contractor services	387,700	350,756
Customer services	1,797,571	1,708,724
Depreciation of structures and improvements	11,191	2,996
Depreciation of transmission mains	407,502	407,502
Depreciation of distribution mains	2,890,732	2,765,788
Depreciation of hydrants and fountains	69,616	69,806
Depreciation of general plant and equipment	29,258	38,772
<b>Total transmission and distribution</b>	<b>\$ 10,592,236</b>	<b>\$ 9,871,559</b>
<b>Accounting and collecting expenses:</b>		
Supervision and management	\$ 198,308	\$ 213,314
Administrative and support staff	11,759	12,173
Meter reading	144,172	132,122
Billing and accounting	233,949	299,902
Collections	122,540	110,727
Customer services and billing	138,106	109,911
Customer contracts and orders	37,887	35,057
<b>Total accounting and collecting</b>	<b>\$ 886,721</b>	<b>\$ 913,206</b>
<b>Administrative and general expenses:</b>		
Supervision and management	\$ 1,040,295	\$ 1,186,013
Administrative and support staff	127,626	135,460
Depreciation of general plant and equipment	16,008	17,045
<b>Total administrative and general</b>	<b>\$ 1,183,929</b>	<b>\$ 1,338,518</b>

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

Schedule 4

Utility Plant in Service

August 31, 2018 and 2017

Asset Class	Capital Assets			August 31, 2018	Accumulated Depreciation			August 31, 2018	Net Capital Assets August 31, 2018
	August 31, 2017	Increases	Decreases		August 31, 2017	Increases	Decreases		
Lincoln Water Plant:									
Airport	\$ 42,172	\$ -	\$ -	\$ 42,172	\$ (29,122)	\$ (422)	\$ -	\$ (29,544)	\$ 12,628
Structures and improvements	16,248,874	-	-	16,248,874	(9,190,810)	(364,907)	-	(9,555,717)	6,693,157
Reservoirs	27,251,954	220,680	-	27,472,634	(11,968,684)	(534,767)	-	(12,503,451)	14,969,183
Other power and production equipment	37,856	12,032	-	49,888	(16,090)	(2,494)	-	(18,584)	31,304
Electric pumping equipment	15,239,337	-	-	15,239,337	(5,925,399)	(335,336)	-	(6,260,735)	8,978,602
Purification system	-	-	-	-	1,072	-	-	1,072	1,072
Transmission mains	33,872,626	-	-	33,872,626	(9,805,100)	(411,242)	-	(10,216,342)	23,656,284
Distribution mains and accessories	177,237,097	10,014,606	-	187,251,703	(36,281,784)	(2,258,668)	-	(38,540,452)	148,711,251
Hydrants	4,844,227	-	-	4,844,227	(3,903,955)	(69,616)	-	(3,973,571)	870,656
Office furniture and equipment	2,334,613	145,776	-	2,480,389	(2,084,677)	(100,939)	-	(2,185,616)	294,773
Shop equipment	181,432	-	-	181,432	(179,912)	-	-	(179,912)	1,520
Laboratory equipment	7,959	-	-	7,959	(7,650)	-	-	(7,650)	309
Tools and work equipment	332,167	28,462	-	360,629	(225,189)	(21,846)	-	(247,035)	113,594
Communications system	1,188,760	-	-	1,188,760	(766,572)	(57,084)	-	(823,656)	365,104
Meters	15,380,079	542,522	-	15,922,601	(10,321,301)	(631,761)	-	(10,953,062)	4,969,539
Lincoln depreciable assets	294,199,153	10,964,078	-	305,163,231	(90,705,173)	(4,789,082)	-	(95,494,255)	209,668,976
Land and land rights	1,689,454	204,727	-	1,894,181	-	-	-	-	1,894,181
Lincoln nondepreciable assets	1,689,454	204,727	-	1,894,181	-	-	-	-	1,894,181
<b>Total Lincoln plant</b>	<b>295,888,607</b>	<b>11,168,805</b>	<b>-</b>	<b>307,057,412</b>	<b>(90,705,173)</b>	<b>(4,789,082)</b>	<b>-</b>	<b>(95,494,255)</b>	<b>211,563,157</b>
Ashland Water Plant:									
Structures and improvements	65,864,973	-	-	65,864,973	(23,340,552)	(1,310,699)	-	(24,651,251)	41,213,722
Reservoirs	12,283,617	-	-	12,283,617	(3,645,685)	(177,261)	-	(3,822,946)	8,460,671
Transmission mains	48,989,402	-	-	48,989,402	(12,345,000)	(814,172)	-	(13,159,172)	35,830,230
Office furniture and equipment	98,928	-	-	98,928	(81,328)	(1,020)	-	(82,348)	16,580
Shop equipment	17,951	-	-	17,951	(17,951)	-	-	(17,951)	-
Laboratory equipment	566,374	155,300	-	721,674	(414,287)	(32,744)	-	(447,031)	274,643
Other power and production equipment	2,537,962	-	-	2,537,962	(1,864,421)	(56,201)	-	(1,920,622)	617,340
Electric pumping equipment	8,758,900	-	-	8,758,900	(6,235,595)	(277,636)	-	(6,513,231)	2,245,669
Purification system	34,443,334	-	-	34,443,334	(14,702,431)	(1,039,750)	-	(15,742,181)	18,701,153
Communications Systems	1,970,904	-	-	1,970,904	(704,945)	(99,291)	-	(804,236)	1,166,668
Tools and work equipment	122,692	14,340	-	137,032	(104,530)	(5,896)	-	(110,426)	26,606
Ashland depreciable assets	175,655,037	169,640	-	175,824,677	(63,456,725)	(3,814,670)	-	(67,271,395)	108,553,282
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
<b>Total Ashland plant</b>	<b>179,498,203</b>	<b>169,640</b>	<b>-</b>	<b>179,667,843</b>	<b>(63,456,725)</b>	<b>(3,814,670)</b>	<b>-</b>	<b>(67,271,395)</b>	<b>112,396,448</b>
Vehicles and work equipment (all locations)	3,880,878	71,813	(83,007)	3,869,684	(2,707,694)	(243,136)	69,368	(2,881,462)	988,222
Utility plant in service	\$ 479,267,688	\$ 11,410,258	\$ (83,007)	\$ 490,594,939	\$ (156,869,592)	\$ (8,846,888)	\$ 69,368	\$ (165,647,112)	\$ 324,947,827
Construction in progress	8,174,195	18,217,780	(7,454,739)	18,937,236	-	-	-	-	18,937,236
<b>Total capital assets</b>	<b>\$ 487,441,883</b>	<b>\$ 29,628,038</b>	<b>\$ (7,537,746)</b>	<b>\$ 509,532,175</b>	<b>\$ (156,869,592)</b>	<b>\$ (8,846,888)</b>	<b>\$ 69,368</b>	<b>\$ (165,647,112)</b>	<b>\$ 343,885,063</b>

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

Schedule 5

**GENERAL STATISTICS**

**Year Ended August 31, 2018**

(Unaudited)

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Altitude of Lincoln, Nebraska .....	1,167 Feet
Area of Lincoln, Nebraska .....	96.75 Square Miles
Population .....	284,736 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, 2018 .....	28.49
Kind and Size of Distribution Mains Used .....	Cast Iron/Ductile Iron/PVC/Concrete 4 Inches to 48 Inches
Kind and Size of Transmission Mains from Ashland to Lincoln .....	36-Inch Cast Iron 48-Inch 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, 2017	1,233.8
Estimated Added During Year	21.6
Estimated Removed During Year	6.5
Total as of August 31, 2018 .....	1,248.9 Miles
Amount of Water Pumped During Year Ended August 31, 2018 .....	12,677,969,000 gallons
Average Daily Consumption of Water .....	34,734,200 gallons
Average Daily Consumption Per Capita .....	122 gallons
Total Number of Active Residential Water Customers End of Fiscal Year .....	79,679
Total Number of Active Non-Residential Water Customers End of Fiscal Year .....	4,957
Total Debt of Lincoln Water System at August 31, 2018 .....	\$46,553,654

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

**TOP TEN CUSTOMERS**

**Year Ended August 31, 2018**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	473,299	\$1,002,059
2. State of Nebraska	301,925	644,490
3. City of Lincoln	270,224	641,317
4. Archer-Daniels Midland Company	259,362	337,424
5. Lincoln Public Schools	145,314	383,854
6. University of Nebraska Foundation	142,120	186,448
7. AH 42 LLC	137,796	188,067
8. Veyance Technologies, Inc.	137,151	193,417
9. Bryan Health	130,250	291,674
10. Lincoln Industries	122,365	242,311
<b>Top Ten Users Totals</b>	<b>2,119,806</b>	<b>\$4,111,061</b>

**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)

<b>MONTH</b>	<b>August 31, 2018</b>	<b>August 31, 2017</b>	<b>August 31, 2016</b>	<b>August 31, 2015</b>	<b>August 31, 2014</b>
<b>September</b>	1,385,561,000	1,201,519,000	1,155,406,000	1,070,452,000	1,449,500,000
<b>October</b>	955,275,000	1,051,404,000	1,125,392,000	940,973,000	1,024,210,000
<b>November</b>	823,625,000	886,902,000	844,195,000	795,572,000	769,860,000
<b>December</b>	804,799,000	812,407,000	800,997,000	799,134,000	787,860,000
<b>January</b>	830,465,000	813,245,000	810,486,000	786,647,000	798,960,000
<b>February</b>	748,625,000	736,036,000	753,974,000	729,911,000	744,020,000
<b>March</b>	797,403,000	822,544,000	822,242,000	833,814,000	817,383,000
<b>April</b>	830,788,000	868,221,000	922,688,000	852,106,000	871,885,000
<b>May</b>	1,262,579,000	985,334,000	921,848,000	875,008,000	1,087,779,000
<b>June</b>	1,422,256,000	1,438,168,000	1,597,790,000	1,018,410,000	1,089,234,000
<b>July</b>	1,462,365,000	1,517,563,000	1,583,224,000	1,497,202,000	1,694,026,000
<b>August</b>	1,354,228,000	1,365,059,000	1,384,829,000	1,395,539,000	1,511,387,000
<b>Total</b>	<b>12,677,969,000</b>	<b>12,498,402,000</b>	<b>12,723,071,000</b>	<b>11,594,768,000</b>	<b>12,646,104,000</b>

**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	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
September	3.02	2.99	1.85	3.38	4.93	6.89	1.99	1.73	1.33	3.73	1.25	4.10
October	1.97	1.88	4.90	1.86	0.50	2.46	2.83	1.92	0.93	0.13	4.24	4.79
November	1.43	1.24	0.07	0.65	1.98	0.47	1.22	0.15	1.66	1.97	0.06	1.22
December	0.95	0.82	0.38	1.59	4.42	1.22	0.22	1.50	1.58	0.24	2.42	0.80
January	0.64	0.67	0.41	1.10	0.83	0.91	0.24	0.73	0.16	1.07	0.82	0.38
February	0.77	0.94	0.74	0.55	0.76	0.93	0.62	0.54	2.10	0.79	0.99	0.64
March	1.93	1.58	2.71	1.62	0.93	0.77	0.13	2.12	0.89	0.66	1.77	0.18
April	2.71	2.57	0.67	3.55	4.37	1.99	3.50	4.02	3.49	3.27	2.53	1.52
May	4.29	3.81	2.23	6.29	5.42	10.90	5.26	8.44	3.00	6.00	3.70	1.17
June	4.34	4.16	8.83	7.35	0.58	7.66	5.90	2.49	3.57	3.44	9.90	6.18
July	3.40	3.41	1.35	5.99	4.67	2.39	0.51	1.00	0.33	1.55	5.83	1.84
August	3.48	3.47	4.35	3.38	3.83	3.78	7.54	1.11	0.30	6.89	2.81	3.20
<b>Total</b>	<b>28.93</b>	<b>27.54</b>	<b>28.49</b>	<b>37.31</b>	<b>33.22</b>	<b>40.37</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>

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

WATER ANALYSIS

(All Results in Parts Per Million)  
(Collected July 24, 2018)  
(Unaudited)

550 W. Cornhusker Hwy.

Hydrogen Ion Concentration (pH) .....	7.52
Total Dissolved Solids.....	380 ppm.
Total Iron (Fe).....	<0.050 ppm.
Manganese (Mn).....	2.36 ppb.
Calcium (as Ca) .....	64.0 ppm.
Total Alkalinity (CaCO <sub>3</sub> ).....	192 ppm.
Chloride (Cl).....	21.6 ppm.
Fluoride (F) .....	0.93 ppm.
Nitrate (+Nitrite) .....	1.78 ppm.
Sodium (Na).....	30.1 ppm.
Hardness as (CaCO <sub>2</sub> )	
Total Hardness .....	228 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, 2018

(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 Excess Coverage	0 - 250,000 250,000 - 1,000,000 1,000,000 - 6,000,000	250,000		States	3000027-1
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	75,000	2,500	FM Global	1015645
Money and Securities	Inside/outside premises	3,000,000	25,000	10,000	Hartford Fire	83FA029203117
Water Distribution	Water distribution center	25,000,000	75,000	10,000	FM Global	1015645
Data Processing Equipment	Computer equipment, data and media	Replacement cost	75,000	2,500	FM Global	1015645
Equipment Floater (911)	Radio tower floater	Replacement cost	75,000	2,500	FM Global	1015645
Equipment Floater (NON-LIC)	Nonlicensed scheduled equipment	Actual Cash Value	75,000	2,500	FM Global	1015645
General Liability ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	3000027-1
Public Employee Blanket Bond	Employees blanket bond coverage	3,000,000	25,000	10,000	Hartford Fire	83FA029203117
Public Officials Liability***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	3000027-1
Workers' Compensation Excess	Statutory	Statutory	800,000	0	Midwest Employers Casualty (MECC)	EWC007744
Cyber Liability	1 <sup>st</sup> Party/3 <sup>rd</sup> Party/Data Breach	3,000,000	50,000		XL Catlin	MTP9034936

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

\*\*\* Public Entity Policy

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

**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. 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.

**CYBER INSURANCE**

Provides liability, business interruption, data recovery, cyber extortions and data breach coverage.