

# LINCOLN WATER SYSTEM



Financial Statements  
& Schedules

Fiscal Year Ended  
August 31, 2015

# ANNUAL FINANCIAL REPORT

## DEPARTMENT OF PUBLIC WORKS & UTILITIES

### CITY OFFICIALS

Chris Beutler ..... Mayor

### COUNCIL MEMBERS

Trent Fellers ..... Chair

Leirion Gaylor Baird..... Vice-Chair

Jon Camp  
Roy Christensen  
Jonathan Cook  
Carl Eskridge  
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Jane Raybould

### WATER SYSTEM

Thomas Shafer..... Interim Director of Public Works & Utilities  
Donna Garden..... Assistant Director of Public Works & Utilities

**Lincoln Water System**  
**August 31, 2015 and 2014**

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RSM US LLP

## Independent Auditor's Report

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

### Report on the Financial Statements

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

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2015, and the respective changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the activity of Lincoln Water System, an Enterprise Fund of City of Lincoln, Nebraska and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Nebraska, as of August 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

The financial statements of the System, as of and for the year ended August 31, 2014, were audited by other auditors whose report dated December 8, 2014 expressed an unmodified opinion on those statements.

### **Required Supplementary Information**

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

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, as presented in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Information**

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, for the year ended August 31, 2015 we have also issued our report dated December 1, 2015 and for the year ended August 31, 2014 other auditors have issued their report dated December 8, 2014, on our respective consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln Water System's internal control over financial reporting and compliance.

*RSM US LLP*

Omaha, Nebraska  
December 1, 2015

## **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, 2015 and 2014. 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 \$10,542,390 in 2015 over 2014 as shown in Table 1.

## Financial Analysis

The following comparative condensed financial statements summarize Lincoln Water System's financial position and operating results for the years ended August 31, 2015, 2014, and 2013.

**Table 1**

### Condensed Statements of Net Position

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

### Financial Highlights – Fiscal Year 2015

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

**Table 2****Condensed Statements of Net Position**

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

**Financial Highlights – Fiscal Year 2014**

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

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

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

**Financial Highlights – Fiscal Year 2015**

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

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

	August 31		Change	
	2014	2013	Dollars	Percent
Operating revenues				
Water revenue	\$31,647,555	\$31,051,639	\$ 595,916	1.92%
Other revenue	975,479	930,094	45,385	4.88%
Total operating revenues	32,623,034	31,981,733	641,301	2.01%
Nonoperating revenues				
Investment income	681,211	-	681,211	100.00%
Settlement proceeds	-	809,184	(809,184)	(100.00%)
Total nonoperating revenues	681,211	809,184	(127,973)	(15.82%)
Total revenues	33,304,245	32,790,917	513,328	(1.57%)
Operating expenses				
Supply, pumping and purification	12,968,893	12,876,786	92,107	0.72%
Transmission and distribution	9,300,631	8,814,582	486,049	5.51%
Accounting and collecting	841,144	850,068	(8,924)	(1.05%)
Administrative and general	1,254,328	1,021,684	232,644	22.77%
Total operating expenses	24,364,996	23,563,120	801,876	3.40%
Nonoperating expenses				
Investment loss	-	468,499	(468,499)	(100.00%)
Interest expense	1,527,980	1,893,857	(365,877)	(19.32%)
Net costs recoverable	48,767	42,444	6,323	14.90%
Total nonoperating expenses	1,576,747	2,404,800	(828,053)	(34.43%)
Total Expenses	25,941,743	25,967,920	(26,177)	(0.10%)
Income before contributions	7,362,502	6,822,997	539,505	7.91%
Capital contributions	2,412,052	3,539,430	(1,127,378)	(31.85%)
Transfers out	(166,987)	(805,073)	638,086	(79.26%)
Change in net position	\$ 9,607,567	\$ 9,557,354	\$ 50,213	0.53%

**Financial Highlights – Fiscal Year 2014**

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

### ***Debt Activity***

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

In July 2011, the Lincoln Water System entered into a \$15,000,000 loan agreement with the Nebraska Department of Environmental Quality (NDEQ) to fund certain water system extension and water repairs. Loan funds are drawn from NDEQ as the related project costs are incurred and paid for by the Water System.

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

Lincoln Water System's investment in capital assets as of August 31, 2015 amounts to \$318,873,535 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment. Major capital asset events during 2015 include treatment plant modifications and selected main replacements for approximately \$2.3 million and \$3 million respectively.

### ***System Credit and Bond Ratings***

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

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

Lincoln Water System has commitments under major construction contracts in progress of approximately \$3,200,000 at August 31, 2015.

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

The approved Capital Improvement Program for Fiscal Year 2015/16 - 2019/20 identifies the need for \$90,900,200 to fund capital improvements for the Water System. Approximately \$19,000,000 of that total is projected to be funded by revenue bonds. Future user fee increases will be needed to make the necessary improvements possible.

In August 2015, the Lincoln City Council approved a 3% revenue increase, which will be attained through increases in the various service charges.

### ***Contact Information***

This financial report is intended to provide users with a general overview of the System's financial performance for 2015 and 2014. 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, 2015 and 2014**

<b>Assets and Deferred Outflows of Resources</b>	<b>2015</b>	<b>2014</b>
Current assets:		
Equity in pooled cash and investments	\$ 14,173,631	\$ 12,250,648
Receivables:		
Accounts receivable	3,143,564	3,334,203
Unbilled revenues	3,978,456	4,249,096
Due from other governments	124,781	567,771
Due from other funds	-	70,167
Impact fees	2,462,771	1,812,654
Total receivables	9,709,572	10,033,891
Inventories	927,428	940,480
Total current assets	24,810,631	23,225,019
Noncurrent assets:		
Equity in pooled cash and investments	9,736,519	9,229,200
Restricted assets:		
Equity in pooled cash	844,304	604,114
Equity in pooled investments	6,630,804	6,573,371
Total restricted assets	7,475,108	7,177,485
Utility plant:		
Non-depreciable	11,586,025	9,786,896
Depreciable	446,856,833	436,240,060
Less accumulated depreciation	(139,569,323)	(131,160,618)
Net utility plant	318,873,535	314,866,338
Costs recoverable from future billings	502,075	550,842
Total noncurrent assets	336,587,237	331,823,865
Total assets	361,397,868	355,048,884
Deferred outflows of resources:		
Deferred loss on refunding	710,994	781,716
Total assets and deferred outflows of resources	\$ 362,108,862	\$ 355,830,600
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable	\$ 511,645	\$ 460,882
Accrued liabilities	798,987	811,825
Deposits liability	104,499	110,449
Accrued compensated absences	502,356	482,790
Construction contracts	1,821,804	2,557,812
Current maturities of long-term debt	4,307,000	4,310,000
Accrued interest	196,624	148,241
Total current liabilities	8,242,915	8,881,999
Long-term liabilities:		
Accrued liabilities	409,929	356,209
Accrued compensated absences	513,702	493,407
Construction contracts	84,336	84,336
Long-term debt, excluding current maturities	58,405,625	62,104,684
Total long-term liabilities	59,413,592	63,038,636
Total liabilities	67,656,507	71,920,635
Net position:		
Net investment in capital assets	260,427,539	251,668,822
Restricted for debt service	272,916	267,083
Restricted for capital acquisition	2,462,771	1,812,654
Unrestricted	31,289,129	30,161,406
Total net position	294,452,355	283,909,965
Total liabilities and net position	\$ 362,108,862	\$ 355,830,600

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, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
Operating revenues:		
Water sales	\$ 30,563,586	\$ 31,647,555
Service and materials, net	759,891	975,479
Total operating revenues	31,323,477	32,623,034
Operating expenses:		
Supply, pumping and purification	13,515,736	12,968,893
Transmission and distribution	9,541,243	9,300,631
Accounting and collecting	938,458	841,144
Administrative and general	1,456,412	1,254,328
Total operating expenses	25,451,849	24,364,996
Operating income	5,871,628	8,258,038
Nonoperating revenues (expenses):		
Investment income	442,287	681,211
Interest expense	(1,711,506)	(1,527,980)
Gain on sale of assets	843,321	-
Net costs recoverable	(48,767)	(48,767)
Net nonoperating expenses	(474,665)	(895,536)
Increase in net position before capital contributions	5,396,963	7,362,502
Capital contributions from:		
Developer contributions	3,272,637	782,650
Impact fees	1,318,284	1,051,865
Tap fees	554,506	577,537
Total capital contributions	5,145,427	2,412,052
Transfers Out	-	(166,987)
Increase in net position	10,542,390	9,607,567
Total net position - beginning	283,909,965	274,302,398
Total net position - ending	\$ 294,452,355	\$ 283,909,965

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, 2015 and 2014**

	2015	2014
Operating activities:		
Receipts from customers and users	\$31,128,689	\$ 32,035,627
Payments to suppliers	(8,241,841)	(7,831,929)
Payments to employees	(8,568,659)	(8,623,406)
Net cash provided by operating activities	14,318,189	15,580,292
Noncapital financing activities:		
Transfer to other funds	-	(166,987)
Repayment from other funds, net	70,167	125,757
Net cash provided by (used in) noncapital financing activities	70,167	(41,230)
Capital and related financing activities:		
Acquisition and construction of capital assets	(7,961,352)	(18,717,593)
Proceeds from sale of assets	905,545	-
Principal paid on revenue bonds and long term obligations	(4,290,300)	(3,923,000)
Proceeds from NDEQ loan	1,359,650	7,623,929
Interest paid on revenue bonds and long term obligations	(2,116,261)	(2,044,418)
Net cash used in capital and related financing activities	(12,102,718)	(17,061,082)
Investing activities:		
Purchases of investments	(22,313,350)	(17,333,170)
Proceeds from sales and investment maturities	18,607,731	17,627,345
Interest on investments	328,880	322,792
Net cash provided by (used in) investing activities	(3,376,739)	616,967
Net (decrease) in cash and cash equivalents	(1,091,101)	(905,053)
Cash and cash equivalents at beginning of year	1,618,648	2,523,701
Cash and cash equivalents at end of year	\$ 527,547	\$ 1,618,648
Composition of equity in pooled cash and investments (current)		
Cash and cash equivalents	\$ 527,547	\$ 1,618,648
Investments	13,646,084	10,632,000
Total equity in pooled cash and investments (current)	\$14,173,631	\$ 12,250,648
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 5,871,628	\$ 8,258,038
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,496,791	8,056,937
Changes in operating assets and liabilities:		
Accounts receivable	(188,838)	(590,706)
Inventories	13,052	124,015
Accounts payable	50,763	(300,809)
Accrued liabilities and deposit liability	34,932	6,994
Accrued compensated absences	39,861	25,823
Total adjustments	8,446,561	7,322,254
Net cash provided by operating activities	\$14,318,189	\$ 15,580,292

Supplemental disclosure of noncash transactions:

Contributed capital improvements of \$3,272,637 and \$782,650 were added to utility plant in 2015 and 2014, respectively.

Accounts payable incurred for utility plant purchases were \$1,906,140 and \$2,642,148 in 2015 and 2014, 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, 2015 and 2014

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

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

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

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

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

The 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, 2015 and 2014, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

As an enterprise fund, the Lincoln Water System distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Lincoln Water System's principal ongoing operations. The principal operating revenues of the Lincoln Water System are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

# LINCOLN WATER SYSTEM

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

### Notes to Financial Statements

August 31, 2015 and 2014

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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, 2015 or 2014.

##### ***Restricted Assets***

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

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

Cost of additions and replacements to utility plant are capitalized. Cost includes labor, materials, payments to contractors, equipment use and indirect costs. Long-term construction contracts that are entered into with developers to expand the distribution system and structure are capitalized at cost over the term of construction, with the related liability classified between current and long-term based upon the anticipated expenditure appropriation or collection of directed impact fees. Interest expense, net of interest earned on unspent bond proceeds, is capitalized in connection with the construction of major assets. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Contributed assets are capitalized at their fair value at the date of contribution. The cost of property retired, together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is removed from service, except for land, on which gain or loss is recognized upon disposition. Expenditures for maintenance and repairs are charged to current expenses. Items with a cost greater than \$5,000 are capitalized. Items less than \$5,000 may be capitalized if they belong to a larger asset or if documentation is received stating that significant additions will be made to the item in the near future.

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

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

# LINCOLN WATER SYSTEM

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

### Notes to Financial Statements

August 31, 2015 and 2014

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

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

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

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

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

Fair value of the equity in the pool is the same as the value of the pool shares determined using the fair value of the pool's underlying investment portfolio, which is reported at fair value based on quoted market prices.

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

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

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

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

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

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

# LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2015 and 2014

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

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

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

### ***Inventories***

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

### ***Deferred Outflow of Resources***

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

# LINCOLN WATER SYSTEM

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

### Notes to Financial Statements

August 31, 2015 and 2014

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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 Lincoln Water System. The following rates were in effect for the years ended August 31, 2015 and 2014:

	<u>August 31, 2015</u>	<u>August 31, 2014</u>
<u>Water Usage</u>		
Residential:		
100 to 800 cubic feet	\$1.344	\$1.344
801 to 2,300 cubic feet	1.911	1.911
2,301 and up	2.961	2.961
Nonresidential low volume user:		
100 to 8,000 cubic feet	1.344	1.344
8,001 and up	1.911	1.911
Nonresidential high volume user:		
Base usage which is average water usage for previous three calendar years	1.276 to 1.407	1.276 to 1.407
<u>Service Charge</u>		
5/8 inch	\$ 4.37	\$ 3.80
5/8 x 3/4 inch	6.61	5.75
3/4 inch	6.61	5.75
1 inch	11.04	9.60
1 1/2 inch	22.02	19.15
2 inch	35.25	30.65
3 inch	66.13	57.50
4 inch	110.24	95.85
6 inch	220.42	191.65
8 inch	352.68	306.65
10 inch	507.02	440.85

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

##### **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, 2015 and 2014

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

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

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

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

##### **Compensated Absences**

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

Compensated absences of the Lincoln Water System at August 31, 2015 and 2014 are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
August 31, 2015	\$976,197	522,651	482,790	1,016,058	502,356
August 31, 2014	\$950,374	491,080	465,257	976,197	482,790

# LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2015 and 2014

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

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

The Water System recorded a long-term accrued liability for the annual required contribution (ARC) of approximately \$410,000 and \$356,000 as of August 31, 2015 and 2014, respectively, in connection with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The complete disclosures required by GASB 45 are included in the City of Lincoln Comprehensive Annual Financial Report (CAFR).

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

Management of Lincoln Water System has made a number of estimates and assumptions relating to the reporting of balance sheet amounts and the disclosure of contingent items to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

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

### ***Deposits***

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

### ***Investments***

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

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

# LINCOLN WATER SYSTEM

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

### Notes to Financial Statements

August 31, 2015 and 2014

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

At August 31, 2015 and 2014, the Lincoln Water System had the following investments and maturities:

Type	August 31, 2015				
	Carrying Value	Less than 1	Maturities in Years		
			1 - 5	6 - 10	More than 10
U.S. Government Sponsored Agency	\$6,630,804	\$ -	\$1,144,508	\$5,486,296	\$ -

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

#### 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, 2015 and 2014, the Lincoln Water System investments in United States government sponsored agencies not directly guaranteed by the United States government were rated AA+ by Standard & Poor's (S & P) and Aaa by Moody's Investors Service (Moody's).

# LINCOLN WATER SYSTEM

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

### Notes to Financial Statements

August 31, 2015 and 2014

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

##### 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>2015</u>	<u>2014</u>
U.S. Government Agency Obligations		
Federal Farm Credit Bank	17.6%	19.0%

The carrying amount of equity interests in pooled cash and investments at August 31, 2015 and 2014 are:

	<u>2015</u>	<u>2014</u>
Equity in pooled cash and investments	\$24,754,454	\$22,083,962

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

Investment income for the years ended August 31, 2015 and 2014 consisted of:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$340,030	\$319,696
Net change in fair value of investments	102,257	361,515
	<u>\$442,287</u>	<u>\$681,211</u>

#### (3) Inventories

Balances of the major classes of inventory at August 31, 2015 and 2014, are shown below:

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	<u>2015</u>	<u>2014</u>
Heavy materials	\$642,447	\$693,246
Diesel fuel	108,058	83,646
Water meters and parts	127,017	124,430
Chemicals	49,906	39,158
	<hr/>	<hr/>
Total inventories	\$927,428	\$940,480

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

Notes to Financial Statements

August 31, 2015 and 2014

**(4) Utility Plant**

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

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

During 2015, Lincoln Water System incurred \$2,164,645 of interest cost. Interest capitalized into construction in progress during 2015 was \$195,441. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 1.90% in 2015.

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

Notes to Financial Statements

August 31, 2015 and 2014

**(4) Utility Plant**

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

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

During 2014, Lincoln Water System incurred \$2,080,526 of interest cost. Interest capitalized into construction in progress during 2014 was \$294,848. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 1.85% in 2014.

# LINCOLN WATER SYSTEM

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

### Notes to Financial Statements

August 31, 2015 and 2014

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#### (5) Long-term Liabilities

Long-term debt of the Lincoln Water System at August 31, 2015 and 2014 is summarized below:

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

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

## Notes to Financial Statements

August 31, 2015 and 2014

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

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

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, 2015 and 2014

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

Maturities and sinking fund requirements on long-term debt at August 31, 2015 are as follows:

Due years ending August 31	Bonds		Loans		Total
	Principal	Interest	Principal	Interest	
2016	\$ 3,740,000	\$ 1,647,281	\$ 567,000	\$ 454,055	\$ 6,408,336
2017	3,790,000	1,586,181	585,455	435,481	6,397,117
2018	3,885,000	1,461,731	604,637	416,299	6,367,667
2019	3,990,000	1,334,031	624,447	396,489	6,344,967
2020	4,130,000	1,179,981	644,906	376,030	6,330,917
2021 - 2025	18,065,000	3,624,770	3,555,669	1,549,011	26,794,450
2026 - 2030	4,045,000	1,434,288	4,177,600	927,080	10,583,968
2031 - 2034	4,020,000	463,500	3,351,773	221,383	8,056,656
Total	\$45,665,000	\$12,731,763	\$14,111,487	\$4,775,828	\$77,284,078

The City has pledged future revenues derived from the operation of the Lincoln Water System, net of operating and maintenance expenses, to repay all outstanding water revenue bonds. Proceeds from the bonds and 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 Water System and are payable through 2034. The total principal and interest remaining to be paid on the bonds and loan is \$77,284,078, with annual payments expected to require 37 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$6,406,562 and \$17,526,817, respectively.

Lincoln Water System has entered into a \$15,000,000 loan agreement with Nebraska Department of Environmental Quality (NDEQ). This funding is available to fund certain water system extension and water repairs. The interest rate during the period of construction is 2%. After the date of initiation of operation, the interest rate will increase to 2.25%. In addition, an administrative fee of 1% will be incurred on the loan. During the year ended August 31, 2015, Lincoln Water System incurred project costs totaling \$916,660 resulting in the recognition of a project payable of \$14,111,487, which is shown net of \$818,300 of principal repayments. The remaining available funds totaling \$70,213 are not reflected in the Lincoln Water System financial statements.

Construction contract payables of the Lincoln Water System at August 31, 2015 and 2014 are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
August 31, 2015	\$2,642,148	1,821,804	2,557,812	1,906,140	1,821,804
August 31, 2014	\$4,068,605	2,473,435	3,899,892	2,642,148	2,557,812

#### (6) Commitments and Contingencies

Lincoln Water System has commitments under major construction contracts in progress of approximately \$3,200,000 at August 31, 2015.

## **LINCOLN WATER SYSTEM**

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

#### Notes to Financial Statements

August 31, 2015 and 2014

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

The City billed the Water System approximately \$700,000 and \$620,000 for administrative services during 2015 and 2014, respectively. The Water System also makes payments to Lincoln Electric System (LES), an enterprise fund of the City of Lincoln, for electricity used at the System's operating locations. Payments to LES totaled approximately \$1,437,000 and \$1,512,000 during 2015 and 2014, respectively. At August 31, 2015 and 2014, approximately \$199,000 and \$181,000, respectively are included in accounts payable for amounts owed to LES for electricity used.

A special revenue fund of the City collects and holds impact fees until they are disbursed in accordance with City ordinance. The Lincoln Water System was due impact fees of \$2,462,771 and \$1,812,654 as of August 31, 2015 and 2014, respectively.

The City of Lincoln general fund has borrowed monies from the pooled cash and investment account. The Water System's allocated share of the borrowing was \$0 and \$70,167 as of August 31, 2015 and 2014, respectively. This amount is reflected as a current asset and is included in Due from Other Funds on the statements of net position.

In 2014 the Water System transferred \$166,987 to the Street Construction Fund.

#### **(8) Risk Management**

Lincoln Water System participates in the City's self-insurance program administered by the City's Risk Management Division (the Division). The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On behalf of the City, the Division purchases insurance and administers funds for its self-insured program. The Division maintains a workers' compensation fund and a self-insurance loss fund. The Division provides first dollar coverage for all liability and workers' compensation exposure with insurance acting as an umbrella or excess coverage. The maximum exposure would be the deductible amounts for property and auto physical damage, as well as losses not covered by insurance. Lincoln Water System had no claims or judgments exceeding the policy limits during each of the last three prior years. Budgeted premium amounts charged to Lincoln Water System are placed in the appropriate fund maintained by the Division. Premium expense was approximately \$309,000 and \$302,000 in 2015 and 2014, respectively.

#### **(9) Pension Plan**

Employees of Lincoln Water System are participants in the City of Lincoln Employees' Retirement Plan. Plan participation is required if the employee has completed five years of continuous service and attained the age of 40. An employee may voluntarily enter the plan upon attaining age 19 and after completing six months of service. The plan is a defined contribution plan requiring employees to contribute to the plan depending on employee class and date of hire. Lincoln Water System contributes between \$1.29 and \$2.00 for every \$1.00 contributed by employees. Plan participants vest in the City's contributions in year three of participation at 20%, up to 100% vesting in year seven. Contributions made by the System were approximately \$597,000 and \$632,000 for 2015 and 2014, respectively. Contributions made by the plan members were approximately \$344,000 and \$355,000 for 2015 and 2014, respectively.

SUPPLEMENTARY  
INFORMATION

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

Schedule 1

Summary of Long-Term Debt

August 31, 2015

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
2016	\$ 500,000	\$ 558,281	\$ 1,055,000	\$ 286,425	\$ 2,185,000	\$ 802,575	\$ 567,000	\$ 454,055	\$ 4,307,000	\$ 2,101,336	\$ 6,408,336
2017	520,000	545,781	1,075,000	270,600	2,195,000	769,800	585,455	435,481	4,375,455	2,021,662	6,397,117
2018	535,000	530,181	1,115,000	227,600	2,235,000	703,950	604,637	416,299	4,489,637	1,878,030	6,367,667
2019	555,000	514,131	1,155,000	183,000	2,280,000	636,900	624,447	396,489	4,614,447	1,730,520	6,344,967
2020	575,000	497,481	1,205,000	136,800	2,350,000	545,700	644,906	376,030	4,774,906	1,556,011	6,330,917
2021-2025	3,240,000	2,145,770	2,215,000	127,200	12,610,000	1,351,800	3,555,669	1,549,011	21,620,669	5,173,781	26,794,450
2026-2030	4,045,000	1,434,288	-	-	-	-	4,177,600	927,080	8,222,600	2,361,368	10,583,968
2031-2034	4,020,000	463,500	-	-	-	-	3,351,773	221,383	7,371,773	684,883	8,056,656
	\$ 13,990,000	\$ 6,689,413	\$ 7,820,000	\$ 1,231,625	\$ 23,855,000	\$ 4,810,725	\$ 14,111,487	\$ 4,775,828	\$ 59,776,487	\$ 17,507,591	\$ 77,284,078

**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
2006	29,014,999	13,808,214	15,206,785	5,130,000	3,834,301	8,964,301	1.70	5,130,000	3,834,301	8,964,301	1.70
2007	29,386,495	14,351,136	15,035,359	5,340,000	3,612,001	8,952,001	1.68	5,340,000	3,612,001	8,952,001	1.68
2008	27,257,184	14,425,521	12,831,663	5,555,000	3,376,201	8,931,201	1.44	5,555,000	3,376,201	8,931,201	1.44
2009	27,838,187	14,995,077	12,843,110	5,795,000	3,128,414	8,923,414	1.44	5,795,000	3,128,414	8,923,414	1.44
2010	26,515,467	14,091,292	12,424,175	6,050,000	3,458,097	9,508,097	1.31	6,050,000	3,458,097	9,508,097	1.31
2011	30,629,506	15,455,027	15,174,479	6,310,000	3,191,857	9,501,857	1.60	6,310,000	3,191,857	9,501,857	1.60
2012	35,984,891	15,636,494	20,348,397	5,380,000	2,953,765	8,333,765	2.44	5,380,000	2,955,202	8,335,202	2.44
2013	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	34,481,875	16,955,058	17,526,817	3,710,000	1,707,831	5,417,831	3.24	4,290,300	2,116,262	6,406,562	2.74

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

Schedule 3

**Operating Expenses**

**Years ended August 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
Lincoln Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 34,741	\$ 59,913
Control System Maintenance	45	-
Wellfield maintenance	17,171	15,088
Wellfield operations	1,717	1,892
Depreciation of general plant	903	903
<b>Total source of supply</b>	<b>\$ 54,577</b>	<b>\$ 77,796</b>
Power and pumping expenses:		
Supervision, management and administrative support	\$ 120,779	\$ 137,110
Training and education	22,776	17,825
Data management	4,677	7,010
General operations	177,783	179,511
Structures maintenance	29,406	39,938
Control system maintenance	54,421	50,312
Electrical maintenance	172,727	192,049
Grounds maintenance	296,189	330,960
Main repair/maintenance	26,209	2,506
Customer services	72,480	43,436
Pumping and transmission maintenance	231,613	154,951
Pumping and transmission operations	1,628,349	1,714,182
Security maintenance	1,391	2,739
Depreciation of pumping equipment	403,876	402,944
Depreciation of general plant and improvements	20,440	7,735
Depreciation of structures and improvement	923,608	957,161
<b>Total power and pumping</b>	<b>\$ 4,186,724</b>	<b>\$ 4,240,369</b>
<b>Total - Lincoln Water Plant</b>	<b>\$ 4,241,301</b>	<b>\$ 4,318,165</b>
Ashland Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 158,330	\$ 145,628
Training and education	360	698
Control system maintenance	47,616	35,165
Electrical maintenance	32,878	33,780
Grounds maintenance	137,439	95,880
Main repair/maintenance	10,090	3,705
Laboratory operations	22,525	7,964
Security maintenance	1,531	527
Wellfield maintenance	254,522	200,787
Wellfield operations	1,109,658	1,054,529
Depreciation of transmission mains	260,420	260,420
Depreciation of other production equipment	6,211	3,810
Depreciation of Pumping Equipment	6,354	-
Depreciation of wells and houses	830,124	565,898
<b>Total source of supply</b>	<b>\$ 2,878,058</b>	<b>\$ 2,408,791</b>

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

Schedule 3, Cont.

**Operating Expenses**

	<b>2015</b>	<b>2014</b>
Power and pumping expenses:		
Supervision, management and administrative support	\$ 117,601	\$ 143,519
General operations	1,724	956
Control system maintenance	20,309	16,729
Electrical maintenance	27,441	36,845
Grounds maintenance	7,047	875
Main repair/maintenance	34,767	230
Pumping and transmission maintenance	121,282	71,659
Pumping and transmission operations	866,700	925,156
Depreciation of pumping equipment	502,954	503,272
Depreciation of structures and improvement	159,218	159,218
Depreciation of transmission mains	533,748	533,748
Depreciation of other production equipment	54,201	54,201
<b>Total power and pumping</b>	<b>\$ 2,446,992</b>	<b>\$ 2,446,408</b>
Purification expense:		
Supervision, management and administrative support	\$ 357,925	\$ 368,573
Training and education	224,469	159,174
General operations	177,399	169,622
Treatment and process control	114,729	81,611
Structures maintenance	29,267	20,099
Process equipment maintenance	23,767	8,269
Control system maintenance	183,404	144,156
Electrical maintenance	29,584	23,227
Grounds maintenance	519,240	494,749
Laboratory operations	408,954	400,293
Treatment operations	603,116	658,067
Security maintenance	3,211	9,322
Depreciation of structures and improvements	271,904	271,784
Depreciation of transmission mains	20,088	20,088
Depreciation of purification equipment	970,143	950,479
Depreciation of general plant & equipment	12,185	16,016
<b>Total purification expenses</b>	<b>\$ 3,949,385</b>	<b>\$ 3,795,529</b>
<b>Total Ashland Water Plant</b>	<b>\$ 9,274,435</b>	<b>\$ 8,650,728</b>
<b>Total supply, pumping and purification</b>	<b>\$13,515,736</b>	<b>\$12,968,893</b>

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

Schedule 3, Cont.

**Operating Expenses**

	<b>2015</b>	<b>2014</b>
<b>Transmission and distribution expenses:</b>		
Supervision and management	\$ 837,549	\$ 886,462
Administrative and support staff	538,701	493,793
Training and education	42,470	75,024
Data management	591,901	681,544
General operations	557,550	765,275
Main repair/maintenance	1,978,206	1,705,081
Contractor services	288,731	278,434
Customer services	1,685,960	1,541,512
Depreciation of structures and improvements	1,033	1,033
Depreciation of transmission mains	406,528	406,529
Depreciation of distribution mains	2,486,064	2,353,728
Depreciation of hydrants and fountains	69,942	69,942
Depreciation of general plant and equipment	56,608	42,274
<b>Total transmission and distribution</b>	<b>\$ 9,541,243</b>	<b>\$ 9,300,631</b>
<b>Accounting and collecting expenses:</b>		
Supervision and management	\$ 250,239	\$ 200,605
Administrative and support staff	18,841	2,317
Meter reading	128,171	128,972
Billing and accounting	284,295	263,114
Collections	105,110	104,467
Customer services and billing	108,538	98,898
Customer contracts and orders	35,614	35,121
Depreciation of general plant and equipment	7,650	7,650
<b>Total accounting and collecting</b>	<b>\$ 938,458</b>	<b>\$ 841,144</b>
<b>Administrative and general expenses:</b>		
Supervision and management	\$ 1,117,072	\$ 911,236
Administrative and support staff	123,643	127,395
Depreciation of general plant and equipment	215,697	215,697
<b>Total administrative and general</b>	<b>\$ 1,456,412</b>	<b>\$ 1,254,328</b>

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

Schedule 4

Utility Plant in Service

August 31, 2015 and 2014

Asset Class	Capital Assets			Accumulated Depreciation			Net Capital Assets		
	August 31, 2014	Increases	Decreases	August 31, 2015	August 31, 2014	Increases	Decreases	August 31, 2015	
Lincoln Water Plant:									
Airport	\$ 42,172	\$ -	\$ -	\$ 42,172	\$ (27,856)	\$ (422)	\$ -	\$ (28,278)	\$ 13,894
Structures and improvements	15,686,727	-	-	15,686,727	(8,092,605)	(366,087)	-	(8,458,692)	7,228,035
Reservoirs	26,882,653	-	-	26,882,653	(10,329,856)	(545,094)	-	(10,874,950)	16,007,703
Other power and production equipment	37,856	-	-	37,856	(10,411)	(1,893)	-	(12,304)	25,552
Electric pumping equipment	15,239,337	-	-	15,239,337	(4,865,574)	(356,858)	-	(5,222,432)	10,016,905
Purification system	-	-	-	-	1,072	-	-	1,072	1,072
Transmission mains	33,680,814	-	-	33,680,814	(8,578,698)	(408,100)	-	(8,986,798)	24,694,016
Distribution mains and accessories	151,102,392	7,360,721	-	158,463,113	(30,253,199)	(1,892,028)	-	(32,145,227)	126,317,886
Hydrants	4,844,227	-	-	4,844,227	(3,694,265)	(69,942)	-	(3,764,207)	1,080,020
Office furniture and equipment	2,183,723	40,495	-	2,224,218	(1,450,220)	(278,577)	-	(1,728,797)	495,421
Shop equipment	181,432	-	-	181,432	(170,777)	(3,536)	-	(174,313)	7,119
Laboratory equipment	7,959	-	-	7,959	(5,262)	(796)	-	(6,058)	1,901
Tools and work equipment	225,876	-	-	225,876	(195,157)	(10,738)	-	(205,895)	19,981
Communications system	1,188,760	-	-	1,188,760	(590,817)	(58,585)	-	(649,402)	539,358
Meters	13,754,254	404,904	-	14,159,158	(8,488,135)	(599,694)	-	(9,087,829)	5,071,329
<b>Lincoln depreciable assets</b>	<b>265,058,182</b>	<b>7,806,120</b>	<b>-</b>	<b>272,864,302</b>	<b>(76,751,760)</b>	<b>(4,592,350)</b>	<b>-</b>	<b>(81,344,110)</b>	<b>191,520,192</b>
Land and land rights	1,548,382	128	-	1,548,510	-	-	-	-	1,548,510
<b>Lincoln nondepreciable assets</b>	<b>1,548,382</b>	<b>128</b>	<b>-</b>	<b>1,548,510</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,548,510</b>
<b>Total Lincoln plant</b>	<b>266,606,564</b>	<b>7,806,248</b>	<b>-</b>	<b>274,412,812</b>	<b>(76,751,760)</b>	<b>(4,592,350)</b>	<b>-</b>	<b>(81,344,110)</b>	<b>193,068,702</b>
Ashland Water Plant:									
Structures and improvements	64,106,848	173,985	-	64,280,833	(19,565,893)	(1,226,945)	-	(20,792,838)	43,487,995
Reservoirs	12,283,617	-	-	12,283,617	(3,113,902)	(177,261)	-	(3,291,163)	8,992,454
Transmission mains	48,989,402	-	-	48,989,402	(9,902,232)	(814,256)	-	(10,716,488)	38,272,914
Office furniture and equipment	98,928	-	-	98,928	(78,268)	(1,020)	-	(79,288)	19,640
Shop equipment	17,951	-	-	17,951	(17,951)	-	-	(17,951)	-
Laboratory equipment	397,262	52,967	-	450,229	(363,840)	(11,922)	-	(375,762)	74,467
Other power and production equipment	2,418,136	2,740	-	2,420,876	(1,706,592)	(58,113)	-	(1,764,705)	656,171
Electric pumping equipment	8,465,653	-	-	8,465,653	(5,441,758)	(263,002)	-	(5,704,760)	2,760,893
Purification system	28,944,826	2,427,640	-	31,372,466	(11,642,601)	(975,739)	-	(12,618,340)	18,754,126
Communications Systems	1,970,904	-	-	1,970,904	(407,072)	(99,291)	-	(506,363)	1,464,541
Tools and work equipment	100,212	-	-	100,212	(100,188)	-	-	(100,188)	24
<b>Ashland depreciable assets</b>	<b>167,793,739</b>	<b>2,657,332</b>	<b>-</b>	<b>170,451,071</b>	<b>(52,340,297)</b>	<b>(3,627,549)</b>	<b>-</b>	<b>(55,967,846)</b>	<b>114,483,225</b>
Land and land rights	3,905,390	-	(62,224)	3,843,166	-	-	-	-	3,843,166
<b>Ashland nondepreciable assets</b>	<b>3,905,390</b>	<b>-</b>	<b>(62,224)</b>	<b>3,843,166</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,843,166</b>
<b>Total Ashland plant</b>	<b>171,699,129</b>	<b>2,657,332</b>	<b>(62,224)</b>	<b>174,294,237</b>	<b>(52,340,297)</b>	<b>(3,627,549)</b>	<b>-</b>	<b>(55,967,846)</b>	<b>118,326,391</b>
Vehicles and work equipment (all locations)	3,388,139	291,308	(137,987)	3,541,460	(2,068,561)	(276,892)	88,086	(2,257,367)	1,284,093
<b>Utility plant in service</b>	<b>\$ 441,693,832</b>	<b>\$ 10,754,888</b>	<b>\$ (200,211)</b>	<b>\$ 452,248,509</b>	<b>\$ (131,160,618)</b>	<b>\$ (8,496,791)</b>	<b>\$ 88,086</b>	<b>\$ (139,569,323)</b>	<b>\$ 312,679,186</b>
Construction in progress	4,333,124	8,548,502	(6,687,277)	6,194,349	-	-	-	-	6,194,349
<b>Total capital assets</b>	<b>\$ 446,026,956</b>	<b>\$ 19,303,390</b>	<b>\$ (6,887,488)</b>	<b>\$ 458,442,858</b>	<b>\$ (131,160,618)</b>	<b>\$ (8,496,791)</b>	<b>\$ 88,086</b>	<b>\$ (139,569,323)</b>	<b>\$ 318,873,535</b>

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

Schedule 5

**GENERAL STATISTICS**

**Year Ended August 31, 2015**

(Unaudited)

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Altitude of Lincoln, Nebraska .....	1,167 Feet
Area of Lincoln, Nebraska .....	93.32 Square Miles
Population .....	272,996 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, 2015 .....	40.37
Kind and Size of Mains Used .....	Cast Iron/Ductile Iron/PVC 4 Inches to 60 Inches
Kind and Size of Transmission Mains	
from Ashland to Lincoln .....	36-Inch Cast Iron 48-Inch Reinforced Concrete 54 / 60-Inch Steel
Length of Transmission Mains	
from Wellfield to Lincoln .....	73 Miles
Total Miles of Distribution Mains in Use:	
Miles in use September 1, 2014	1,200.0
Estimated Added During Year	12.7
Estimated Removed During Year	2.3
Total as of August 31, 2015 .....	1,211 Miles
Amount of Water Pumped During Year Ended August 31, 2015 .....	11,594,768,000 gallons
Average Daily Consumption of Water .....	31,766,000 gallons
Average Daily Consumption Per Capita .....	116 gallons
Total Number of Active Residential Water Customers	
End of Fiscal Year .....	77,218
Total Number of Active Non-Residential Water Customers	
End of Fiscal Year .....	4,840
Total Debt of Lincoln Water System at August 31, 2015 .....	\$59,776,487

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

**TOP TEN CUSTOMERS**

**Year Ended August 31, 2015**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	466,117	\$924,161
2. State of Nebraska	308,956	632,135
3. Archer-Daniels Midland Company	296,617	382,824
4. City of Lincoln	259,019	590,191
5. University of Nebraska Foundation	168,663	218,617
6. Zoetis	163,226	216,465
7. Bryan Health	129,251	276,864
8. Lincoln Public Schools	121,933	289,640
9. Lincoln Industries	109,711	215,174
10. Veyance Technologies, Inc.	106,449	198,570
<b>Top Ten Users Totals</b>	<b>2,129,942</b>	<b>\$3,944,641</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, 2015</b>	<b>August 31, 2014</b>	<b>August 31, 2013</b>	<b>August 31, 2012</b>	<b>August 31, 2011</b>
<b>September</b>	1,070,452,000	1,449,500,000	1,463,360,000	1,201,460,000	1,172,000,000
<b>October</b>	940,973,000	1,024,210,000	1,134,460,000	1,121,690,000	1,196,680,000
<b>November</b>	795,572,000	769,860,000	856,170,000	726,830,000	808,380,000
<b>December</b>	799,134,000	787,860,000	818,550,000	749,020,000	682,970,000
<b>January</b>	786,647,000	798,960,000	821,820,000	785,840,000	673,740,000
<b>February</b>	729,911,000	744,020,000	741,180,000	750,120,000	619,320,000
<b>March</b>	833,814,000	817,383,000	813,070,000	838,390,000	728,530,000
<b>April</b>	852,106,000	871,885,000	812,550,000	990,690,000	755,980,000
<b>May</b>	875,008,000	1,087,779,000	991,120,000	1,280,050,000	1,002,360,000
<b>June</b>	1,018,410,000	1,089,234,000	1,157,410,000	1,622,550,000	1,115,880,000
<b>July</b>	1,497,202,000	1,694,026,000	1,860,820,000	2,200,750,000	1,567,420,000
<b>August</b>	1,395,539,000	1,511,387,000	1,623,000,000	1,764,930,000	1,362,790,000
<b>Total</b>	<b>11,594,768,000</b>	<b>12,646,104,000</b>	<b>13,093,510,000</b>	<b>14,032,320,000</b>	<b>11,686,050,000</b>

**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	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
September	3.02	2.99	6.89	1.99	1.73	1.33	3.73	1.25	4.10	3.10	3.93	0.28
October	1.97	1.88	2.46	2.83	1.92	0.93	0.13	4.24	4.79	4.50	0.90	2.76
November	1.43	1.24	0.47	1.22	0.15	1.66	1.97	0.06	1.22	0.05	0.09	2.03
December	0.95	0.82	1.22	0.22	1.50	1.58	0.24	2.42	0.80	2.09	3.05	0.52
January	0.64	0.67	0.91	0.24	0.73	0.16	1.07	0.82	0.38	0.44	0.64	0.91
February	0.77	0.94	0.93	0.62	0.54	2.10	0.79	0.99	0.64	0.55	1.31	0.07
March	1.93	1.58	0.77	0.13	2.12	0.89	0.66	1.77	0.18	1.13	2.79	3.03
April	2.71	2.57	1.99	3.50	4.02	3.49	3.27	2.53	1.52	3.80	3.44	3.83
May	4.29	3.81	10.90	5.26	8.44	3.00	6.00	3.70	1.17	4.12	8.13	2.09
June	4.34	4.16	7.66	5.90	2.49	3.57	3.44	9.90	6.18	8.59	2.28	0.65
July	3.40	3.41	2.39	0.51	1.00	0.33	1.55	5.83	1.84	3.58	1.22	2.08
August	3.48	3.47	3.78	7.54	1.11	0.30	6.89	2.81	3.20	1.78	5.80	4.05
<b>Total</b>	<b>28.93</b>	<b>27.54</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>	<b>33.73</b>	<b>33.58</b>	<b>22.30</b>

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

WATER ANALYSIS

(All Results in Parts Per Million)  
(Collected July 6, 2015)  
(Unaudited)

550 W. Cornhusker Hwy.

Hydrogen Ion Concentration (pH) .....	7.73
Total Dissolved Solids.....	431 ppm.
Total Iron (Fe).....	<0.050 ppm.
Manganese (Mn).....	2.05 ppb.
Calcium (as Ca) .....	60.6 ppm.
Total Alkalinity (CaCO <sub>3</sub> ).....	182 ppm.
Chloride (Cl).....	29.6 ppm.
Fluoride (F) .....	1.05 ppm.
Nitrate (+Nitrite) .....	0.99 ppm.
Sodium (Na).....	45.3 ppm.
Hardness as (CaCO <sub>2</sub> )	
Total Hardness .....	240 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, 2015

(Unaudited)

Type of policy	Insurance coverage	Policy limits	Self-insured retention deductible	Self-insurance deductible	Insurance carrier	Policy number
Automobile Fleet Liability	Self-Insured Excess Coverage	0 - 250,000	250,000		States	SEL3017307
	Excess Coverage	250,000 - 1,000,000				
		1,000,000 - 6,000,000				
Automobile Fleet Physical Damage**	Self-Insured	Actual cash value	2,500	2,500		
Building and Contents (Includes Boiler & Machinery)	Blanket policy - buildings and contents	Replacement cost	50,000	2,500	FM Global	FN215
Money and Securities	Inside/outside premises	50,000	500	0	Fidelity & Deposit	CCP003059514
Water Distribution	Water distribution center	25,000,000	50,000	10,000	FM Global	FN215
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	FN215
Equipment Floater (911)	Radio tower floater	Replacement cost	50,000	2,500	FM Global	FN215
Equipment Floater (NON-LIC)	Nonlicensed scheduled equipment	Actual Cash Value	50,000	2,500	FM Global	FN215
General Liability ***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017307
Public Employee Blanket Bond	Employees blanket bond coverage	2,000,000	25,000	10,000	Fidelity & Deposit	CCP003059514
Public Officials Liability***	\$6,000,000 occurrence / \$12,000,000 annual aggregate	6,000,000	250,000	0	States	SEL3017307
Workers' Compensation Excess	Statutory	Statutory	800,000	0	Midwest Employers Casualty (MECC)	EWC007744

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

\*\*\* Public Entity Policy

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

Summary of Insurance Coverage

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

**AUTOMOBILE INSURANCE**

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

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

**PROPERTY INSURANCE**

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

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

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

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

**WATER DISTRIBUTION SYSTEM**

Provides coverage for underground pipeline between Lincoln and Ashland.

**GENERAL LIABILITY**

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

**PUBLIC EMPLOYEES BLANKET BOND**

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

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

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

**WORKERS' COMPENSATION**

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



RSM US LLP

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance With Government Auditing Standards**

**Independent Auditor's Report**

To the Honorable Mayor and Members of the City Council  
Lincoln Wastewater System and Lincoln Water System,  
Enterprise Funds of City of Lincoln, Nebraska  
Lincoln, Nebraska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lincoln Wastewater System and the Lincoln Water System, Enterprise Funds of City of Lincoln, Nebraska (collectively the Systems), as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the Systems' basic financial statements, and have issued our report thereon dated December 1, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Systems' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Systems' internal control. Accordingly, we do not express an opinion on the effectiveness of the Systems' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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**Compliance and Other Matters**

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

**Purpose of this Report**

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

*RSM US LLP*

Kansas City, Missouri  
December 1, 2015