

# Lincoln Water System

## 2017

Financial Statements  
& Schedules

Fiscal Year Ended  
August 31, 2017



# ANNUAL FINANCIAL REPORT

## DEPARTMENT OF PUBLIC WORKS & UTILITIES

### CITY OFFICIALS

Chris Beutler ..... Mayor

### COUNCIL MEMBERS

Roy Christensen ..... Chair

Jane Raybould ..... Vice-Chair

Leirion Gaylor Baird

Jon Camp

Carl Eskridge

Cyndi Lamm

Bennie Shobe

### WATER SYSTEM

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

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

**Lincoln Water System**  
**August 31, 2017 and 2016**

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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, 2017 and 2016, and the related notes to the basic financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 respective financial position of the System's, as of August 31, 2017 and 2016, 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, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

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

*Supplementary Information*

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

**Other Information**

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

*RSM US LLP*

Omaha, Nebraska  
January 17, 2018

## **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, 2017 and 2016. 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 \$12,001,879 in 2017 over 2016 as shown in Table 1.

## Financial Analysis

The following comparative condensed financial statements summarize the System's financial position and operating results for the years ended August 31, 2017, 2016, and 2015.

**Table 1**

### Condensed Statements of Net Position

	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%)
<b>Total assets and deferred outflows or resources</b>	<b>377,911,294</b>	<b>371,836,289</b>	<b>6,075,005</b>	<b>1.63%</b>
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%)
<b>Total liabilities</b>	<b>58,349,737</b>	<b>64,276,611</b>	<b>(5,926,874)</b>	<b>(9.22%)</b>
Net position				
Net investment in capital assets	281,726,538	269,527,215	12,199,354	4.53%
Restricted for debt service	292,898	286,040	6,858	2.40%
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%)
<b>Total net position</b>	<b>319,561,557</b>	<b>307,559,678</b>	<b>12,001,879</b>	<b>3.90%</b>
<b>Total liabilities and net position</b>	<b>\$377,911,294</b>	<b>\$371,836,289</b>	<b>\$6,075,005</b>	<b>1.63%</b>

### 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 2****Condensed Statements of Net Position**

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

**Financial Highlights – Fiscal Year 2016**

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

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

	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.

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

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

**Financial Highlights – Fiscal Year 2016**

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

### ***Debt Activity***

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

In July 2011, the System entered into a \$15,000,000 loan agreement with the Nebraska Department of Environmental Quality (NDEQ) to fund certain water system extension and water repairs. All contracts are final as of August 31, 2017.

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

The System's investment in capital assets as of August 31, 2017 amounts to \$330,572,291 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment. Major capital asset events during 2017 include water supply wells and selected main replacements for approximately \$1.5 million and \$5.3 million respectively. 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 \$11,400,000 at August 31, 2017.

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

The approved Capital Improvement Program for Fiscal Year 2017/18 - 2021/22 identifies the need for \$112,040,000 to fund capital improvements for the System. Approximately \$65,000,000 of that total is projected to be funded by revenue bonds. Future user fee increases will be needed to make the necessary improvements possible.

In August 2017, the Lincoln City Council approved a 5% revenue increase, which will be attained through increases in the various service charges.

### ***Contact Information***

This financial report is intended to provide users with a general overview of the System's financial performance for 2017 and 2016. 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, 2017 and 2016**

<b>Assets and Deferred Outflows of Resources</b>	<b>2017</b>	<b>2016</b>
Current assets:		
Equity in pooled cash and investments	\$ 16,551,508	\$ 17,643,432
Receivables:		
Accounts receivable	3,232,127	3,539,231
Unbilled revenues	4,470,638	4,229,512
Impact fees	4,434,434	3,458,279
Total receivables	12,137,199	11,227,022
Inventories	1,504,583	1,241,681
Total current assets	30,193,290	30,112,135
Noncurrent assets:		
Equity in pooled cash and investments	8,356,159	8,596,708
Restricted assets:		
Equity in pooled cash and investments	1,220,441	1,006,050
Investments	6,595,020	6,847,115
Total restricted assets	7,815,461	7,853,165
Utility plant:		
Non-depreciable	13,706,815	12,608,785
Depreciable	473,735,068	459,829,987
Less accumulated depreciation	(156,869,592)	(148,258,071)
Net utility plant	330,572,291	324,180,701
Costs recoverable from future billings	404,540	453,306
Total noncurrent assets	347,148,451	341,083,880
Total assets	377,341,741	371,196,015
Deferred outflows of resources:		
Deferred loss on refunding	569,553	640,274
Total assets and deferred outflows of resources	\$377,911,294	\$371,836,289
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable	\$ 691,424	\$ 812,737
Accrued liabilities	783,518	956,489
Deposits liability	147,249	103,149
Accrued compensated absences	504,596	489,854
Construction contracts	1,475,056	2,561,154
Current maturities of long-term debt	4,517,445	4,408,451
Accrued interest	121,543	129,628
Total current liabilities	8,240,831	9,461,462
Long-term liabilities:		
Accrued liabilities	500,150	453,565
Accrued compensated absences	775,801	598,429
Construction contracts	-	84,336
Long-term debt, excluding current maturities, net of premiums	48,832,955	53,678,819
Total long-term liabilities	50,108,906	54,815,149
Total liabilities	58,349,737	64,276,611
Net position:		
Net investment in capital assets	281,726,538	269,527,215
Restricted for debt service	292,898	286,040
Restricted for capital acquisition	4,434,434	3,458,279
Unrestricted	33,107,687	34,288,144
Total net position	319,561,557	307,559,678
Total liabilities and net position	\$377,911,294	\$371,836,289

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, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
Operating revenues:		
Water sales	\$ 35,504,717	\$ 34,511,117
Service and materials, net	717,681	889,862
Total operating revenues	36,222,398	35,400,979
Operating expenses:		
Supply, pumping and purification	14,435,495	13,573,498
Transmission and distribution	9,871,559	9,796,129
Accounting and collecting	913,206	882,795
Administrative and general	1,338,518	1,405,442
Total operating expenses	26,558,778	25,657,864
Operating income	9,663,620	9,743,115
Nonoperating revenues (expenses):		
Investment income	204,904	621,416
Interest and amortization expense	(1,503,727)	(1,536,395)
FEMA reimbursements	-	18,559
Grant revenues	438,422	-
Net costs recoverable	(48,767)	(48,767)
Miscellaneous expense - well abandonment costs	(1,193,597)	-
Net nonoperating expenses	(2,102,765)	(945,187)
Increase in net position before capital contributions	7,560,855	8,797,928
Capital contributions from:		
Developer contributions	2,373,425	2,346,359
Impact fees	1,386,944	1,354,774
Tap fees	680,655	608,262
Total capital contributions	4,441,024	4,309,395
Increase in net position	12,001,879	13,107,323
Total net position - beginning	307,559,678	294,452,355
Total net position - ending	\$ 319,561,557	\$ 307,559,678

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, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Operating activities:</b>		
Receipts from customers and users	\$35,356,321	\$33,757,399
Payments to suppliers	(10,587,946)	(8,134,090)
Payments to employees	(8,817,572)	(8,574,825)
Net cash provided by operating activities	15,950,803	17,048,484
<b>Capital and related financing activities:</b>		
Acquisition and construction of capital assets	(11,518,901)	(8,684,509)
Principal paid on revenue bonds and long term obligations	(4,408,451)	(4,344,979)
Proceeds from NDEQ loan	-	172,823
Interest paid on revenue bonds and long term obligations	(2,021,708)	(2,123,747)
Grant proceeds	438,422	-
Other	(15,246)	18,559
Net cash used in capital and related financing activities	(17,525,884)	(14,961,853)
<b>Investing activities:</b>		
Purchases of investments	(21,209,477)	(23,154,795)
Proceeds from sales and investment maturities	22,131,162	21,389,253
Interest on investments	411,221	356,195
Net cash provided by (used in) investing activities	1,332,906	(1,409,347)
Net increase (decrease) in cash and cash equivalents	(242,175)	677,284
Cash and cash equivalents at beginning of year	1,204,831	527,547
Cash and cash equivalents at end of year	\$ 962,656	\$ 1,204,831
<b>Composition of equity in pooled cash and investments (current)</b>		
Cash and cash equivalents	\$ 962,656	\$ 1,204,831
Investments	16,809,293	17,444,651
Total equity in pooled cash and investments (current)	\$17,771,949	\$18,649,482
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 9,663,620	\$ 9,743,115
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,665,344	8,688,748
Well abandonment	(1,193,597)	-
Changes in operating assets and liabilities:		
Accounts receivable	(910,177)	(1,642,231)
Inventories	(262,902)	(314,253)
Accounts payable	(121,313)	301,092
Accrued liabilities and deposit liability	(82,286)	199,788
Accrued compensated absences	192,114	72,225
Total adjustments	6,287,183	7,305,369
Net cash provided by operating activities	\$15,950,803	\$17,048,484

**Supplemental disclosure of noncash transactions:**

Contributed capital improvements of \$2,373,425 and \$2,346,359 were added to utility plant in 2017 and 2016, respectively.

Accounts payable incurred for utility plant purchases were \$1,475,056 and \$2,645,490 in 2017 and 2016, 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, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016

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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, 2017 or 2016.

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

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

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

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

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

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

# LINCOLN WATER SYSTEM

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

Notes to Financial Statements

August 31, 2017 and 2016

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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, 2017 and 2016

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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 expenditures are incurred.

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

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

### ***Inventories***

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

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

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

# LINCOLN WATER SYSTEM

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

### Notes to Financial Statements

August 31, 2017 and 2016

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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, 2017 and 2016:

	<u>August 31, 2017</u>	<u>August 31, 2016</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	\$ 5.70	\$ 4.95
5/8 x 3/4 inch	8.62	7.49
3/4 inch	8.62	7.49
1 inch	14.39	12.50
1 1/2 inch	28.70	24.94
2 inch	45.93	39.91
3 inch	86.18	74.88
4 inch	143.66	124.82
6 inch	287.25	249.58
8 inch	459.62	399.34
10 inch	660.76	574.10

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

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

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

# LINCOLN WATER SYSTEM

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

### Notes to Financial Statements

August 31, 2017 and 2016

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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, 2017 and 2016 are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
August 31, 2017	\$1,088,283	681,968	489,854	1,280,397	504,596
August 31, 2016	\$1,016,058	574,581	502,356	1,088,283	489,854

# LINCOLN WATER SYSTEM

An Enterprise Fund of the City of Lincoln, Nebraska

Notes to Financial Statements

August 31, 2017 and 2016

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

### ***Other Post-Employment Benefits (OPEB)***

The System recorded a long-term accrued liability for the net OPEB obligation, which represents the cumulative difference between the annual OPEB cost and employer contributions, of approximately \$500,000 and \$454,000 as of August 31, 2017 and 2016, respectively, in connection with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The complete disclosures required by GASB 45 are included in the City of Lincoln Comprehensive Annual Financial Report (CAFR).

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

Management of the System has made a number of estimates and assumptions relating to the amounts reported in the financial statements and accompanying notes, to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

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

### ***Deposits***

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

### ***Investments***

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

### ***Custodial Credit Risk***

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

# LINCOLN WATER SYSTEM

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

### Notes to Financial Statements

August 31, 2017 and 2016

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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, 2017 and 2016

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

At August 31, 2017 and 2016, the System had the following investments and maturities:

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

  

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



# LINCOLN WATER SYSTEM

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

### Notes to Financial Statements

August 31, 2017 and 2016

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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, 2017 and 2016, 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>2017</u>	<u>2016</u>
U.S. Government Agency Obligations		
Federal Farm Credit Bank	16.8%	16.8%

The carrying amount of equity interests in pooled cash and investments at August 31, 2017 and 2016 are:

	<u>2017</u>	<u>2016</u>
Equity in pooled cash and investments	\$26,128,108	\$27,246,190
Percentage of City's Pool	7.2%	8.3%

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, 2017 and 2016

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

Investment income for the years ended August 31, 2017 and 2016 consisted of:

	<b>2017</b>	<b>2016</b>
Interest and dividend income	\$466,201	\$355,994
Net change in fair value of investments	(261,297)	265,422
	<u>\$204,904</u>	<u>\$621,416</u>

**(3) Inventories**

Balances of the major classes of inventory at August 31, 2017 and 2016, are shown below:

	<b>2017</b>	<b>2016</b>
Heavy materials	\$1,123,617	\$884,133
Diesel fuel	113,538	118,310
Water meters and parts	212,542	180,854
Chemicals	54,886	58,384
	<u>\$1,504,583</u>	<u>\$1,241,681</u>

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

Notes to Financial Statements

August 31, 2017 and 2016

**(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, 2017 and 2016

**(4) Utility Plant**

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

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

During 2016, the System incurred \$2,056,750 of interest cost. Interest capitalized into construction in progress during 2016 was \$262,658. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

The composite depreciation rate was approximately 1.89% in 2016.

# LINCOLN WATER SYSTEM

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

### Notes to Financial Statements

August 31, 2017 and 2016

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#### (5) Long-term Liabilities

Long-term debt of the System at August 31, 2017 and 2016 is summarized below:

Type of Debt	2017				
	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, 2017 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, 2017 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, 2017 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>

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# LINCOLN WATER SYSTEM

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

### Notes to Financial Statements

August 31, 2017 and 2016

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

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

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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, 2017 and 2016

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

Maturities and sinking fund requirements on long-term debt at August 31, 2017 are as follows:

Due years ending August 31	Bonds		Loans		Total
	Principal	Interest	Principal	Interest	
2018	\$ 3,885,000	\$1,461,731	\$ 632,445	\$ 287,525	\$ 6,266,701
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 - 2027	11,140,000	2,450,170	3,700,235	899,610	18,190,015
2028 - 2032	4,450,000	1,085,250	4,138,232	461,616	10,135,098
2033 - 2034	2,110,000	143,550	1,789,034	50,593	4,093,177
Total	\$38,135,000	\$9,498,301	\$12,936,099	\$2,703,067	\$63,272,467

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 \$63,272,467, with annual payments expected to require 31 percent of net revenues. Principal and interest paid for the current year and net system revenues were \$6,430,159 and \$20,601,467, 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. All contracts are final as of year ended August 31, 2016.

Construction contract payables of the System at August 31, 2017 and 2016 are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
August 31, 2017	\$2,645,490	1,390,720	2,561,154	1,475,056	1,475,056
August 31, 2016	\$1,906,140	2,561,154	1,821,804	2,645,490	2,561,154

## **LINCOLN WATER SYSTEM**

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

#### Notes to Financial Statements

August 31, 2017 and 2016

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

##### Construction Commitments:

The System has commitments under major construction contracts in progress of approximately \$11,400,000 at August 31, 2017.

##### Risk Management:

The System participates in the City's self-insurance program administered by the City's Risk Management Division (the Division). The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On behalf of the City, the Division purchases insurance and administers funds for its self-insured program. The Division maintains a workers' compensation fund and a self-insurance loss fund. The Division provides first dollar coverage for all liability and workers' compensation exposure with insurance acting as an umbrella or excess coverage. The maximum exposure would be the deductible amounts for property and auto physical damage, as well as losses not covered by insurance. The System had no claims or judgments exceeding the policy limits during each of the last three prior years. Budgeted premium amounts charged to the System are placed in the appropriate fund maintained by the Division. Premium expense was approximately \$351,000 and \$339,000 in 2017 and 2016, 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 \$740,000 and \$660,000 for administrative services during 2017 and 2016, 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 \$1,462,000 and \$1,490,000 during 2017 and 2016, respectively. At August 31, 2017 and 2016, approximately \$163,000 and \$344,000, 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 \$4,434,434 and \$3,458,279 as of August 31, 2017 and 2016, respectively.



# LINCOLN WATER SYSTEM

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

### Notes to Financial Statements

August 31, 2017 and 2016

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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 \$651,000 and \$635,000 for 2017 and 2016, respectively. Contributions made by the plan members were approximately \$363,000 and \$348,000 for 2017 and 2016, respectively.

SUPPLEMENTARY  
INFORMATION

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

Schedule 1

Summary of Long-Term Debt

August 31, 2017

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
2018	\$ 535,000	\$ 530,181	\$ 1,115,000	\$ 227,600	\$ 2,235,000	\$ 703,950	\$ 632,445	\$ 287,525	\$ 4,517,445	\$ 1,749,256	\$ 6,266,701
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
2023-2027	3,530,000	1,880,970	-	-	7,610,000	569,200	3,700,235	899,610	14,840,235	3,349,780	18,190,015
2028-2032	4,450,000	1,085,250	-	-	-	-	4,138,232	461,616	8,588,232	1,546,866	10,135,098
2033-2034	2,110,000	143,550	-	-	-	-	1,789,034	50,593	3,899,034	194,143	4,093,177
	\$ 12,970,000	\$ 5,585,351	\$ 5,690,000	\$ 674,600	\$ 19,475,000	\$ 3,238,350	\$ 12,936,099	\$ 2,703,067	\$ 51,071,099	\$ 12,201,368	\$ 63,272,467

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

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

Schedule 3

**Operating Expenses**

**Years ended August 31, 2017 and 2016**

	2017	2016
Lincoln Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 33,409	\$ 31,923
Control System Maintenance	217	1,781
Electrical maintenance	2,133	7,485
Wellfield maintenance	12,022	4,847
Wellfield operations	-	1,621
Depreciation of general plant	-	451
<b>Total source of supply</b>	<b>\$ 47,781</b>	<b>\$ 48,108</b>
Power and pumping expenses:		
Supervision, management and administrative support	\$ 124,947	\$ 122,295
Training and education	18,114	17,750
Data management	-	2,374
General operations	159,258	171,150
Structures maintenance	10,776	60,389
Control system maintenance	63,587	51,420
Electrical maintenance	223,215	192,722
Grounds maintenance	187,688	226,840
Main repair/maintenance	845	743
Customer services	107,706	76,363
Pumping and transmission maintenance	297,402	246,260
Pumping and transmission operations	1,669,563	1,680,914
Security maintenance	2,321	1,678
Depreciation of pumping equipment	393,127	403,876
Depreciation of general plant and improvements	37,999	37,999
Depreciation of transmission mains	723	-
Depreciation of structures and improvement	909,500	939,242
Depreciation of distribution mains	423	-
<b>Total power and pumping</b>	<b>\$ 4,207,194</b>	<b>\$ 4,232,015</b>
<b>Total - Lincoln Water Plant</b>	<b>\$ 4,254,975</b>	<b>\$ 4,280,123</b>
Ashland Water Plant:		
Source of supply expenses:		
Supervision, management and administrative support	\$ 162,300	\$ 167,907
Training and education	1,077	2,557
Control system maintenance	44,197	28,204
Electrical maintenance	56,312	29,166
Grounds maintenance	84,940	136,194
Main repair/maintenance	11,537	4,576
Laboratory operations	53,084	29,012
Security maintenance	1,972	2,214
Wellfield maintenance	339,489	319,090
Wellfield operations	993,067	986,811
Depreciation of pumping equipment	4,887	-
Depreciation of transmission mains	260,420	260,420
Depreciation of other production equipment	51,623	29,299
Depreciation of purification equipment	6,354	6,354
Depreciation of wells and houses	830,263	830,262
<b>Total source of supply</b>	<b>\$ 2,901,522</b>	<b>\$ 2,832,066</b>

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

Schedule 3, Cont.

**Operating Expenses**

**Years ended August 31, 2017 and 2016**

	2017	2016
Power and pumping expenses:		
Supervision, management and administrative support	\$ 114,452	\$ 111,824
General operations	9,682	5,218
Control system maintenance	51,200	16,647
Electrical maintenance	31,578	38,323
Grounds maintenance	105	-
Main repair/maintenance	4,427	-
Pumping and transmission maintenance	138,519	80,714
Pumping and transmission operations	1,054,885	880,246
Depreciation of pumping equipment	502,925	502,926
Depreciation of structures and improvement	159,218	159,218
Depreciation of general plant & equipment	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>\$ 2,648,450</b>	<b>\$ 2,373,678</b>
Purification expense:		
Supervision, management and administrative support	\$ 467,559	\$ 418,116
Training and education	316,451	231,016
General operations	192,688	188,644
Treatment and process control	150,821	133,335
Structures maintenance	19,755	22,020
Process equipment maintenance	200,274	25,058
Control system maintenance	195,980	160,613
Electrical maintenance	54,231	52,404
Grounds maintenance	402,817	367,495
Laboratory operations	456,032	387,552
Treatment operations	788,721	752,036
Security maintenance	3,547	6,325
Depreciation of structures and improvements	292,869	276,443
Depreciation of other production equipment	440	-
Depreciation of transmission mains	20,088	20,088
Depreciation of purification equipment	1,053,019	1,033,083
Depreciation of general plant & equipment	15,256	13,403
<b>Total purification expenses</b>	<b>\$ 4,630,548</b>	<b>\$ 4,087,631</b>
<b>Total Ashland Water Plant</b>	<b>\$10,180,520</b>	<b>\$ 9,293,375</b>
<b>Total supply, pumping and purification</b>	<b>\$14,435,495</b>	<b>\$13,573,498</b>

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

Schedule 3, Cont.

**Operating Expenses**

**Years ended August 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Transmission and distribution expenses:</b>		
Supervision and management	\$ 914,680	\$ 831,912
Administrative and support staff	521,949	475,900
Training and education	54,844	58,341
Data management	549,485	633,467
General operations	658,811	628,448
Main repair/maintenance	1,827,446	2,049,506
Contractor services	350,756	306,149
Customer services	1,708,724	1,675,951
Depreciation of structures and improvements	2,996	1,033
Depreciation of transmission mains	407,502	406,935
Depreciation of distribution mains	2,765,788	2,605,892
Depreciation of hydrants and fountains	69,806	69,942
Depreciation of general plant and equipment	38,772	52,653
<b>Total transmission and distribution</b>	<b>\$ 9,871,559</b>	<b>\$ 9,796,129</b>
<b>Accounting and collecting expenses:</b>		
Supervision and management	\$ 213,314	\$ 216,979
Administrative and support staff	12,173	11,242
Meter reading	132,122	134,918
Billing and accounting	299,902	259,886
Collections	110,727	120,138
Customer services and billing	109,911	100,216
Customer contracts and orders	35,057	37,503
Depreciation of general plant and equipment	-	1,913
<b>Total accounting and collecting</b>	<b>\$ 913,206</b>	<b>\$ 882,795</b>
<b>Administrative and general expenses:</b>		
Supervision and management	\$ 1,186,013	\$ 1,076,825
Administrative and support staff	135,460	131,171
Depreciation of general plant and equipment	17,045	197,446
<b>Total administrative and general</b>	<b>\$ 1,338,518</b>	<b>\$ 1,405,442</b>

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

Schedule 4

Utility Plant in Service

August 31, 2017 and 2016

Asset Class	Capital Assets			August 31, 2017	Accumulated Depreciation			August 31, 2017	Net Capital
	August 31, 2016	Increases	Decreases		August 31, 2016	Increases	Decreases		Assets August 31, 2017
Lincoln Water Plant:									
Airport	\$ 42,172	\$ -	\$ -	\$ 42,172	\$ (28,700)	\$ (422)	\$ -	\$ (29,122)	\$ 13,050
Structures and improvements	15,930,035	318,839	-	16,248,874	(8,827,665)	(363,145)	-	(9,190,810)	7,058,064
Reservoirs	27,178,136	73,818	-	27,251,954	(11,432,793)	(535,891)	-	(11,968,684)	15,283,270
Other power and production equipment	37,856	-	-	37,856	(14,197)	(1,893)	-	(16,090)	21,766
Electric pumping equipment	15,239,337	-	-	15,239,337	(5,579,290)	(346,109)	-	(5,925,399)	9,313,938
Purification system	-	-	-	-	1,072	-	-	1,072	1,072
Transmission mains	33,710,014	162,612	-	33,872,626	(9,395,304)	(409,796)	-	(9,805,100)	24,067,526
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	2,320,034	14,579	-	2,334,613	(2,005,877)	(78,800)	-	(2,084,677)	249,936
Shop equipment	181,432	-	-	181,432	(177,849)	(2,063)	-	(179,912)	1,520
Laboratory equipment	7,959	-	-	7,959	(6,854)	(796)	-	(7,650)	309
Tools and work equipment	232,390	99,777	-	332,167	(213,032)	(12,157)	-	(225,189)	106,978
Communications system	1,188,760	-	-	1,188,760	(707,987)	(58,585)	-	(766,572)	422,188
Meters	14,694,832	685,247	-	15,380,079	(9,695,622)	(625,679)	-	(10,321,301)	5,058,778
<b>Lincoln depreciable assets</b>	<b>281,990,492</b>	<b>12,208,661</b>	<b>-</b>	<b>294,199,153</b>	<b>(86,061,492)</b>	<b>(4,643,681)</b>	<b>-</b>	<b>(90,705,173)</b>	<b>203,493,980</b>
Land and land rights	1,601,850	87,604	-	1,689,454	-	-	-	-	1,689,454
<b>Lincoln nondepreciable assets</b>	<b>1,601,850</b>	<b>87,604</b>	<b>-</b>	<b>1,689,454</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,689,454</b>
<b>Total Lincoln plant</b>	<b>283,592,342</b>	<b>12,296,265</b>	<b>-</b>	<b>295,888,607</b>	<b>(86,061,492)</b>	<b>(4,643,681)</b>	<b>-</b>	<b>(90,705,173)</b>	<b>205,183,434</b>
Ashland Water Plant:									
Structures and improvements	64,788,619	1,076,354	-	65,864,973	(22,047,786)	(1,292,766)	-	(23,340,552)	42,524,421
Reservoirs	12,283,617	-	-	12,283,617	(3,468,424)	(177,261)	-	(3,645,685)	8,637,932
Transmission mains	48,989,402	-	-	48,989,402	(11,530,744)	(814,256)	-	(12,345,000)	36,644,402
Office furniture and equipment	98,928	-	-	98,928	(80,308)	(1,020)	-	(81,328)	17,600
Shop equipment	17,951	-	-	17,951	(17,951)	-	-	(17,951)	-
Laboratory equipment	450,229	116,145	-	566,374	(388,856)	(25,431)	-	(414,287)	152,087
Other power and production equipment	2,471,032	66,930	-	2,537,962	(1,813,194)	(51,227)	-	(1,864,421)	673,541
Electric pumping equipment	8,465,653	293,247	-	8,758,900	(5,967,734)	(267,861)	-	(6,235,595)	2,523,305
Purification system	34,443,334	-	-	34,443,334	(13,656,640)	(1,045,791)	-	(14,702,431)	19,740,903
Communications Systems	1,970,904	-	-	1,970,904	(605,654)	(99,291)	-	(704,945)	1,265,959
Tools and work equipment	105,312	17,380	-	122,692	(100,613)	(3,917)	-	(104,530)	18,162
<b>Ashland depreciable assets</b>	<b>174,084,981</b>	<b>1,570,056</b>	<b>-</b>	<b>175,655,037</b>	<b>(59,677,904)</b>	<b>(3,778,821)</b>	<b>-</b>	<b>(63,456,725)</b>	<b>112,198,312</b>
Land and land rights	3,843,166	-	-	3,843,166	-	-	-	-	3,843,166
<b>Ashland nondepreciable assets</b>	<b>3,843,166</b>	<b>-</b>	<b>-</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>177,928,147</b>	<b>1,570,056</b>	<b>-</b>	<b>179,498,203</b>	<b>(59,677,904)</b>	<b>(3,778,821)</b>	<b>-</b>	<b>(63,456,725)</b>	<b>116,041,478</b>
Vehicles and work equipment (all locations)	3,754,514	192,337	(65,973)	3,880,878	(2,518,675)	(242,842)	53,823	(2,707,694)	1,173,184
<b>Utility plant in service</b>	<b>\$ 465,275,003</b>	<b>\$ 14,058,658</b>	<b>\$ (65,973)</b>	<b>\$ 479,267,688</b>	<b>\$ (148,258,071)</b>	<b>\$ (8,665,344)</b>	<b>\$ 53,823</b>	<b>\$ (156,869,592)</b>	<b>\$ 322,398,096</b>
Construction in progress	7,163,769	12,236,224	(11,225,798)	8,174,195	-	-	-	-	8,174,195
<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>



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

Schedule 5

**GENERAL STATISTICS**

**Year Ended August 31, 2017**

(Unaudited)

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Altitude of Lincoln, Nebraska .....	1,167 Feet
Area of Lincoln, Nebraska .....	95.09 Square Miles
Population .....	280,364 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, 2017 .....	37.31
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, 2016	1,216.2
Estimated Added During Year	23.1
Estimated Removed During Year	5.5
Total as of August 31, 2017 .....	1,233.8 Miles
Amount of Water Pumped During Year Ended August 31, 2017 .....	12,498,402,000 gallons
Average Daily Consumption of Water .....	34,242,200 gallons
Average Daily Consumption Per Capita .....	122 gallons
Total Number of Active Residential Water Customers End of Fiscal Year .....	78,891
Total Number of Active Non-Residential Water Customers End of Fiscal Year .....	4,906
Total Debt of Lincoln Water System at August 31, 2017 .....	\$51,071,099

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

**TOP TEN CUSTOMERS**

**Year Ended August 31, 2017**

(Unaudited)

	<u>USAGE</u> (HCF)	<u>AMOUNT</u>
1. University of Nebraska	512,390	\$1,080,278
2. State of Nebraska	309,406	649,185
3. City of Lincoln	264,483	625,009
4. Archer-Daniels Midland Company	264,352	342,946
5. University of Nebraska Foundation	153,993	200,929
6. Lincoln Public Schools	135,134	345,578
7. Zoetis	133,453	180,955
8. Veyance Technologies, Inc.	131,167	220,007
9. Bryan Health	126,373	278,776
10. Lincoln Industries	111,261	219,999
<b>Top Ten Users Totals</b>	<b>2,142,012</b>	<b>\$4,143,662</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, 2017</b>	<b>August 31, 2016</b>	<b>August 31, 2015</b>	<b>August 31, 2014</b>	<b>August 31, 2013</b>
<b>September</b>	1,201,519,000	1,155,406,000	1,070,452,000	1,449,500,000	1,463,360,000
<b>October</b>	1,051,404,000	1,125,392,000	940,973,000	1,024,210,000	1,134,460,000
<b>November</b>	886,902,000	844,195,000	795,572,000	769,860,000	856,170,000
<b>December</b>	812,407,000	800,997,000	799,134,000	787,860,000	818,550,000
<b>January</b>	813,245,000	810,486,000	786,647,000	798,960,000	821,820,000
<b>February</b>	736,036,000	753,974,000	729,911,000	744,020,000	741,180,000
<b>March</b>	822,544,000	822,242,000	833,814,000	817,383,000	813,070,000
<b>April</b>	868,221,000	922,688,000	852,106,000	871,885,000	812,550,000
<b>May</b>	985,334,000	921,848,000	875,008,000	1,087,779,000	991,120,000
<b>June</b>	1,438,168,000	1,597,790,000	1,018,410,000	1,089,234,000	1,157,410,000
<b>July</b>	1,517,563,000	1,583,224,000	1,497,202,000	1,694,026,000	1,860,820,000
<b>August</b>	1,365,059,000	1,384,829,000	1,395,539,000	1,511,387,000	1,623,000,000
<b>Total</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>	<b>13,093,510,000</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	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
September	3.02	2.99	3.38	4.93	6.89	1.99	1.73	1.33	3.73	1.25	4.10	3.10
October	1.97	1.88	1.86	0.50	2.46	2.83	1.92	0.93	0.13	4.24	4.79	4.50
November	1.43	1.24	0.65	1.98	0.47	1.22	0.15	1.66	1.97	0.06	1.22	0.05
December	0.95	0.82	1.59	4.42	1.22	0.22	1.50	1.58	0.24	2.42	0.80	2.09
January	0.64	0.67	1.10	0.83	0.91	0.24	0.73	0.16	1.07	0.82	0.38	0.44
February	0.77	0.94	0.55	0.76	0.93	0.62	0.54	2.10	0.79	0.99	0.64	0.55
March	1.93	1.58	1.62	0.93	0.77	0.13	2.12	0.89	0.66	1.77	0.18	1.13
April	2.71	2.57	3.55	4.37	1.99	3.50	4.02	3.49	3.27	2.53	1.52	3.80
May	4.29	3.81	6.29	5.42	10.90	5.26	8.44	3.00	6.00	3.70	1.17	4.12
June	4.34	4.16	7.35	0.58	7.66	5.90	2.49	3.57	3.44	9.90	6.18	8.59
July	3.40	3.41	5.99	4.67	2.39	0.51	1.00	0.33	1.55	5.83	1.84	3.58
August	3.48	3.47	3.38	3.83	3.78	7.54	1.11	0.30	6.89	2.81	3.20	1.78
<b>Total</b>	<b>28.93</b>	<b>27.54</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>	<b>33.73</b>

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

WATER ANALYSIS

(All Results in Parts Per Million)  
(Collected August 10, 2017)  
(Unaudited)

550 W. Cornhusker Hwy.

Hydrogen Ion Concentration (pH) .....	7.73
Total Dissolved Solids.....	386 ppm.
Total Iron (Fe).....	<0.050 ppm.
Manganese (Mn).....	2.55 ppb.
Calcium (as Ca) .....	58.8 ppm.
Total Alkalinity (CaCO <sub>3</sub> ).....	182 ppm.
Chloride (Cl).....	25.4 ppm.
Fluoride (F) .....	1.02 ppm.
Nitrate (+Nitrite) .....	1.08 ppm.
Sodium (Na).....	37.5 ppm.
Hardness as (CaCO <sub>2</sub> )	
Total Hardness .....	232 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, 2017

(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	50,000	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	50,000	10,000	FM Global	1015645
Data Processing Equipment	Computer equipment, data and media	Replacement cost	50,000	2,500	FM Global	1015645
Equipment Floater (911)	Radio tower floater	Replacement cost	50,000	2,500	FM Global	1015645
Equipment Floater (NON-LIC)	Nonlicensed scheduled equipment	Actual Cash Value	50,000	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.